INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/133

10:00 a.m., August 8, 1986

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	Mawakani Samba
C. H. Dallara	
	G. Ercel, Temporary
M. Finaish	
H. Fujino	M. Sugita
	B. Goos
Huang F.	
	Z. b. Ismail, Temporary
	H. A. Arias
	M. Foot
H. Lundstrom	
	L. Leonard
	G. D. Hodgson, Temporary
E. I. M. Mtei	
	C. A. Salinas, Temporary
	J. E. Suraisry
	R. Valladares, Temporary
H. Ploix	S. de Forges
J. J. Polak	A. Steinberg, Temporary
	A. V. Romuáldez
	B. Tamami, Temporary
	A. S. Jayawardena
	F. Di Mauro, Temporary

L. Van Houtven, Secretary
J. K. Bungay, Assistant

Also Present

IBRD: D. A. Cook, K. T. Yurukoglu, Eastern and Southern Africa Regional Office. African Department: A. D. Ouattara, Director; L. M. Goreux, Deputy Director; J. Artus, A. Basu, M. W. Bell, E. L. Bornemann, G. Devaux, M. E. Edo. Asian Department: D. Villanueva. Exchange and Trade Relations Department: C. D. Finch, Counsellor and Director; W. A. Beveridge, Deputy Director; M. Guitián, Deputy Director; J. T. Boorman, E. H. Brau, A. Chopra, S. Kanesa-Thasan, N. Kirmani, V. P. G. Schoofs. External Relations Department: H. P. Puentes. Fiscal Affairs Department: A. Ize, B. A. Sarr. Legal Department: F. P. Gianviti, Director; R. H. Munzberg, S. A. Silard. Middle Eastern Department: E. J. Bell, E. B. Maciejewski, M. Zavadjil. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat. Treasurer's Department: T. Leddy, Deputy Treasurer; D. Berthet, J. C. Corr, D. V. Pritchett, B. B. Zavoico. Western Hemisphere Department: J. P. Amselle, H. M. Flickenschild, G. Yadav. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: W.-R. Bengs, L. P. Ebrill, J. Hospedales, K. Murakami, M. Z. M. Qureshi, N. Toé, A. Vasudevan. Assistants to Executive Directors: O. S.-M. Bethel, R. Fox, S. King, M. Lundsager, T. Morita, R. Msadek, J. K. Orleans-Lindsay, W. K. Parmena, G. Schurr, S. Simonsen, H. van der Burg.

1. BURUNDI - 1986 ARTICLE IV CONSULTATION; REQUEST FOR STAND-BY ARRANGEMENT; AND REQUEST FOR STRUCTURAL ADJUSTMENT ARRANGEMENT

The Executive Directors considered the staff report for the 1986 Article IV consultation with Burundi and a request by Burundi for an 18-month stand-by arrangement in an amount equivalent to SDR 21 million (EBS/86/119, 6/3/86; and Cor. 1, 8/7/86), together with a request by Burundi for a three-year structural adjustment arrangement in an amount equivalent to SDR 20.069 million (EBS/86/147, 7/10/86; and Cor. 1, 8/7/86). They also had before them a report on recent economic developments in Burundi (SM/86/177, 7/23/86).

The Acting Chairman made the following statement:

I have received from the President of the World Bank a memorandum that summarizes the main points covered by the Executive Directors of the Bank and IDA in their July 22, 1986 discussion in Committee of the Whole of a paper entitled "Burundi - Medium-Term Economic and Financial Policy Framework" as follows:

The Executive Directors of the Bank and IDA discussed, in Committee of the Whole, the paper entitled "Burundi - Medium-Term Economic and Financial Policy Framework."

Generally, Directors supported Burundi's medium-term policy objectives, and many of them noted that the objectives and the measures to achieve them had been contained in the documents for the Bank's First Structural Adjustment Operation (SAL) which had been approved by the Board in May.

Several Directors welcomed this first framework paper and agreed with its overall thrust. It met the broad objective of helping a poor country enhance its growth and development prospects, with the Bank, Fund, and Government working together to design the macroeconomic and structural adjustment programs that defined the paths to this objective. There was coherence among the policy measures, and they generally reinforced one another toward achievement of the major objectives of stabilization and diversification in Burundi's economy.

Several Directors stressed the importance of Burundi pursuing expeditiously the external sector policies outlined in the paper. They also expressed satisfaction that the Bank would be working with Burundi on its public investment program.

At the same time, Directors pointed out some difficulties with the financial requirements and the growth aspects of the program as outlined in the paper.

The projected financial flows for the years through FY 1989 pointed up a financial gap of about SDR 33 million a year, but the paper did not indicate how the gap was to be filled. A widely shared view was expressed that framework papers should not be presented without some indication of the prospects for fully financing the program and the sources of funds. Several Directors asked for an indication of Bank/IDA lending projections in this context. It was noted that the African countries had hoped that the structural adjustment facility would mean a more organized approach to funding and that it might mobilize additional resources for the poorest countries.

Some Directors observed that the contribution of the structural adjustment facility to Burundi's external financial requirements appeared minimal. They also observed that Bank/IDA and donor commitments were mainly slow disbursing, and they indicated that there was a need to modify the nature of these financial flows in order to respond more appropriately to the country's adjustment and growth objectives. A Director asked that the Bank and Fund launch a financing plan that was both firmer and more adequate to execute Burundi's policy.

Several Directors said the framework paper did not give sufficient emphasis to growth, and observed that the approach seemed very heavily oriented to stabilization. Some also said longer-term developmental considerations needed to be taken more into account. Some Directors expressed concern that the quality of adjustment programs in Africa might suffer if the Fund were to attempt to design and put in place 12 structural adjustment facility programs in only a year. They urged the Bank to take more of a leadership role in medium-term, growth-oriented adjustment in the region, either through the framework papers or through its own adjustment lending.

It was widely noted that Burundi's growth target of 4 percent of GDP, although desirable, seemed optimistic, particularly if the agricultural sector would be the main growth component. Deficiencies in this sector would have to be addressed in a medium- to long-term framework. It was important that the Bank work with Burundi to provide the longer-term guidance it needed regarding the diversification crops, the appropriate balance between food and export crops, and the desired incentives to secure the necessary supply response.

In this connection, it was noted that Burundi was a one-crop economy, dependent on coffee. Contingency and emergency measures such as those recently announced for Mexico were examples of the type of flexibility that could help sustain minimum growth during an adjustment program, and similar measures might be incorporated into structural adjustment facility programs as well.

Directors expressed concern about the pace of adjustment envisioned in the program given the number of actions to be taken in the context of a serious shortage of natural and manpower resources in Burundi. The necessity for midcourse corrections in the program was noted. It was suggested that the Bank, the Fund, and the Government review the program after the initial steps were taken, and/or when changes in external circumstances impacted on the country, in order to make the necessary midcourse corrections.

Several Directors noted that IDA's Board had not yet determined the details of the relationship between IDA and the structural adjustment facility. In addition, they felt that any discussion of a country's policies should be held only in the context of a specific Bank or IDA lending operation. Some of these Directors nevertheless, commented on the Burundi paper, noting that most of the material had been in the documents for the SAL to Burundi which the Bank's Board had approved in May.

These Directors were of the view that there should be no cross-conditionality between IDA and the structural adjustment facility, either in policy conditions or regarding the use of resources. They agreed that IDA operations, whether pretaining to project or program lending, would continue to be dealt with in the usual manner under the Bank's normal operations.

The Director who represented Burundi said that his authorities had been concerned about the operational rules of the structural adjustment facility, especially the possibility of cross-conditionality with the Bank. Although it was not stated in the framework paper, he said, the Fund's documents for the structural adjustment facility had incorporated the understandings reached with the Bank for the SAL as conditions which the Fund would monitor, in addition to its own quantitative targets. He said the Burundi authorities had understood that their understandings with the Bank would be monitored only by the Bank. Further, he said both institutions now would monitor the same conditions in different time frames, which would inevitably lead to different interpretations of whether progress was satisfactory. Nothing in the framework paper or the documents dealt with what would happen should this occur. He urged management to look more carefully at this in future framework papers.

Directors suggested more study of the following specific points regarding the Burundi program:

- The effect of devaluation on inflation and, ultimately, the effect on consumers.
- The adequacy of the public investment program.

- Whether the private sector had the will and the capability to carry out privatization of public sector enterprises, especially those with a mixed performance record, what technical assistance was needed, and what role IFC could play.

- How restrictive the investment code would be once the proposed changes were implemented.

- Whether the dual price system for agricultural producer prices was appropriate.

- Whether the government stance on fiscal policy reforms, as indicated in paragraph 32, was sufficiently firm.

- The tax structure and the prospects of growth in tax revenues within the program period.

- The need for greater efforts in the financial sector.

- Whether the increase in interest rates would automatically benefit investment rather than lead to increased consumption.

The staff representative from the African Department confirmed that all the measures that were to have been taken before the Board discussion had indeed been taken.

Table 1 of EBS/86/147 (7/10/86) was an updated, expanded version of Table 2 in EBS/86/119 (6/3/86), the staff representative added. Given the broader time horizon of the revised table and the corrections in some investment and savings figures, Executive Directors should refer to the more recent version of the table.

Mr. Mtei made the following statement:

Because this is the first Board discussion and assessment of a program under the Fund's structural adjustment facility, today's discussion is crucial in the evolution of adjustment with growth in these low-income countries. It is my hope that a practical and flexible approach will be developed in the use of this facility. My authorities of Burundi are grateful to the staffs of the Fund and the Bank for their valuable collaboration in working out the adjustment and structural programs. They look forward to continued close collaboration and advice during the implementation that is under way.

In seeking a stand-by arrangement and a structural adjustment arrangement from the Fund, in addition to a structural adjustment credit from the World Bank approved in May 1986, the authorities have resolved to face simultaneously demand management and structural problems. Deep-rooted structural problems have become more pronounced in recent years. Burundi's landlocked position and the long distance to markets constitute a permanent source of high production costs during the first half of this decade, 1981-85; however, the situation has been exacerbated by exchange rate appreciation, increasing inefficiency associated with excessive protection, and diminishing incentives. The authorities have perceived a growing need for reorientation of public investment and rehabilitation of parastatals. The effect of these structural problems has been to retard the rate of GDP growth, which has been held at low and fluctuating levels, while the annual rate of inflation during this period has averaged 8.8 percent. In the financial sector serious imbalances persisted, underscoring the need for structural improvements in fiscal, monetary, and external sectors aimed at reversing the deterioration and, eventually, closing the gaps. During this period, for example, the central government deficit, excluding grants, averaged 12.8 percent of GDP while the external current account deficit averaged 15.3 percent of GDP, although half of it usually was offset by public transfers. The authorities have also been concerned about a rising debt service ratio and dwindling foreign reserves.

In 1985 the performance of the Burundi economy improved, in marked contrast to the underlying weakness observable in the secular trend for the period 1981-85 due to the convergence of favorable domestic and external environment. The most important factor behind the upsurge was the return of normal rains after a severe drought in 1984. Thus the agricultural sector made a strong recovery in 1985 and placed Burundi in a position to take advantage of the higher coffee prices at the same time that oil prices were falling. Burundi's terms of trade had improved by a cumulative 28 percent in the last two years prior to the beginning of 1985. These developments were translated into a raised GDP growth rate of 7.7 percent in 1985 compared with a virtual stagnation in 1984. The rate of inflation was reduced to below 4 percent, from 14.4 percent in the previous year. Because of Burundi's structural impediments, however, not even in 1985 was the impact of the favorable environment fully transmitted to the financial sectors. Thus the budgetary deficit, excluding grants, was reduced to only 8.4 percent of GDP, while the external current account, without transfers, was only moderately reduced to 14 percent from 16 percent in 1984; and although the overall balance of payments switched from a deficit to a surplus in 1985, net foreign assets at the end of 1985--SDR 23.4 million--were equivalent to only slightly more than a month's imports.

In view of the stubborn persistence of these imbalances, the authorities have decided to implement a 20-month adjustment program from August 1986 to March 1988, under which they do not intend to draw on Fund resources. Instead, their interest is in working with the Fund staff to formulate and implement appropriate measures leading to a viable fiscal and external position, while taking advantage of the prevailing favorable external environment in the form of windfall external resource inflows in 1986 and 1987 due to high coffee prices and low oil prices.

A focal point of the program under the stand-by arrangement is to strengthen the external sector. The authorities expect the favorable external environment to facilitate an overall surplus of SDR 57.9 million this year, and SDR 25.8 million in 1987, despite a substantial negative balance of payments impact of the import liberalization and tariff reforms that have been initiated in the framework of increasing efficiency on the supply side. These measures-including lower protective tariffs, reform of the tariff structure, and exchange control liberalization--are being implemented concurrently under the SAC and the SAF. Despite this external sector liberalization, the authorities expect to build up foreign reserves to a level of 3.7 months of imports by the end of the year, and to keep an external balance of payments structure that can maintain these levels in the medium term through, inter alia, a flexible exchange rate to avoid any real effective appreciation. They will also pursue a cautious external borrowing policy in order to keep the debt service ratio below 20 percent.

With regard to resource allocation, the authorities have already found room from the exchange rate depreciation to raise producer prices for coffee and tea. They are working in collaboration with the World Bank to set up a formula for regular adjustments of producer prices. In general, the Government has decided to liberalize prices and to exercise adequate flexibility in those cases still requiring price controls. The needed measures in the rehabilitation of the parastatal sector--including privatization, improved management, and price liberalization--are being undertaken in collaboration with the World Bank under the SAC, according to a timetable for restructuring and rehabilitation of the public enterprise sector. Under the stand-by arrangement, the Government has set the investment target for 1986 at FBu 19.1 billion, taking into account available concessional loans, grants, and budgetary resources. The sectoral allocation has been worked out carefully in collaboration with the World Bank.

In the fields of financial and credit policies, the authorities' objective under the program is to reduce the budgetary deficit substantially in 1986, mainly through increased revenues. The revenue increases are being generated from a wide range of discretionary tax measures, some of which should raise the underlying tax elasticity, with a lasting impact on the budget. The Government intends to hold down the rate of inflation, despite the inflationary impact of the depreciating exchange rate, to 10 percent this year and to reduce it to 9 percent in 1987. Accordingly, a tight credit policy will be in force during the stand-by arrangement, while nominal interest rates, which had recently become negative, will be raised to positive real levels.

In collaboration with the World Bank, the authorities had already started tackling structural problems under the SAC that was approved by the Bank in May. The field covered under the SAC, namely, public investment program, public enterprise rehabilitation and incentives, has formed the core of the program under the structural adjustment facility and was, at the same time, extended in coverage-especially in the policies--to bring about structural improvement in the balance of payments. Nonetheless, the structural adjustment credit and the programs under the stand-by and structural adjustment arrangements overlap considerably, potentially strengthening one another but also with potential conflicts, especially in monitoring. Under the structural adjustment arrangement, the authorities are seeking the following broad objectives in a period of three years from mid-1986 to mid-1989: an annual growth rate in GDP of 4 percent, a structural improvement in the balance of payments, and a moderation in the rate of inflation.

The first year of the structural program under the structural adjustment arrangement overlaps with a large part of the 20-month stand-by program, implying basically the same policies and measures which, together with a timetable of their implementation are sum-summarized in Table 2 of EBS/86/147. The measures include changes in exchange rate, interest rate, and price policies; reduction of protective measures, simplification of tariffs, improvement of financial management, and implementation of restrictive financial policies. The staff papers have elaborated very clearly on the broad government policies to be pursued over the three-year period to achieve these objectives. I will, therefore, only stress a few points by way of seeking the approval of Executive Directors.

On the growth rate of 4 percent of GDP over the medium term, it must be noted that this is a result of a given level of resources that will be employed, available management capacity, and incentives that will be activated through structural measures. I would, therefore, like to urge Executive Directors that since the thrust of the structural adjustment facility is growth, a determined effort should be made to ensure that this objective is not sacrificed. In other words, the structural adjustment facility arrangement should have sufficient flexibility built into it to ensure that if there is any doubt in achieving the growth target, some other performance criteria or benchmarks will be delayed, relaxed, or modified to facilitate the growth target. While I am aware that stabilization and growth are complementary, I am equally aware of possible conflicts, especially when the judgments of three institutions are involved--the

Government, the Fund, and the Bank. Since the Fund and the Bank approach growth differently, their monitoring role will also be complicated by their different perception and hence, emphasis. The Fund approaches growth estimates from "available" resources, while the Bank picks up a rate of growth and looks for "required" resources. In monitoring the structural adjustment facility program, therefore, the Fund might be tempted to abandon the growth target more easily than the Bank. To avoid this potential conflict, the greater role of monitoring should be left to the Government.

The growth-oriented policies include a wide range of incentives and other mechanisms that enhance efficiency in resource allocation and resource use. These include import liberalization, reform of the tariff structure and investment code, and reorganization and rehabilitation of public enterprises. The impact and the time lag of these measures on growth and on balance of payments, though positive, can be only a rough estimate, particularly in the light of other unknown and unpredictable factors in Burundi such as the availability of external resources, the vagaries of the weather, and the likely emergence of transport bottlenecks. This strongly militates against a mechanical application of a timetable of benchmarks such as the one presented in Table 6 of EBS/86/147. Consideration should therefore be given to the application of a range rather than specific figures. In any case I would urge that an understanding be reached that in the absence of a range of figures, this timetable should be treated as purely indicative. Indeed, the understanding reached by the Board on use of resources of the Special Disbursement Account on February 11, 1986, as summarized by the Chairman, was that "no performance criteria in the usual sense of the word should be requested."

The first-year structural adjustment program policies overlap with those of the 20-month stand-by arrangement. The quantitative performance criteria concerning domestic credit, foreign assets, and foreign borrowing under the program supported by a stand-by arrangement which appear in Table 6 of EBS/86/119 are the same as the quantitative benchmarks under the structural adjustment arrangement in Table 5 of EBS/86/147. In this connection, it should be clearly understood that the benchmarks are purely indicative to enable the monitoring of the direction of progress of the program.

Burundi's public investment program (PIP) for the first year of the structural adjustment arrangement was reviewed by the staffs of the Bank and Fund and found to be sound but that the subsequent annual PIPs are subject to adjustment in the light of implementation and the flow of external resources. While I see the need for this stipulation I wish, at the same time, to reiterate that a determined effort should be made to keep to the 4 percent GDP growth rate target by allowing the Government to make adjustments elsewhere within the context of the programs. This might involve debt rescheduling, the level of reserve buildup, and/or domestic borrowing.

The simultaneous approval of the programs under the stand-by and the structural adjustment arrangements entails the danger of applying the quantitative performance criteria of the stand-by arrangement as benchmarks for monitoring direction of progress under the structural adjustment arrangement. This would unwittingly result in more severe conditionality than intended in a structural adjustment arrangement. I wish to reiterate that this should be avoided to the extent possible, otherwise it may discourage other countries that may require Fund resources under the structural adjustment arrangement without necessarily wanting a stand-by arrangement.

Mr. Dallara made the following statement:

It is with particular pleasure that we consider Burundi's request before us today for a stand-by arrangement and for a drawing under the Fund's structural adjustment facility. Not only is this the first request for assistance under the new facility, but it represents an important step forward in Fund-Bank cooperation. Such cooperation, both in general, and in particular in Burundi, can lead to a significant strengthening over time in the economic prospects and balance of payments sustainability of many low-income countries with protracted balance of payments problems.

We find that this first request is solid, and indeed in many respects, impressive. We acknowledge and welcome the efforts that the Burundi authorities and the staffs of the Fund and the Bank have made to develop a comprehensive policy framework, which has made a sound basis for a fully integrated Fund-Bank effort to support structural and financial adjustment.

Table 2, Timetable of Policy Actions Under the Structural Adjustment Facility and the Stand-By Arrangement, (EBS/86/147) was particularly useful, with its outline of the proposed policies and their envisaged dates of implementation. We hope to see such a format and such detail in all other requests for the use of resources under the structural adjustment facility. The policy framework paper begins by highlighting the economic developments and policy responses of the past few years in Burundi, and identifies some of the weaknesses of the policy responses to some of those developments. Those introductory remarks provide a helpful background, with a clear identification of the difficulties and the problems facing the economy, against which the framework for adjustment is then formulated.

Specific objectives are established for the three-year period through 1989. The policy package includes a major effort to improve the productive potential of the economy, while restoring and maintaining financial equilibrium. The planned exchange rate adjustment addresses correctly both the structural and financial inadequacies in the economy by promoting production of tradables and providing a solid foundation for higher levels of growth over time. We welcome the authorities' commitment to maintain competitiveness over the course of the program by appropriate and periodic adjustments, and we would stress the particular importance of a full, timely follow-through on that commitment. With the effects of the price mechanism working through the economy, the efforts to liberalize the system of exchange and foreign trade restrictions will be facilitated, since the resource allocation decisions can be made on a more efficient basis without the need for extensive government controls.

The phased tariff reform is an important corollary action to these steps, providing for a removal of present distortions that arise from the widely varying rates of effective protection. The authorities have apparently recognized that it is important to liberalize the domestic prices steadily, along with the liberalization of the trade regime, so that the beneficial effects of the trade and external liberalization can be passed through. We support the authorities' commitment to adjust producer prices for major export crops in order to maintain producer incentives. Additional welcome policies to improve resource allocation in this program include the public investment program, which will emphasize agricultural development and reinforce the growth potential of this sector. A preliminary investment budget has been set forth for 1987, and we welcome this forwardlooking approach by the authorities. We encourage continued close World Bank support of this effort.

The structure of the economy will also be affected by the planned public enterprise reform, another essential part of this overall effort. We support the authorities' objective to limit government participation in certain areas, to deregulate pricing decisions, and to restructure the rest of the public sector by appropriate means, either privatization or closure. We encourage the authorities to move promptly to implement the public enterprise reform.

The authorities are emphasizing private sector expansion, in part by liberalizing the investment code, which, if we understand correctly, will apply on a nondiscriminatory basis to both domestic and foreign investors. We hope that with the scaling back of foreign exchange restrictions, this will indeed provide a more attractive climate for foreign investment.

The policy framework paper (EBS/86/147) includes a discussion of the supportive fiscal and monetary policies, albeit not such great detail as in EBS/86/119. We view inclusion of this macroeconomic policy discussion as particularly relevant to the medium-term approach, and in future requests without an associated request for a stand-by arrangement, we would look for more detail in the policy framework paper on such policies and commitments.

The planned tax effort includes several important, encouraging steps, notably the elimination of all noncoffee export taxes. Other tax measures that appear to go in the right direction include the replacement of a turnover tax by a sales tax. After a review of the documentation and information, however, we are left to wonder whether broader efforts at tax reform might be called for in the light of the continued high dependence of the economy on trade-related taxes. We would welcome any comments the staff or Mr. Mtei have on this matter and would hope that the issue can be discussed further with the authorities. Strict controls over expenditures apparently will be instituted in an effort to contain the overall fiscal deficits, and we welcome this important element of the program.

We found that the staff descriptions of monetary policy gave some assurance that credit expansion will be appropriately geared toward the most productive sectors, while aiming at avoiding inflationary excesses. The commitment to follow an interest rate policy aimed at keeping interest rates positive in real terms is also welcome. However, it would be appropriate to give some attention to the institutional setting for monetary policy. We would welcome any additional information that the staff could provide. We hope that the authorities will consider the need for institutional development and development of monetary policy instruments, and take any appropriate action. In that regard, we noted that the timetable of policy actions (Table 2, EBS/86/147) does not identify any policy actions for 1988. We recognize that it may be difficult at this stage to provide details for 1988, but we would like to know whether the staff and the authorities are satisfied that the general thrust of policy adjustment--plus any additional areas of action--will be addressed in detail in the third year of the program.

The final section of EBS/86/147, on financing issues, was particularly useful. In future policy framework papers, however, we would suggest that the data provided in this section be presented in tabular form, to help donors identify the need for additional resource flows. It is difficult to be certain that the resource flows needed by Burundi--projected now in the range of SDR 33.5 million--will be forthcoming, and the authorities have indicated that they are prepared to modify their adjustment plans, with the cooperation of the World Bank, to the actual levels of secured financing. We believe that this is a prudent approach.

Although the authorities are requesting a stand-by arrangement, they do not envisage making a drawing on the funds that would be available. Given Burundi's debt profile and the authorities' hope that adequate external resources can be secured on more concessional terms, this is a prudent approach. Although no critical need for resources is apparent, the authorities still seem determined to adhere fully to the agreed program, and we hope that this lack of urgency in the immediate external financial picture will not translate into any relaxation in the commitment or efforts of the authorities. In fact, a number of actions have preceded today's meeting, and we are therefore comfortable in supporting the request for the stand-by arrangement. Moreover, we are glad that the key financial elements of the stand-by arrangement have been incorporated into the arrangement under the structural adjustment facility. Structural adjustment is at the heart of this new facility, but it must have a sound financial environment to succeed. We welcome the appropriate fit that appears to have emerged between the efforts of the World Bank and the Fund, and we support the continued close collaboration between the two institutions in connection with Burundi's economic program.

We support the proposed decisions. We welcome the high standards that these requests have set for the use of the new Fund facility. It leaves us hopeful that, not only for Burundi but for other members too, comprehensive, integrated economic programs can provide the basis for higher levels of sustainable growth, consistent with viable external positions.

Mr. Foot made the following statement:

As Mr. Dallara said, Burundi's request for a stand-by arrangement and a drawing under the structural adjustment facility is an important subject, particularly in terms of developing our understanding of the way in which the structural adjustment facility will operate. I can warmly endorse the proposed decisions.

So far as the proposed stand-by arrangement is concerned, I agree with the staff's appraisal of what went wrong in the country in the early 1980s. It is encouraging that the authorities also agree and, what is more, have embarked upon the appropriate reforms with a considerable number of worthwhile prior actions. The stand-by arrangement is therefore soundly based.

A few comments should be made concerning the stand-by arrangement. Coffee is a key factor in both the external and the fiscal positions of Burundi. Spot prices have weakened considerably in recent months. It would be helpful to have staff comments on how much farther coffee prices would have to fall before the external or fiscal position described in the staff paper begins to look implausibly optimistic and causes Burundi to consider making a drawing under the stand-by arrangement. Fiscal policy has been unduly lax and great caution in this area is appropriate. The domestic savings ratio is currently low, and the introduction of positive real interest rates is an essential step if this ratio is to rise as desired. The 16 percent devaluation of the Burundi franc on July 10, 1986 must be seen as the first step in necessary exchange adjustment. Coffee provides too high a proportion of Burundi's export earnings, and the planned diversification of exports must proceed quickly. Finally, the inflation targets in the stand-by arrangement are not particularly demanding: 9 percent is projected for 1989, which is understandable given the depreciation of the Burundi franc. The prospective current account deficits are as large as could be considered comfortable, and there is little room for slippage in these areas.

I warmly welcome the efforts made by the authorities, and the staffs of the Bank and Fund in putting together a worthwhile first request under the new structural adjustment facility. I hope that the few reservations that I express will be taken positively, as a contribution to the Board's guidance to the staff for future, possibly more difficult, situations. We must recognize that while Burundi is a country that is short of the necessary resources for growth, many candidates for use of resources under the structural adjustment facility will be in worse economic shape when they make their request. Moreover, many will have a much shorter history of close cooperation with the Fund and the Bank.

The measures taken and agreed to by the authorities are adequate to underpin both the stand-by arrangement and the program under the structural adjustment facility. There is no need to attempt to draw dividing lines, with an arbitrary allocation of some measures to the stand-by arrangement and some measures to the first year program under the structural adjustment facility.

I am also content that Burundi's request meets an objective that many in this Board had agreed should be met for each request under the structural adjustment facility, namely, to provide a reasonable prospect for balance of payments viability in the medium term. There is some room for doubt as to whether a financing gap exists after 1987. My own interpretation, on which I would be grateful for staff comment, is that the prospective gap for 1988/89 is well within the increase in concessional finance likely to accompany a successful adjustment program.

Of concern, however, is a key general point. In paragraph 16 of Annex I to EBS/86/147, it is stated that to achieve the broad objectives over the next three years, major policy reforms will be implemented, and those policy reforms are then listed. The paragraph then indicates that a more detailed description of the policies to be pursued, and of the foreign aid requirements during the program period, are contained in subsequent sections. I hope that it can be agreed that the list of policy reforms included in EBS/86/147 is not exhaustive, and could include other reforms in future years if they seemed appropriate. We know only too well how perspectives change radically over short periods of time. In addition, I should strongly have preferred a statement making clear that the policies being detailed for 1986/87 in the areas of policy reform chosen are those relevant to this year's program under the structural adjustment facility, and that the further implementation of these reforms--their development and extension--will be considered in detail at the next two annual reviews. Otherwise, one could conclude from a simplistic reading that the list of measures detailed in the policy framework paper were the only specific measures required for the entire three years.

Such a simplistic reading of the policy framework could lead to the conclusion that with regard to tax reform and the institutional setting for monetary policy, for example, nothing else is required and that no other structural measures would be appropriate over the second and third years of the program. I am not trying to specify now what measures may seem appropriate in one or two years, nor even the fields in which the authorities should concentrate their efforts. Rather, I am trying to make specific what is understood, namely, that appropriate measures to support the original aims of the program will be agreed and implemented as appropriate in its later years. I trust that in future years, a three-year perspective will be retained, even though the facility will have only two years or one year remaining. Such an approach can be helpful if everyone can see where the economy is going, especially because by definition, many of the measures that a program under the structural adjustment facility should support will not and should not have a short-term perspective.

Although I have not had adequate time to reflect on Mr. Mtei's statement, I have several preliminary remarks, which future thought might modify. I have a little difficulty with his first point, but it may be that the difficulty is semantic, not substantive, inasmuch as Mr. Mtei says that stabilization and growth are complementary, not alternative, objectives, and that one cannot think of short-term growth at the expense of appropriate long-term adjustment. However, I must offer a reservation on Mr. Mtei's remark that to avoid a conflict in the different approaches of the Bank and the Fund to growth, the greater role of monitoring should be left to the Government. The Executive Board cannot abdicate its reponsibilities in the monitoring of programs under the structural adjustment facility. Instead, if developments cause a program to go off track, it is necessary to have mutual discussions between the authorities, the staffs of the Bank and the Fund, and the Executive Boards of those institutions, to determine an appropriate response. I would be reluctant to enter into any hypothetical commitments in advance, because ultimately they might not be appropriate.

With regard to Mr. Mtei's second point, I think there is a stronger measure of agreement between us. I particularly liked his use of the words "strongly militates against mechanical application of a timetable of benchmarks," because that remark summarizes exactly the spirit of this Board when it approved the structural adjustment facility in March 1986. Thus, I would be happy to endorse such an approach. Similarly, Mr. Mtei had indicated that it should be clearly understood that the benchmarks for the program under the structural adjustment facility are purely indicative to enable the monitoring of the direction of progress of the program. Again, those remarks summarize very well the spirit of the discussion in March.

Mr. Mtei's fourth point is closely related to his first point, and therefore I have no further comment. His fifth point is perhaps the most difficult. Mr. Mtei has cautioned that the simultaneous approval of the stand-by arrangement and the program under the structural adjustment facility could result in more severe conditionality than originally was intended for a program under the structural adjustment facility. I think we may have to reserve substantive discussion on this point until we have a request for a structural adjustment facility program without a stand-by arrangement. However, I must stress that the aim of a reasonable prospect of medium-term balance of payments viability is a critical one.

Mrs. Ploix made the following statement:

This meeting is the result of three positive factors. First, the Burundi authorities are willing to undertake a comprehensive adjustment program, which the Fund has been urging for some time, specifically because of the economy's heavy reliance on one commodity. Second, the Fund and the World Bank are willing to provide all possible assistance to Burundi as it undertakes a difficult adjustment process, in order to help it reach a sustained and sustainable growth rate in the medium term. Third, the enhanced collaboration between the Fund and the Bank that has always been advocated by this chair has been evident. All these factors are equally welcome.

The numerous structural weaknesses facing the Burundi economy--either natural, such as dependence on coffee, or institutional, such as fiscal, exchange rate, or interest rate policies--have led to a significant disequilibrium in the balance of payments, a quickly mounting external debt, and particularly, an extremely weak growth rate unable to sustain the standard of living of a rapidly growing population.

The program chosen by the authorities in consultation with the Fund and the World Bank is thus most welcome. This comprehensive adjustment program includes impressive reforms that address macroeconomic questions in all areas: reliance on a flexible exchange rate policy, liberalization of import and exchange restrictions, flexible domestic pricing policies, re-establishment of real positive interest rates, improvement of the fiscal performance, and strong management of the credit policy. Moreover, this program takes into account the need to achieve a broad-based, strong recovery in real GDP. The objective of a 4 percent real growth rate is ambitious. The recent upsurge in coffee prices and the drop in world petroleum prices will help; nevertheless, the results will depend on the authorities' firm commitment to the macroeconomic and structural reforms. The program also reveals the authorities' steady willingness to tackle structural problems, notably through the public investment program, the rehabilitation of the public enterprise sector, and the reorganization of the tax system. The aggregate of the authorities' measures is an adequate response to the problems faced by Burundi.

Burundi is the first member country to have applied for a disbursement under the structural adjustment facility, which was instituted in April 1986. The circumstances of its application made collaboration between both multilateral institutions easier than in most other situations. Both the IMF and the World Bank were considering an adjustment and a structural program with Burundi, for the first time, and both institutions started their discussions with the authorities simultaneously. Because of this, the medium-term framework does not put two programs side by side, but rather, it integrates the policy actions of the stand-by arrangement and of the structural adjustment credit in a complete, convincing approach.

The medium-term economic and financial policy framework is, as we wished it to be, short and concise. It is also well supported by the comprehensive information provided in the request for the stand-by arrangement from the Fund and the structural adjustment credit from the World Bank. I have no difficulty with the way in which the general requests for the structural adjustment facility disbursement and the stand-by arrangement, as well as the more specific request for quick disbursement under the structural adjustment facility are expressed. Since the stand-by arrangement effectively covers the first year of the structural adjustment facility program, it is unnecessary to devote long comments to the first drawing. It is equally normal to find, as quantitative benchmarks under the structural adjustment facility program, the quantitative performance criteria of the stand-by arrangement. I am pleased to note that a benchmark of a slightly more structural nature has been added. Like Mr. Foot, I do not understand Mr. Mtei's concern about the quantitative benchmarks: the appraisal under the stand-by arrangement is different from the one under the structural adjustment facility. The stand-by arrangement requires quarterly reviews, whereas the structural adjustment facility requires yearly reviews.

Moreover, I must say that Mr. Mtei's helpful statement raises a question on monitoring. I have difficulties envisaging separate monitoring by the World Bank, the Fund, and the Government, as Mr. Mtei suggests. This issue appears important to me. When I read the World Bank summing up, I had expected joint monitoring by the World Bank and the Fund. In this situation, because of the stand-by arrangement, I understand that the Fund will monitor the stand-by arrangement according to its normal procedures.

The Executive Board of the World Bank had raised the question of a financing gap. This gap is not discussed in the Fund's documents. Could the staff comment on this issue?

The staff paper on the request for a structural adjustment arrangement (EBS/86/147) is faithful to the expository order followed in the policy framework paper in Annex I. This, however, leads to a number of repetitions and is at times confusing. Would it be possible to establish that the policy framework paper would be drawn into two columns, with one column devoted to comments the staff may have on the original text? This presentation would avoid these repetitions and would undoubtedly make the reading more appealing. This last comment on form is a minor detail, and of course, we support both proposed decisions.

Mr. Finaish made the following statement:

Today's discussion on Burundi is of particular interest as we consider the first arrangement under the new structural adjustment facility. The adjustment measures included in the proposed stand-by arrangement and the first annual program under the structural adjustment facility are wide ranging and collectively amount to a strong adjustment effort. Tighter monetary and fiscal policies are to be combined with a broad set of structural adjustments. The latter comprise a shift to more flexible exchange rate, interest rate, and domestic pricing policies, liberalization of import and exchange controls, rationalization of the import tariff structure, reform of domestic investment regulations, improvements in the tax structure, reform and rehabilitation of public enterprises, and adjustments in the public investment program. The overall adjustment effort clearly merits financial support from the Fund as well as from other suppliers of external financial assistance to Burundi.

In presenting the proposed programs, the staff has placed a welcome stress on the need to seek progress toward balance of payments viability in Burundi in the context of continued growth in the economy at reasonable rates, although the point has been made that the emphasis on the growth aspect could have been stronger. Structural reform designed to improve the allocation of resources and enhance productive capacity is, of course, a key aspect of any growth-oriented adjustment strategy. The implementation of needed structural changes has been appropriately emphasized in the staff papers as an important condition for the realization of the goal of adjustment with growth that is envisioned for Burundi's economy. During the period of adjustment, the overall investment level and its ratio to GDP are forecast to increase, in contrast to the decline in investment that has accompanied the process of adjustment in many other situations. The projected increase in investment is to be supported by a significant increase in the domestic savings rate. Moreover, the need to diversify the production and export base has been stressed in the proposed adjustment program.

It is these objectives--namely, bringing about structural reform to improve resource allocation; supporting adequate investment levels, aided by an increase in both domestic savings and external resources, to enlarge the productive capacity; and directing structural adjustment and increased investment toward diversifying the production and export base--that should constitute the main thrust of adjustment programs supported by the structural adjustment facility. Such programs, cast in a medium-term framework, should hold the promise of a movement toward balance of payments viability and domestic financial stability consistent with progress toward adequate and sustained growth. As programs under the structural adjustment facility are put in place and begin to be implemented, their success should be assessed against this criterion. I would like to endorse the emphasis placed by Mr. Mtei on a flexible implementation of the structural adjustment facility programs, especially with a view to safeguarding the growth orientation of these programs.

The medium-term policy framework paper (Annex I, EBS/86/147) gives a useful overview of the major structural weaknesses in the economy and of the range of measures needed to address those weaknesses. It provides a broad medium-term policy framework within which to formulate annual programs. While the thrust of the policies outlined in the medium-term framework paper are broadly appropriate, a question that can be posed is whether too much of the policy change envisaged over the medium term has not been squeezed into the first-year program. Apart from the question of the appropriate pace of adjustment, a related question that deserves attention is the appropriate phasing and sequencing of the different components of the overall adjustment package. The latter question becomes more important when the desired adjustment involves substantial structural change and liberalization in various sectors and markets in the economy, as in Burundi, because complex interactions arise between the supply-side and demand-side policies as well as between the different supply-side policies themselves. The flexibility and extra room provided by the medium-term time frame for adjustment inherent in the structural adjustment facility, in contrast to the more immediate concerns of stand-by arrangements, should be fully utilized to address the questions of the appropriate pace and sequencing of adjustment.

This brings us to the broader question of the comparative design and conditionality of a program supported by the structural adjustment facility and one supported by a stand-by arrangement. For Burundi, the adjustments stipulated in the stand-by arrangement and the first annual program under the structural adjustment facility are practically identical over the period common to both. EBS/86/147 states that the structural adjustment facility program includes the policies and targets relating to the first 12 months of the 18-month stand-by arrangement. The differences that do exist between the two programs relate more to monitoring arrangements than to the content of the adjustment package. The same macroeconomic variables and balance of payments tests that appear as performance criteria in the stand-by arrangement appear as benchmarks in the structural adjustment facility program, and on the same quarterly basis. Indeed, in the case of the structural adjustment facility program, an additional variable--the ratio of the fiscal deficit to GDP--appears as a benchmark. Moreover, the structural adjustment measures included in the structural adjustment facility program are the same as those in the stand-by arrangement, with the difference being that some of these measures appear as benchmarks in the structural adjustment facility program.

The coincidence of the two programs with respect to the design of adjustment, the mix of--or balance between--demand- and supply-side policies, the nature and range of measures included, and the time frame for targeting macroeconomic policies and objectives raise an important question. Would one not expect to see some differences between stand-by arrangements and structural adjustment facility programs in these respects, given the differences in the nature and financial characteristics of the two types of arrangements, which include the intended relative concentration of the structural adjustment facility on growth-oriented structural adjustment and the comparatively much lower cost and longer maturity of its financing? One would think that the answer to this question would be in the affirmative.

To develop adjustment programs truly in the spirit of the structural adjustment facility would require suitable adaptations in the design and phasing of adjustment, so that they would correspond better to the objective of the new facility, namely to put in place a medium-term framework for growth-oriented structural adjustment. The tendency to replicate more or less the model used in stand-by arrangements should be resisted. Structural adjustment facility programs should focus primarily on certain key structural adjustments aimed at strengthening the balance of payments and the growth process over the medium term; policy conditions on the demand side could be set in the form of relatively broad guidelines, which could be quantified, but should have a greater medium-term orientation than is permitted in conventional stand-by arrangements. When shorter-term balance of payments imperatives necessitate a greater focus on demand management and the use of short-term targeting of financial policies, such as quarterly credit ceilings, these should be included in an accompanying stand-by arrangement, but should not be made part of the structural adjustment facility program. Thus, when the two types of programs coexist, the conditionality of the structural adjustment facility program should not have to incorporate en bloc that of the stand-by arrangement, although the two would of course need to be consistent. Furthermore, I would agree with Mr. Mtei that benchmarks in the structural adjustment facility program should be treated as indicative rather than precise targets.

The recent approval of a structural adjustment credit by the World Bank, which will run concurrently with the structural adjustment facility arrangement, provides the advantage not only of permitting a concerted, more vigorous action toward structural adjustment in the light of the medium-term framework paper prepared jointly by the Fund and the Bank, but also of augmenting the resources made available to Burundi to support the process of adjustment. In the discussions leading up to the decision on the structural adjustment facility, the notion of "additionality," namely, augmenting structural adjustment facility resources with truly additional outside financing, had been widely stressed. In the summing up of the discussion on the structural adjustment facility (EBM/86/56, 3/26/86), the Chairman had stated that the resources of the structural adjustment facility should be augmented by the resources stemming from the World Bank, other multilateral sources, and bilateral donors. It would be useful if papers presenting structural adjustment facility arrangements include a brief section on "additionality," indicating the efforts made by the Fund and the Bank to catalyze additional funds for the member country in question, and giving some assessment of the success of those efforts.

A point with respect to Fund-Bank collaboration that bears reiteration is that cross-conditionality in Fund-Bank operations should be avoided. More effective collaboration is welcome, but that should not lead to cross-conditionality.

An important objective of the proposed adjustment package is to strengthen incentives for the expansion and diversification of exports. The staff contends that in the past few years, both exchange overvaluation and lack of adjustments in domestic producer prices of exports have acted to limit Burundi's export growth. The adjustment program includes policy corrections on both these counts. However, over the first half of the 1980s, the period in which the policies were said to have been deficient, Burundi experienced an average export volume growth of about 15 percent a year. Over the projected period, 1986-90, when exports are considered to benefit from the policy adjustments, the corresponding rate is only 5 percent, compared with the earlier 15 percent. I would ask what special factors in the latter period are considered to hold export growth at a much lower rate than in the former period, despite the envisaged improvement in the policy setting.

The stand-by arrangement includes quarterly performance criteria on net official foreign assets, at a level of a margin over three months of imports, and identical benchmarks on net official foreign assets are found in the structural adjustment facility program. The list of performance criteria in stand-by arrangements does not often include net foreign assets. Movements in net foreign assets can be influenced largely by the balance of payments outcome, which the authorities can control only partially, in contrast to movements in other macroeconomic variables on which performance criteria are set--for example, domestic credit--and which are primarily policy determined. The staff notes that with minimum quarterly levels of net official foreign assets included as performance criteria under the program, a basis has been provided to assess whether the envisaged adjustments in the exchange rate and other accompanying policy measures are adequate to achieve the programmed improvement in the balance of payments, and that such assessments will be made in the context of two reviews of the program. Burundi clearly needs to strengthen the official foreign asset position. However, there is little in the staff reasoning that necessarily argues for placing performance criteria on the net foreign asset position instead of the possible alternative, namely, evaluating certain projections or targets with respect to the same variable at the time of the program reviews. The present stand-by arrangement includes elaborate understandings with respect to the review of policies, especially exchange rate policy, at the two program reviews, with an explicit provision for an assessment of actual performance relative to the program targets for the balance of payments and the net foreign asset position, and the further proviso that completion of the program reviews is itself a performance criterion. Given these provisions, the case for placing, in addition, a performance criterion on the foreign asset position is not particularly convincing.

Mr. Hodgson made the following statement:

Economic developments in Burundi during the first half of this decade were disappointing, as real GDP growth rates were generally low, and domestic and external balances remained large. It is in this context that we welcome the authorities' strong shift in economic policies. The authorities are placing a welcome emphasis on structural measures, most notably by improving incentives through a flexible exchange rate policy, comprehensive price adjustments, and a reduction of trade and exchange restrictions. We therefore have no difficulty in supporting Burundi's requests for a stand-by arrangement and for a disbursement under the structural adjustment facility.

It is most fitting that the first country to approach the Fund for resources under the structural adjustment facility is undertaking a clear reorientation of policy, and placing exceptional emphasis upon supply-side liberalization measures set in a medium-term context. As the authorities correctly note, prudent fiscal and monetary policies that restrain domestic demand pressures are required to provide an effective framework for structural adjustment. We support the authorities' intention to decelerate the growth rate of broad money, while directing an increasing share of the banking system's credit toward the private sector, as well as to shift to a more active interest rate policy, to provide positive real returns for savings. The authorities have also committed themselves to a strengthening of the fiscal accounts by rationalizing the structure of import and export taxes, while improving tax collection procedures and maintaining strict control over the growth rates of expenditures, particularly the wage bill. If fully implemented, these measures should provide the correct macroeconomic policy environment.

More important, however, is the authorities' commitment to encourage more diverse and stronger economic growth through structural reform. We support the authorities' intention to move away from price controls, exchange and trade restrictions, and a fixed exchange rate, in favor of more flexible, market-oriented pricing principles. These measures are necessary if the authorities' ambitious growth target of 4 percent a year over the balance of the decade is to be achieved.

More specifically, I commend the authorities' intention to follow a flexible exchange rate policy. The authorities propose to change the exchange rate through a series of discrete devaluations and then to adjust the exchange rate as required, based upon balance of payments considerations, which seems to be an intelligent, effective means of improving Burundi's external competitiveness. The shift to a more flexible exchange rate policy should permit broad liberalization measures in the external sector, most notably the elimination of quantitative trade restrictions. I am pleased in particular that the stand-by arrangement and the first year of the structural adjustment facility program have explicitly set out a timetable for the elimination of trade and exchange restrictions, as well as a timetable for the replacement of these restrictions by a more rational tariff structure. These are precisely the kinds of clear, orderly adjustments that should be supported by structural adjustment facility resources.

The planned exchange rate, trade, and tariff adjustments must be matched by similar moves toward flexible domestic pricing policies. We therefore welcome the introduction of more flexible pricing policies for agricultural goods and for public enterprises, and note the price changes already implemented. In a similar vein, the World Bank has a crucial role to play in the rehabilitation of the parastatals, and we are encouraged that the first of what should be a series of structural loans for Burundi was disbursed this spring.

Other Directors, most notably Mr. Dallara and Mr. Foot, have expressed some ideas on how to strengthen the structural adjustment facility program. I will not dwell on them, except to say that these ideas should be considered in later stages of the structural adjustment facility program.

We note that the quantitative benchmarks for the structural adjustment facility program are identical to the performance criteria under the stand-by arrangement with Burundi. This poses no difficulty for us in principle, but I would like to emphasize that all the targets under the structural adjustment facility are indeed benchmarks, which need to be interpreted with discretion.

We agree fully that the wide-ranging structural measures being implemented are necessary conditions for growth, but may not be sufficient conditions in themselves. In that regard, I would appreciate staff comments on the achievability of the authorities' 4 percent growth target, as well as the likelihood of sufficient capital flows materializing in the later years of the program to ensure that the medium-term plan can remain on course.

Mr. Salinas made the following statement:

This chair is prepared to support the proposed decisions on Burundi's requests for a stand-by arrangement and for a disbursement under the structural adjustment facility. Burundi's economic performance during the past few years has been characterized by generally low, unstable rates of growth, a marked weakening of the external accounts, significant imbalances in the public sector, and an additional accumulation of external debt. In spite of the partial recovery in 1985, the economy of Burundi still includes structural rigidities--compounded by the lack, or limited availability, of both physical and financial resources--that continue to impede efficient resource allocation. In this context it is quite encouraging to note the determination of the authorities to implement a program dealing with both financial and structural issues within the framework of close collaboration with the Fund and the World Bank.

Policy reforms envisaged both in the stand-by arrangement and the structural adjustment facility program appear to be appropriate to achieve the desired objectives of laying the basis for a more sustainable, broad-based economic growth and increased domestic and external stability. To this end, it will be of particular importance for the authorities to adhere fully to the agreed exchange rate policy and to strengthen every possible mechanism aimed at export diversification and efficient import substitution, as a means of reducing the external vulnerability of the economy and improving resource allocation. In addition, structural rigidities of an institutional nature should be removed promptly if Burundi's fiscal performance is to be improved. Excessive government control over investment and pricing decisions must be avoided, and a major role must be given to market signals and cost considerations when the authorities are deciding on investment programs or pricing goods or services provided by the state-owned enterprises. The recent developments on pricing policies for agricultural products and for some state-owned enterprises are most welcome.

Given the number and the magnitude of these reforms, we wonder whether they can be accomplished within the relatively short period of time shown in the timetable of the policy framework paper. The present domestic environment and external circumstances provide a helpful framework. Coffee prices have risen significantly, whereas oil prices have dropped. However, as Mrs. Ploix stated, we believe that the final outcome of the reforms will depend heavily on the determination of the authorities to adhere to the program, and on the assistance--both technical and financial--that the Fund, World Bank, and other suppliers provide.

On the issue of conditionality associated with programs under the structural adjustment facility, I will confine my remarks to an endorsement of the views already expressed by Mr. Finaish. We would like to congratulate the staff for its work and the authorities for their adopted compromise to modernize the economic structure of their country. That is a difficult task to be done in a relatively short period of time. External conditions appear to date to be more appropriate for implementing such reforms, but those external conditions should be monitored continuously, because we have noted in the past that no program can rely totally on what the current scenario predicts.

Mr. Suraisry made the following statement:

I welcome this opportunity to discuss the first request for a disbursement under the structural adjustment facility. I am pleased to see this facility become operational, and I am sure that it will help advance the international adjustment process. I congratulate the Burundi authorities for being the first to benefit from such a facility.

I will begin with a few general remarks. First, formulating a detailed, medium-term framework should yield benefits in addition to ensuring consistency. Specifically, policy actions will tend to be evaluated in terms of their contribution toward the longer-term goal of achieving sustained, noninflationary growth in output. As a result, even those actions that are targeted at alleviating short-term imbalances will be influenced favorably by the longer-term perspective. Second, the medium-term framework, by detailing all that is to be achieved over a few years, underscores the value of adjustment to longer-term economic health. Furthermore, since the range of adjustment measures tends to be comprehensive, the net effect will be that the burden of adjustment will be spread over all segments of society, making the package more acceptable. Third, any country that makes a commitment to adjustment within the framework of the structural adjustment facility will greatly enhance its creditworthiness with the financial community at large. This factor could be important in helping Burundi to meet its remaining financing needs under the structural adjustment facility program. Given these considerations, the structural adjustment facility holds great promise, and I commend the authorities for their commitment to ensure its success. I also welcome the close cooperation which evidently took place between the Fund and the Bank staffs.

I am in broad agreement with the objectives and means set out in EBS/86/147 and in particular with the growth orientation of Burundi's program. The staff has noted rightly that the low domestic savings ratio--less than 4 percent of GDP--is a matter of concern. However, while I accept that the adoption of more flexible interest rates may increase the share of savings being channeled into the financial sector, I believe that more direct actions, such as encouraging the development of more financial instruments and institutions and reducing the fiscal deficit, hold greater promise.

The medium-term scenario for government finances under the structural adjustment facility program predicts a growing reliance on import duties as a source of tax revenue. Specifically, import duties accounted for about 18 percent of tax revenue in 1985, whereas the corresponding share in 1989 is anticipated to be about 22 percent. While I recognize that this is in part a reflection of worthwhile reforms of the tariff system, such a trend is not desirable. Further, Burundi also relies heavily on the taxation of coffee exports. Not only does this tax reduce the international competitiveness of Burundi, but also, as has been demonstrated recently, it can be a volatile source of revenue. I wonder whether there are other possible alternative tax bases that could be considered in this context, with a view to expanding the tax base as part of an ongoing process of tax reform. Staff comment on this point would be helpful.

With regard to the content of the stand-by arrangement, I commend the authorities for the comprehensiveness of the adjustment measures that they are implementing. In particular, I welcome their adoption of a cautious monetary and fiscal policy and a flexible exchange rate policy. In addition, their resource allocation policy, which includes measures both to ensure a more realistic domestic pricing structure and to encourage a more efficient public enterprise sector, is well conceived.

I have a few brief comments on the stand-by arrangement. First, although it is not necessary for a stand-by arrangement to accompany a request for disbursement under the structural adjustment facility, I feel that a stand-by arrangement with Burundi is appropriate. Second, I think it is appropriate that the authorities do not intend to draw immediately under the stand-by arrangement. However, if serious revenue shortfalls occur, owing to a sharp decline in the price of coffee, for example, then purchases under the stand-by arrangement may be necessary to sustain the pace of adjustment. Third, I commend the authorities for replacing the turnover tax with a single-stage sales tax. However, since this tax is levied on both domestically produced goods and services and on imports, in the absence of a credit mechanism, the tax will still tend to cascade. Staff comment on this point would be helpful.

On a more general level, the past few years have seen a number of serious imbalances emerge in the economy of Burundi. It makes sense to address these problems on all fronts. In fact, not only is the adoption of a structural adjustment facility program and a stand-by arrangement appropriate, but the World Bank's additional involvement through a structural adjustment credit is also most welcome. These joint efforts will serve to reinforce each other and, as a result, the timetable for a return to sustained growth should be shortened. However, I can appreciate the authorities' concern about the possibility of conflict arising from the simultaneous adoption of three programs. This is our first experience with a disbursement under the structural adjustment facility, and therefore difficulties in implementation could arise. Consequently, it is important to monitor developments closely. There could be a need for flexibility in order to ensure the successful implementation of these programs, and consequently, the achievement of the reform's objectives. This was recognized by the Chairman, as his summing up on the subject indicated that the annual programs should be applied flexibly in order to avoid undue delays.

I can support the decisions under the Article IV consultation, the stand-by arrangement, and the request for a disbursement under the structural adjustment facility.

Mr. Steinberg made the following statement:

This first request for a disbursement under the structural adjustment facility is promising and deserves our support. Inasmuch as we are also considering the staff report for the 1986 Article IV consultation with Burundi and the request for a stand-by arrangement, one could expect the presentation and analysis of the economic situation to be more comprehensive, to permit a better understanding of Burundi's economic problems. However, the economic program is quite detailed.

Burundi's economic difficulties are not all of its own doing. A landlocked country with limited natural resources, scarce skilled manpower, and low per capita income, Burundi depends on good climate for its agricultural sector, which is the mainstay of the economy, and it also depends on good transport conditions in neighboring countries for the shipment of coffee--its principal export item. Such basic weaknesses could by themselves be an impediment to economic stability and growth, let alone in combination with man-made distortions that have affected most economic activities in Burundi.

The marked improvement in the economic situation in 1985 apparently was not the result of measures taken by the authorities, but of better climatic conditions and higher world coffee prices. The authorities have nevertheless taken advantage of these improved conditions to embark upon a comprehensive adjustment course. They should be commended for that and receive our full support and encouragement.

The unstable economic conditions in Burundi call for the diversification of the economy to reduce its reliance on a single product that depends on good weather conditions. The situation thus requires the encouragement of investments and the reduction of misuse of resources caused by price distortions and trade barriers.

The 18-month stand-by arrangement and the structural adjustment facility program provide us with a detailed adjustment program, the objectives of which cover the main economic activities, such as increasing economic growth, reducing the rate of inflation, improving the balance of payments position, and reducing the debt service ratio. To achieve these important goals, major policy reforms will have to be implemented. The program under the structural adjustment facility is particularized further, dealing with resource allocations and structural adjustments, as it is designed to be. It also provides us with a timetable for implementation, primarily during the first annual arrangement.

The measures listed in the policy framework paper bear the trademarks of the Fund and the World Bank, along with the authorities' commitment for implementation. The paper is indeed comprehensive and promising, but its test will be in the doing. I was pleased to hear from the staff that thus far all measures have been implemented as scheduled. Some of the measures--such as the liberalization of import and exchange controls--are crucial for the whole program, as they are supposed to initiate a chain effect by introducing price competition between imported and domestically produced goods.

The reform of the public sector and the rehabilitation of the parastatals are scheduled to start now, but apart from the significant introduction of new tariffs, any improvement in the management of the public enterprises will be a long process, which will be conducted with the close assistance and supervision of the World Bank. The acute lack of skilled managers has been cited in many developing countries as an important factor explaining the weak position of enterprises in general and of public companies in particular. Perhaps the staff representative from the World Bank could comment on what kind of solution is envisaged for Burundi. It would be helpful to know whether it is based on putting foreign technical experts in key positions or on training existing managers, a process that could take longer to be effective and might also be open-ended given the current high rate of mobility.

For the success of the adjustment program--and the authorities must realize by now how much they need it--I hope that the authorities will have the determination to pursue vigorously the policy actions that will put Burundi on a recovery track.

Mr. Fujino made the following statement:

I welcome this first opportunity to discuss a request--by Burundi--for a disbursement under the structural adjustment facility. This facility is intended to facilitate the structural adjustment of an economy over the medium term, which is an essential condition for sustained growth, based on the pursuit of sound, disciplined macroeconomic policy. Closer collaboration is required between the Fund and the World Bank to formulate a comprehensive, well-coordinated program covering the wide areas needed to promote basic structural improvements in an economy, and to pursue and maintain a stringent stance regarding financial policies. It is encouraging to note in the statement of the Acting Managing Director that the World Bank Directors generally supported the medium-term policy of Burundi. This is a good example of how the simultaneous endorsement of a policy framework by both institutions can work out. I expect that other countries, like Burundi, will soon reach the stage in which they have developed sufficiently strong and extensive programs to be eligible for a disbursement under the structural adjustment facility.

For the past several years, Burundi has suffered from poor economic performance. Low real GDP growth, an increased rate of inflation, sizable fiscal deficits, and a large resource gap are typical of these unfavorable developments. Drought and other unfavorable exogenous factors may well have contributed to this economic plight. At the heart of the problem, however, has been a deficiency in policy management within key areas of the economy.

With the assistance of the Fund and Bank staffs, the authorities are now embarking on a sweeping change in their policy setting. They would also benefit from a favorable turn of events in external conditions, such as adequate rainfall and higher coffee prices. The new policy action covers every essential aspect of the economy, with adequate division of work between the Fund and the Bank, and the assignment of the area of responsibility between the two institutions could provide a good example for future work. Investment programs, the rehabilitation of public enterprises, domestic pricing, and incentive schemes are formulated with the assistance of the Bank. Fiscal and monetary policies, exchange rate policy, and liberalization programs are framed in close cooperation with the Fund.

Burundi's intended policy actions cover the essential items and the timetable appears reasonable. I can basically endorse the program, and I support the requests for the stand-by arrangement and the disbursement under the structural adjustment facility. With respect to the final point raised in Mr. Mtei's informative statement, simultaneous discussion of the requests for the stand-by arrangement and for the disbursement under the structural adjustment facility would facilitate the approval. However, each request should be considered and implemented according to its own procedure and merit, in the light of the situation of the member country. These policy actions are quite a departure from the practice of the past several years, and the close monitoring of the actual outcome will be important.

I would like to comment on certain specific policy issues. First, in the fiscal area, to achieve the objectives of deficits of FBu 0.52 billion in 1986 and FBu 4.13 billion in 1987 on a commitment basis, strong implementation of the intended tax reforms will be essential. In addition, strict monitoring and control of expenditures will be required to contain the increase within the ceiling. Given that the changes are sweeping, I would appreciate any further elaboration on the administrative mechanism that will ensure that the outcome is as programmed. I would also like to know whether some strengthening of the organization is required and will be implemented.

Second, for a durable improvement in the external trade balance, diversification of exports--now exclusively dependent on coffee--is needed. I would appreciate a more detailed explanation of how the intended increase in exports over the medium term will materialize through a flexible exchange rate policy and adequate price incentives.

On the basis of the drastic policy efforts being undertaken by the authorities, it is expected that the necessary support to fill the financing gap will be forthcoming.

Mr. Ercel made the following statement:

I welcome this discussion of Burundi's requests for a disbursement under the structural adjustment facility and for a stand-by arrangement. Burundi's stabilization program has been accompanied and supported by appropriate development policies. It is therefore my view that the package of economic policies envisaged in that program will lead to growth and higher income over the medium term. Under the aegis of the structural adjustment facility, both the Fund and the Bank have established their new responsibilities for evaluating and monitoring member countries' adjustment and development strategies.

Today's discussion inaugurates the use of resources under the structural adjustment facility, within the framework of a coordinated development-oriented strategy that is applicable to the situation of many African countries whose problems are characteristic of the region. Burundi is a good example of the predicament faced by economies dependent on the production of only one or two primary commodities that are largely at the mercy of weather and the international markets. I agree with the thrust of Burundi's structural adjustment and stabilization programs that aim at diversification of the productive base of the economy, and I commend particularly the authorities' commitment to adjustment to overcome the structural difficulties facing the economy.

The preliminary projections foresee real growth for Burundi at a rate of about 4 percent over the next few years. I think it is difficult to preset growth rates. Economies such as that of Burundi depend mostly on agricultural performance, which depends in turn on weather conditions. In this landlocked country, difficult transportation is another factor, and Burundi's growth rate has fluctuated wildly over the past five years. I believe that the structural transformation and diversification of the productive base will indeed assist Burundi's achievement of a broader-based, more durable recovery of GDP growth over the medium term, but at present it seems too early to make any specific estimates concerning the growth rate.

The authorities' intention to continue eliminating subsidies, increasing financial and managerial autonomy, and eliminating controls in the public enterprise sector is most welcome. The Government's readiness to give up its equity in certain industrial activities is also a bold initiative. In combination with other measures aimed at liberalizing exchange and interest rates, price formation, and trade, these actions in the public enterprise sector will create an environment favorable to the growth and diversification of Burundi's productive base.

Domestic savings as a percentage of GDP in 1986 and 1987 will be almost double the low rate for 1985. Despite this increased investment over the next two years, the percent difference between investment and national savings will decline in 1986, which gives the impression that the contribution of foreign financing to investment will decrease for the first time in four years. In fact, however, this trend is expected to reverse itself in 1987, when foreign financing will become the major contributor to investment. Elaboration from the staff on these developments would be helpful.

I would like to express my support for the proposed decisions.

Mr. Goos made the following statement:

In recent years, Burundi's economic developments and growth have been hampered increasingly by growing domestic and external imbalances caused by weaknesses in macroeconomic policies and widespread structural deficiencies. Against this background, I welcome the authorities' adoption of a far-reaching adjustment program with the assistance of the Fund and the World Bank.

Given the objectives of this adjustment program, including its strong structural component, the nature of the balance of payments problem, and the specific characteristics of Burundi's stage of economic development, I would conclude that in principle, Burundi does qualify for assistance under the structural adjustment facility. The country has embarked on an impressive structural adjustment course that should go a long way toward improving resource allocation, thereby strengthening the basis for adequate sustainable growth. Particularly notable in this regard are the measures contemplated in exchange rate and price policies, as well as the liberalization in the external sector. Successful implementation of those reforms will certainly require persistence and endurance on the part of the authorities; it is reassuring to note that quite a number of structural measures have already been implemented in compliance with the agreed timetable for structural reform.

Nevertheless, I am less enthusiastic about the appropriateness of the adjustment effort in terms of its domestic and external financial aspects. Important economic indicators show a continued weakening or no significant improvement over the three-year program period, and this raises difficult questions. I am particularly concerned that the program foresees a considerable widening of the current account deficit in the years ahead. I recognize of course that this development is due largely to the strong expansion in domestic investment, and that this expansion itself is motivated by the authorities' desire to address structural weaknesses. To that extent, I do not want to quarrel with the authorities' investment objectives, particularly since the investment program has been reviewed by the Bank and Fund staff, which should ensure that the resources earmarked for investment will actually flow into productive undertakings and will lead to a sufficient strengthening of the external debt servicing capacity of the country.

However, I am disappointed to note that this strong investment effort will be accompanied by what appears only a moderate effort to mobilize domestic savings. This is reflected in the stagnant development of government revenue, accompanied by a considerable increase in the share of the overall fiscal deficit in GDP between 1986 and 1989, as well as in the virtually stagnant GDP ratio for domestic savings. Moreover, while monetary expansion is to be reduced notably below the growth rates of earlier years, the planned reduction in the rate of inflation to 7 percent in 1989 does not seem overly ambitious. All taken together, I am concerned that the program places too much emphasis on stimulating growth at the expense of overall financial stability and domestic financial adjustment, thereby eventually increasing the country's dependence on external financial resources, as evidenced by the growing share of foreign debt in GDP and the rise in the debt service ratio until 1989.

The figures presented in the staff papers may not give rise to immediate concerns about the viability of the external financial position. However, given the inevitable uncertainties surrounding such figures, especially in the difficult economic circumstances of Burundi, I definitely would have felt more assured if the program had provided for greater safety margins to meet contingencies. Against this background, I must express reservations about Mr. Mtei's statement that "the structural adjustment facility program should have sufficient flexibility built into it to ensure that if there is any doubt in achieving the growth target, some other performance criteria or benchmark is delayed, relaxed, or modified to facilitate the growth target." To be sure, I agree with the objective of mobilizing international support to help poor countries in particular to raise the living standards of their population, but this cannot be achieved at the expense of domestic and external stability. To that extent, ambitious growth objectives cannot be sacrosanct. Given the expansionary thrust of the program before us, the additional flexibility advocated by Mr. Mtei, which in effect puts the performance criteria into question from the outset of the program, would be counterproductive to the growth objective itself, inasmuch as it would threaten to undermine financial stability. Therefore, I attach particular importance to the authorities' assurances that they would scale down their investment program and strengthen their adjustment effort, should shortfalls in the available financial resources so require. In this context, I also welcome the inclusion of a balance of payments test as a performance criterion that should strengthen the authorities' ability to counter unexpected external pressures.

In view of these reservations, I would be grateful for the staff's comments, the more so since the thrust of the present structural adjustment facility program might set the pace--and in my view, perhaps an undesirable pace--for adjustment requirements under future programs presented by other countries.

I take exception to some of the points made in the summary of the remarks of the Executive Directors of the World Bank and the International Development Association with respect to growth aspects and the need for flexibility in structural adjustment facility programs. There seems to be no justification for the reproach made by several Directors that "the framework paper did not give sufficient emphasis to growth, and...that the approach seemed very heavily oriented to stabilization." Moreover, I strongly believe that the inclusion of contingency and emergency measures, such as those recently announced for Mexico would lead us in the wrong direction, at least if this were done as part of a general policy. Those measures were clearly designed to meet particularly severe problems that were specific to the Mexican economy, and they therefore do not lend themselves to general inclusion in structural adjustment facility programs.

I welcome the authorities' readiness to agree on a stand-by arrangement. I take this request for a stand-by arrangement as an indication of their willingness to adjust, the more so since they have subjected themselves to the more binding performance criteria of regular Fund arrangements. On the other hand, it has to be noted that these criteria are identical to the benchmarks agreed under the first annual program of the structural adjustment facility. Accordingly, my concerns expressed with regard to the appropriateness of the policy stance under the structural adjustment facility program also apply to the stand-by arrangement.

In this context, I wonder whether the staff would have accepted a stand-by arrangement of this kind if it had been discussed on its own merits. It would certainly be most unfortunate if the staff softened the regular conditionality requirements under the stand-by arrangement in anticipation of the negotiation of the program under the structural adjustment facility. It would be definitely counterproductive if the Fund were to weaken its proven standards of conditionality under the stand-by arrangements. To my mind, this conditionality should also apply to structural adjustment facility arrangements, and I would appreciate staff comments on this point.

Mr. Lundstrom made the following statement:

Like others, I warmly welcome this first application of our decision of March 1986 on the structural adjustment facility. Burundi has indeed, as Mr. Dallara has noted, put forward a solid and impressive first case. The Burundi program marks an important step forward in Fund-Bank cooperation, and it could well serve as an example for future structural adjustment facility arrangements. The authorities and the staffs of the Fund and the Bank should be congratulated on their excellent work.

It is a pleasure to support the proposed decisions on the structural adjustment facility program, the Article IV consultation, and the request for a stand-by arrangement.

I am pleased to see that the difficult task of striking a proper balance between a necessary short-term adjustment and a desirable stronger growth of the economy has not been achieved at the expense of growth. Indeed, the growth objective of the program is quite ambitious. A 4 percent increase in real GDP in 1986 and 1987 may be attainable. However, while the liberalization of price controls may have a direct effect on agricultural production, time lags in other sectors may delay the positive effects of the measures to be implemented.

It is not clear how the proposed measures will produce the estimated increase of 3 percentage points in the domestic savings ratio. A sufficiently high investment/GDP ratio would seem to require substantial inflows of concessional capital in the years ahead. In the short term, however, shortfalls--or delayed effects--of the measures to be taken would not seem to constitute a serious threat to the program, since there are resources to draw on to compensate for those delays.

When we discussed the establishment of the structural adjustment facility in March, this chair placed great emphasis on the cooperation between the Fund and the Bank. I am glad to note that, for the Burundi program, this cooperation appears to have been constructive and flexible. However, there seems to be some uncertainty as to what would happen if certain elements of the program were not implemented as planned. Several of the measures are not included in the stand-by arrangement as standard performance criteria nor in the structural adjustment facility as benchmarks, and with respect to some of them, it is unclear whether they are under the supervision of the Fund or of the Bank. Any comments that the staff may have on this subject would be helpful.

I would conclude by confirming to Mr. Mtei that this chair does not consider the benchmarks under the one-year program of the structural adjustment facility as performance criteria. This means that even benchmarks identical to performance criteria should be treated as only indicative.

Mr. Alfidja made the following statement:

Today's discussion on Burundi, which I warmly welcome, is an important landmark in the continued role that the Fund has been playing and is expected to play in mobilizing financial support to help member countries tackle their financial and structural problems that have hampered progress toward medium-term balance of payments viability and durable, noninflationary growth. Burundi--a small, landlocked, poor country--is being considered for a disbursement under the new structural adjustment facility that the Executive Board established in March 1986 to provide concessional financial assistance to low-income countries with protracted balance of payments problems. As Mr. Mtei has pointed out, the outcome of today's discussion is crucial in the evolution of adjustment with growth in low-income countries. It will also set the stage for the other requests that are expected to come before the Board in the near future. The staff papers adequately present the current economic and financial problems facing Burundi. They highlight the various policy options that the authorities have to choose and implement in order to reverse the deteriorating financial situation of their country and to correct the economy's structural weaknesses. During 1985, Burundi's economic performance improved, largely because of an increased contribution from the agricultural sector that had resulted from better weather conditions. Price increases decelerated substantially because of the buoyant crop harvests. The fiscal deficit declined and the current account deficit narrowed. The overall balance of payments position turned from a deficit in 1984 to a surplus in 1985, but the country's external debt service ratio continued to worsen.

Burundi's inability to achieve a sustainable rate of economic growth in recent years and to reverse its deteriorating financial position has been attributed in part to adverse weather, the country's size and landlocked position, and to the inadequacies of domestic policies to remove the obstacles to efficient resource allocation. The authorities, recognizing the effects of this latter factor, have formulated comprehensive policies in the fiscal, monetary, and external sectors to encourage growth and diversification of production and exports, as well as domestic savings and efficient allocation of resources. This is a clear indication of the authorities' resolve to come to grips with the structural imbalances confronting Burundi.

I endorse the medium-term framework of the financial program, and I welcome its emphasis on improving fiscal performance. The measures being taken to rationalize the tax system are a step in the right direction. In this process, I would encourage the authorities to pay due consideration to the weaknesses in the tax collection procedures. On the expenditure side, I welcome the quarterly monitoring procedure that has been established. I also welcome the authorities' intention to retire domestic payments arrears and to reduce further the banking system's claims on the Government.

The efforts that are being made, with the assistance of the World Bank, to improve the overall performance of the public enterprise sector need to be continued and intensified so that the operational losses being incurred are reduced significantly. World Bank assistance in the design of a new public investment program, placing more emphasis on productive projects, is also a welcome development. I endorse the staff recommendation that future public investment programs should continue to address in a balanced manner the need to promote real economic growth.

With respect to policies aimed at improving resource allocation, the authorities' adoption of a flexible exchange rate policy, together with policies to liberalize the import and exchange system, will go a long way toward strengthening production incentives, especially in the export sector, and rationalizing the import tariff structure. The provision of remunerative producer prices in the context of a flexible domestic pricing policy is a step in the right direction. I welcome the authorities' cautious domestic policies that should ensure that inflationary pressures are contained.

In connection with Burundi's request for an arrangement under the structural adjustment facility, the Fund and the Bank staffs have made commendable efforts to assist the authorities with the design of their medium-term growth-oriented program. With a per capita income of $240 and protracted balance of payments difficulties, Burundi clearly meets the basic eligibility criteria. The adoption of a policy framework paper that highlights the financial and structural problems, and the macroeconomic and structural policies that the authorities intend to implement, qualifies Burundi for such a disbursement. Furthermore, under the request for a stand-by arrangement, ample evidence is provided that Burundi's authorities are making serious efforts to tackle simultaneously the various financial and structural problems facing the country. They have placed emphasis on structural reforms that will improve performance under the public investment program, rehabilitate public enterprises, provide incentives toward a growth rate of 4 percent a year, and bring about a structural improvement in the balance of payments. With regard to the benchmarks or indicators to help monitor the progress in policy implementation and to reach the objectives of the program, I share the view that sufficient flexibility should be built into the structural adjustment facility program to ensure that its major thrust--namely growth--is not sacrificed. I strongly support Mr. Mtei's request that consideration be given to the application of a range of figures instead of specific figures for those benchmarks. My understanding of the discussions that led to the establishment of the structural adjustment facility was that no performance criteria in the usual sense of the word would be requested. Without that distinction, it will be difficult to draw the line between a structural adjustment facility program and a normal stand-by arrangement.

I fully support the general comments made by Mr. Mtei and Mr. Finaish on this first request for a disbursement under the structural adjustment facility. The high quality of the staff papers notwithstanding, Burundi's request cannot be considered as a perfect model to be applied mechanically to future requests. I would therefore urge management and the staff to continue displaying the necessary flexibility in forthcoming negotiations. Moreover, I continue to believe that in many instances in which countries have negotiated or are negotiating a structural adjustment loan with the World Bank, the Fund should stand ready to negotiate with those countries an extended Fund facility instead of a stand-by arrangement.

I must disagree with the disturbing comments on growth targets made by Mr. Goos. For a considerable time into the future, countries such as Burundi will continue to rely on substantial external financing to attain their target growth rates. The dependence on such resources will tend to decrease with a progressive, successful mobilization of national savings. The involvement and leadership of the World Bank in this field is of paramount importance.

I am encouraged that the authorities have resolved to overcome the structural problems confronting the economy of Burundi and are implementing far-reaching policies toward that end, with the support of the Fund and the Bank. My view is that both requests are justified, although the authorities do not intend to make purchases under the stand-by arrangement. I support the proposed decisions and wish the authorities success in their adjustment efforts. This success will greatly depend, not only on the policy advice given to and implemented by Burundi, but also on the availability of timely additional concessional resources, which is more and more uncertain.

I have not found any reference in EBS/86/147 to the possibility of increasing the funds available to Burundi if such additional resources under the structural adjustment facility could be made available. I do not know whether such a provision has to be included in the specific program or whether the general guidelines are sufficient.

Mr. Jayawardena made the following statement:

Like other Directors, I welcome today's discussions because Burundi provides us with the first opportunity to examine the procedures and content of arrangements under the new structural adjustment facility, which is an important part of the recent multilateral initiatives to meet the underlying economic problems of developing countries. Burundi, a low-income, landlocked country, has a protracted long-term balance of payments problem and therefore fully deserves assistance under the structural adjustment facility. Because other Directors have commented on the policies chosen by the authorities, I will refrain from detailed comments, except to say that the measures are comprehensive. Unlike Mr. Goos, I am inclined to believe that the growth target is not adequate in Burundi's program. Given the population growth rate of 3 percent, a growth rate of 4 percent is not a big achievement. I will reserve any comments on the modus operandi adopted in this first program under the structural adjustment facility and will try to assess whether we have been successful in staying within our decision taken at EBM/86/56 after our discussion of the structural adjustment facility.

I am concerned by Burundi's request for a stand-by arrangement in an amount equivalent to SDR 20 million for the period June 1986-December 1987, with quarterly performance clauses and six-month reviews, under which the authorities state categorically that they will make no drawings. I do not see anything classical in this type of arrangement, as Mr. Dallara mentioned, and I hope that the authorities did not think in the same vein either. I would consider as classical a program in which drawings are not made if circumstances improve. I cannot understand what is classical in a stand-by arrangement that is nothing but a shadow program, when in effect a country is doing nothing but asking for conditionality.

I am not against conditionality per se. However, if a country has a solid intention of implementing certain policies, I do not see why it should agree to a conditionality statement that has the potential of freezing credit from all sources if things go wrong, unless of course Burundi could catalyze resources that are much cheaper than those of the Fund. My fear is that outsiders might think that this type of agreement reflects a lack of confidence in the country, which would be unfortunate if this is going to lead to a catalytic role. A shadow program will thus give wrong signals in that people will perceive that low-income countries will never be able to receive assistance under the structural adjustment facility unless they have a shadow program, which is the precedent we are creating with Burundi.

Even if there is no shadow program, adjustment will not suffer under the structural adjustment facility as long as some monitoring is done. This gives rise to the question whether there is a problem of monitoring in structural adjustment facility programs that would necessitate our choosing this method of having a shadow or a nonexistent stand-by arrangement. In the event of a balance of payments problem, a country might need a stand-by arrangement, but in such a situation, the authorities could easily have gone for a first credit tranche drawing--about SDR 11 million, which would be much more than the amount provided in the first-year program under the structural adjustment facility.

I also note Mr. Mtei's concern that the path that has been chosen may not be too comfortable for Burundi. In any case, assuming that the authorities did want this shadow program very much I would like to know whether, in view of the earlier reasoning, the staff tried to dissuade the authorities from undertaking this procedure, which appears to be an exercise in futility.

I see the stand-by arrangement as an umbrella under which strong conditionality, with actual targets and performance criteria, is brought into an arrangement that, according to our decision in March 1986, was to have included only certain benchmarks of an indicative nature, or perhaps ranges. We had not anticipated this development in March, but were more concerned about nonutilization or underutilization of structural adjustment facility money because of Bank-Fund cross-conditionality. There is no way that we can say that there is no cross-conditionality in the proposed arrangement for Burundi. I regret this development, and I hope that we can avoid such cross-conditionality in the future. In fact, I see no difference between the policy indicators or benchmarks of the structural adjustment facility program and the performance criteria of the stand-by arrangement. Ideally, they should not differ and thus I do not see why a structural adjustment facility program, alone, could not have been arranged, along with the structural adjustment credit of the World Bank. The only novelty added by the stand-by arrangement is that most of the structural adjustment facility policies have now become a part of traditional Fund conditionality. Moreover, given the near identity of the structural adjustment credit and structural adjustment facility policy paths, we also have Fund-Bank cross-conditionality. I would like anyone who thinks otherwise to demonstrate how the violation of an agreement or covenant in one program would not automatically stop all other programs. For instance, what will happen if Burundi fails to meet the performance criteria under the stand-by arrangement by June 1987? Then, what would happen to the structural adjustment facility program? What will happen to the structural adjustment credit? These practical questions merit contemplation.

We must take a good look at this problem again to avoid pitfalls that might render the structural adjustment facility virtually nonoperational. The structural adjustment facility and the expanded structural adjustment credit of the World Bank are important aspects of recent international initiatives to meet the debt crisis and structural problems in developing countries, and in March we were keen to see that these initiatives worked. We had expressed our misgivings in March exactly along these lines, saying that this will not work because we will try to heap one type of condition on another and thereby reduce the flexibility of countries in implementing programs. I hope that I am wrong, but I have a great fear that we seem to be taking such a road.

Technically, the framework paper goes more or less along the lines indicated by the Chairman's summing up of the discussion at EBM/86/56, in that it describes the country's problems, the objectives and priorities of a three-year program, the broad thrust of macroeconomic and structural adjustment policies, and it refers to the likely external financing requirements. Nonetheless, there can always be an honest difference of opinion on the extent of the description that should be contained in the policy framework paper. It is more detailed than what I had imagined--about 10 1/2 pages, compared with 2 pages of the signed memorandum to which 4 tables are attached. The timetable of policy actions for 1986-87 is so detailed that I wonder whether anything is left out in the succeeding years. The timetable even includes statements about the structural adjustment policy talks about measures to be taken to reduce humidity levels in coffee by February 1987, and I am surprised to find such detail in the document.

In addition, some of the actions as described in the timetable of policy actions under the structural adjustment facility and the stand-by arrangement (Table 2, EBS/86/147) can easily be subject to a wide spectrum of interpretations, and if the results at the end of the year do not turn out to be as favorable as indicated in the program, one could imagine that deviations would be found in the policy actions. Indeed, if one closely observes, the proposed policy actions are said to be occurring under both programs, but the table itself appears only in EBS/86/147, issued about five weeks after EBS/86/119. This gives us the feeling that conditionality under the structural adjustment facility would be as heavy as that under the stand-by arrangement, even though our discussions in March had clearly indicated that the conditionality would be much lighter.

We express these concerns because overly comprehensive programs might actually reduce the flexibility of countries that request disbursements under the programs, and the programs might be jeopardized. The staff has presented us with a clear dilemma. Clearance of the requests for both a stand-by arrangement and a disbursement under the structural adjustment facility would mean that more resources are committed for the next 18 months or so than needed. Even if only the structural adjustment facility request were to be cleared, the Fund would have achieved what would have been achieved with a stand-by arrangement, with only one small difference--the absence of reviews in the structural adjustment facility program. However, the absence of a review clause would not pose a serious problem, because the authorities' letter of transmittal regarding the structural adjustment facility program does provide for consultations with the Managing Director with respect to the adoption of any measures that may be appropriate, at the authorities' initiative or at the initiative of the Managing Director.

There was a discussion in the Committee of the Whole at the World Bank--not the Executive Board as such-on the policy framework paper. We note with satisfaction that the Executive Directors there agreed that there should be no cross-conditionality between the International Development Association and the structural adjustment facility and that IDA operations, whether pertaining to project or program lending, will continue to be dealt with in the usual manner, under the Bank's normal operations. However, as evident in the request by Burundi, there could be a different interpretation of these guidelines at the operations level, and the temptation toward cross-conditionality could be great as it is the path of least resistance. Hence, it is important to lay down well-defined procedures for coordinated lending under the structural adjustment facility and the structural adjustment credit.

Ideally we would favor a joint exercise, not a two- or three-step approach, in which conditionalities could be heaped on top of each other in a competitive manner--and we know how competitive the Fund and the Bank are in this regard--thereby jeopardizing the success of structural adjustment facility and structural adjustment credit programs. Some would prefer simultaneous discussions with the countries concerned to help avoid this problem. I am told that the World Bank Board has urged that a paper be prepared on the procedures for this coordinated lending. I hope that the Fund and the Bank can get together and streamline these procedures.

I was greatly interested in the well-studied observations and suggestions made by Mr. Finaish, especially on the difficulties that could arise in the implementation of these programs. I would like to endorse all of those observations. Finally, nothing that I have said should detract from the excellent work of the staff in preparation of this first program. The staff was exploring new territories and modalities, which was very difficult, and has cleared the path for others to follow. I would like to be assured that some of the misgivings I have expressed are groundless.

We agree with the proposed decision on a disbursement for Burundi under the structural adjustment facility, and we can go along with the proposed policy framework despite our misgivings, particularly about conditionality. I have much stronger misgivings about the stand-by arrangement, which I think is not really helpful, but I can go along with the proposed decision.

Mr. Romuâldez made the following statement:

The authorities deserve commendation for the decisiveness and the comprehensiveness of their approach to Burundi's economic problems, and more than that for their having assumed a medium-term perspective in the design of their program of adjustment. This is the most effective way to tackle Burundi's problems: rigorously with respect to macroeconomic policy adjustments, and radically with regard to structural reform. We are at the same time encouraged that, through normal World Bank operations, particularly in education and human resource development, the longer-term values have not been overlooked entirely. If the recovery aimed at in this program is to be sustained through the long term, Burundi's adult literacy rate, for example, has to be raised much beyond its current 30 percent level.

We think the staff has described Burundi's problems well. The recommended shifts in policy are appropriate. Table 2 in EBS/86/147 is especially helpful, and we welcome the staff announcement that the measures scheduled for implementation to date have become operational. Particularly welcome was the inclusion in the package of reforms of some mechanisms for strengthening expenditure control and monitoring. For a program such as this, which requires considerable efforts in orchestration, the importance of quick response and contingency measures cannot be overstressed. I did note a heavy dependence on taxes on exports and imports, and I would appreciate staff responses to the question raised by Mr. Foot, Mr. Dallara, and Mr. Suraisry.

Moreover, as the staff suggests, the authorities could not have chosen a more auspicious time--when coffee export prices are surging and petroleum prices are still somewhat moderated. This is not to say, however, that they will not need every ounce of determination that they can muster--their own as well as that of their people--to adhere closely to their commitments. This is underscored only too well by recent developments in the oil markets that are adverse to Burundi. Without necessarily endorsing Mr. Mtei's five points in his statement--which I wish I had had more time to reflect on--I believe that the evaluation of program performance, especially in connection with the structural adjustment facility, must reflect the flexibility that is the other side of the coin of rigorous adjustment and performance expectations.

The Fund and the World Bank also deserve congratulations. For the Burundi programs, Fund-Bank coordination has at last been brought to a new level, where it ought to have been all along: two parallel programs, each with its own financial assistance package, will complement each other to bring about adjustment and sustainable growth. This close Fund-Bank cooperation has its own dangers, such as the threat of cross-conditionality, which must not be allowed to develop and which must be avoided.

The staff representative from the African Department, recalling the comments on the appropriateness of the stand-by arrangement for Burundi, noted that the staff had begun discussing possible use of Fund resources with Burundi under a stand-by arrangement as early as May 1984. Following a year and a half of consultation discussions, and discussions on a policy package for a stand-by arrangement, agreement had nearly been reached by end-March 1986. Throughout the one and a half years of discussions, the Fund, the member country, and the World Bank had held a common perception of the problems: Burundi had been losing foreign assets at a rapid pace in the period 1981-85 and, despite a slight improvement during 1985, the level of foreign assets at the end of 1985 had been extremely low; moreover, growth in the economy had been uneven and slow. It was clear that the policy environment throughout the period had not been conducive to growth. In addition, the financial situation had been deteriorating, with rising debt service, large current account and fiscal deficits, and growing foreign debt in relation to GDP. Those factors had led the authorities to decide that stabilization was a necessary foundation for introducing whatever change might be warranted in the period beyond 1985.

With lower oil prices and higher coffee prices in 1986, the authorities had an opportunity to reconstitute reserves and then to formulate expenditure plans on the basis of a strengthened reserve position, the staff representative continued. During the years 1983-85, the Government had been drawing credit from the banking system while at the same time, credit to the private sector had been declining. The authorities had decided to use the windfall gains from the recent coffee boom to repay the banking system and to return, as quickly as possible, to a strong financial position while circumstances were favorable.

Of course, several Directors had rightly raised the question of prospects for the public finances in 1987 and beyond, the staff representative mentioned. Some Directors had noted that many adjustment measures had already been taken in 1986, including tariff and tax reforms, and that the authorities had been provided with technical assistance to effect those reforms. Their success in beginning to implement the measures demonstrated that the package was not unmanageable, but it remained unclear where the authorities should go next.

Having taken steps to strengthen import and turnover taxes, and having benefited from a windfall gain on coffee taxes, the authorities had to decide which steps would be necessary for further improvement in the tax area, the staff representative observed. While growth in international trade could strengthen the tax base, domestic growth was also needed and, therefore, the authorities had begun to explore the potential for manufacturing in Burundi. Most manufacturing was at a low level of capacity utilization: while fabric manufacturing was close to 100 percent capacity utilization, and soap manufacturing was at 94 percent, blankets and beer were at only 60 percent, and the rest of the manufacturing sector was below 50 percent, often below 30 percent or 20 percent.

Two recent developments seemed to hold promise for the manufacturing sector, the staff representative commented. First, import growth for the coming two years was projected to be about 6 percent in real terms. If the manufacturing industries were not inhibited, as they had been in the past by the restrictive import system, they would benefit from a more steady flow of imports. Most of those industries had operated on a stop-go policy in the past; when foreign exchange was plentiful, the industries would obtain licenses; when foreign exchange was in short supply, licenses were withheld. Such a stop-go policy had not been an ideal situation for the manufacturing sector.

A second development of importance to the manufacturing sector was the recent review of fiscal concessions, the staff representative added. In previous years, fiscal concessions that had been granted on request were renewed at the end of the initial period. With the inauguration of the investment code, there would be a greater demand on the enterprises to meet their efficiency criteria and to become more viable in a more competitive environment. Moreover, enterprises in the past had been protected by exceptionally high, differential import tariffs; but that system had been rationalized, and the new range of tariffs would provide a much more competitive climate in which the industries could operate.

In fact, Burundi's manufacturing sector had already contributed to some recent growth in exports, the staff representative pointed out. Between 1981 and 1985, there had been a 15 percent increase in export growth, some of which had come from the manufacturing sector; and if the manufacturing sector could be developed further, it would help to enhance prospects for growth in the tax base and a diversification of the export base. The maintenance of high-quality traditional exports was extremely important, the staff representative said. In that connection, the reference to the "humidification of coffee" had been included in the policy framework paper, at the suggestion of the authorities. Humid coffee did not bring the same price as the dehumidified variety, and the authorities were aware that what was needed was extra value for a better processed product.

The financing gaps in the balance of payments were estimated at SDR 18-21 million in 1986-87, and SDR 30-33 million in 1988-89, the staff representative remarked. Those financing gaps were not cash financing requirements; rather, they represented a project-related need for financing. The situation would of course have to be reviewed for 1988-89 in consultation with the World Bank, when the entire investment program was reviewed. The question of current account gaps and whether the staff and the authorities were being too liberal or too restrictive in their approach to current account adjustment was difficult to answer for the period beyond 1987-88. For 1986, the goal was to recoup the losses of the past few years; for 1987, a good reserve gain was projected, but the years 1988 and 1989 were unclear. At the time the public investment package was reviewed by the World Bank, if the projects on the list seemed viable and showed clear promise of contributing to growth, then that information would be transmitted to the donors, who might then provide the necessary additional financing. The financing was not being solicited in a vacuum; a public investment program must be in place. The relationship was also reflected in the balance of payments in the sense that if the financing was not there, the counterpart expenditures would not occur, and there would be no counterpart goods and services.

His own view was that the current account deficit would be reduced under the investment projects being discussed, the staff representative added. The investment targets had been integrated with the fiscal deficits, and if the public investment package contributed to growth, the global fiscal deficits should be lower. And, for an investment package that had been reviewed and certified as viable by the World Bank, the staff would encourage additional resources to support the package. The figures quoted for the financing gaps for 1986-87 and 1988-89, compared with annual commitments of past years, were not that ambitious; therefore, there should not be too much doubt about whether such assistance could be mobilized if projects were in place.

On the monetary side, the staff representative observed that because the liberalization of controls on imports could have led to an immediate outflow of Burundi francs, interest rates had been raised as a precautionary measure to encourage the holding of domestic Burundi francs. At the same time, it was important that the interest rate increases provided the right signals with respect to credit--particularly short-term credit and credit for commerce--and helped to bring about balance of payments adjustment. Development finance had not been scrutinized very carefully; that was an area for future investigation and possible reform. In fact, the whole question of medium-term and longer-term financing for the banking system might need to be reviewed in future, but the primary problem at present was the absorption by the Government of a great deal of credit from the banking system and the crowding out of the private sector. And it was that problem that the staff had attempted to address in the context of the stand-by program.

Mention had been made of a recent fall in spot prices for coffee, and some Directors had questioned whether any thought had been given to adjustments in the program in case the staff's assumptions turned out to be optimistic, the staff representative noted. Contracts for coffee had been made at a time when coffee prices had been higher, although the coffee had not yet been shipped at the time of the discussions on the stand-by arrangement. As a result, no increase in coffee receipts had shown up in the accounts through March 1986; the increase was expected to appear in June/July. In that respect, the authorities should be able to fulfill their undertaking to maintain at least the equivalent of three months of imports in net official assets in the banking system, at least until the time of the scheduled review of the stand-by arrangement at the end of 1986, when any necessary adjustments could be recommended.

Doubts had also been raised about the staff's projections for the growth rate and inflation rate in future, the staff representative remarked. Obviously, much would depend upon the response of the economy to the measures that were being taken. In that respect, it would be better to focus on the direction of the rate of inflation rather than on the specific rate forecast for, say, 1989. Similarly, it was difficult to give any precise figure for growth in future, and the projected 4 percent rate could as easily have been higher or lower. However, it was clear that policies followed over the past five years had yielded a growth rate of no more than 2 percent a year, and the change in the package of policies adopted in Burundi should warrant some increase in the rate of growth from those rates registered in the past.

In response to those who had raised questions about benchmarks and monitoring, the staff representative observed that discussions with the authorities in Burundi had been geared toward stabilization, and the authorities had been encouraged to take advantage as soon as possible of any turnaround in external prospects. If success depended in part on increasing reserves from 1.1 to 3 months of imports, it would be necessary to measure that increase so that, if it was not proceeding as expected, discussions on tightening the policy package could take place. Without such a system for measurement and discussion, the results could be disastrous.

The concerns of some Directors about cross-conditionality were rather puzzling, the staff representative continued. Their concerns might have been justified if the policy package had been hurriedly put together by the two institutions, without proper discussion. In fact, however, discussions had been taking place since May 1984, and it was fair to say that the authorities had accepted a comprehensive policy package with components that had been developed by the Fund or the Bank or by the two institutions acting jointly. All the issues had been spelled out clearly to the authorities, who had agreed after in-depth reflection to subscribe to the recommended policy matrix.

Some speakers had asked why, given that exports had grown by 15 percent in real terms in the past, an exchange rate change was needed to stimulate exports at present, the staff representative recalled. It had been brought to the attention of the authorities that exchange rate and producer price policies in the past three to four years had led to a decline in the ratio of producer prices to export prices. The question was whether one should wait until the decline reached the point that it triggered a disaster or whether preventive measures should be taken in advance. It was clear that while producer price increases did not themselves necessarily yield increases in exports, persistent real declines in producer prices could halt the process of export growth that was being encouraged by various other elements in both the coffee and the manufacturing sectors. In that respect, if policies were implemented as planned, it was possible that the staff's projection for a 5 percent increase in the volume of export growth in future might be on the low side.

On the mechanisms for administering and monitoring the measures that had been suggested in the program, the staff representative noted that an interim ministerial committee of civil servants had worked with the staff to put the package of measures together. The committee included individuals from the Central Bank, and from the Ministries of Planning and Agriculture; and all were fully aware of the need to monitor closely the implementation of the measures.

Success in the area of tax reform would depend on a number of factors, the staff representative said. Obviously, a profitable production base would contribute to an increase in revenues, as would economic growth, which would widen the tax base. In addition, the collection and adminstration of taxes, particularly real property and income taxes, must be strengthened. Finally, in response to a question by Mr. Jayawardena, the authorities had themselves decided not to make a drawing under the stand-by arrangement unless it was essential to do so.

The Deputy Director of the Exchange and Trade Relations Department remarked that the extensive guidance provided by a number of Directors on structural adjustment facility arrangements at the present meeting was welcome. The staffs and managements of the Fund and the World Bank had been attempting since March to establish a logical basis on which to move forward with the structural adjustment facility. The task of preparing, clearing, and seeking approval of documents jointly with the Bank was a laborious and a time-consuming one, and he hoped that the specific case of Burundi--which had a long history of Fund/Bank involvement--would not mislead Directors into believing that other cases would prove as simple or as straightforward.

On the three-year structural adjustment program, the staff was interested in guidance on the nature of the three-year time horizon, the Deputy Director noted. While the staff saw benefit in looking toward a continuing or "rolling" three-year perspective, the adoption of such an approach needed to be studied as it could create a risk that implementation of measures within the initial three-year horizon might be delayed. He hoped that the issue would be reconsidered on the occasion of the first annual review of the SAF.

In response to those who had questioned the financing gaps projected for the future, the Deputy Director observed that the staff was obliged to make certain that the first year of the program was fully financed. The financing for the later years would be established in the annual programs at the appropriate time. As a number of Directors had indicated, safeguards had been built into the basic program in case resources fell short of the level currently envisaged. Moreover, present indications were that the financing over the three-year period would be reasonably assured.

To meet a concern raised by Mr. Finaish, the staff would look into the possibility of including in structural adjustment facility papers information on additionality of resources where relevant, the Deputy Director said. Mr. Finaish had also raised a question about whether too much adjustment had not perhaps been squeezed into the first year of the program. As the staff representative from the African Department had indicated, a failure to generate balance of payments improvement in the first year might result in no improvement whatsoever over the period of the program. Because structural changes took a long time to bear fruit, it was important to begin effecting such changes early in the program, especially as additional changes or adaptations might be needed later on.

The differences in design between a stand-by arrangement and a structural adjustment arrangement stemmed from the different maturities of the two types of Fund resources, the Deputy Director continued. In the case of Burundi, the financial benchmark in the first annual SAF program had been automatically taken over from the performance criteria under the stand-by arrangement and the authorities were content with this approach. The differences in conditionality and benchmarks as between a structural adjustment arrangement and a stand-by arrangement would be more apparent when a structural adjustment arrangement was considered by itself by the Board without the support of a stand-by arrangement. On a related matter concerning the strength of the program, he noted that in the case of Burundi, a sizable reserve gain, a balance of payments test, safeguards on the financing of the investment programs of recent years, and a set of benchmarks were all required; and the staff was content that the resources to be made available under the structural adjustment facility could be repaid. He did not believe that the stand-by arrangement--which had been under discussion and preparation for a long time--would have been any different in the absence of a companion structural adjustment arrangement.

The Executive Directors agreed to continue their discussion at 2:30 p.m.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/86/132 (8/6/86) and EBM/86/133 (8/8/86).

2. OPERATION OF FUND ACCOUNTS - AUTHORIZED SIGNATORIES

1. On and after August 8, 1986, the following officials of the International Monetary Fund are authorized signatories to operate (i) the Fund's No. 1, securities, and gold accounts held in the General Resources Account of the General Department; (ii) the cash and investment accounts held in the Special Disbursement Account of the General Department; (iii) the cash and investment accounts held in the Borrowed Resources Suspense Account in the General Department; (iv) the cash and investment accounts held in the Trust Fund Account; and (v) the cash and investment accounts held in the Supplementary Financing Facility Subsidy Account, as indicated:

(a) The Managing Director together with the Deputy Managing Director, or either of them together with any one of the signatories listed under (b) or (c) below;

(b) Any two of the following signatories, or any one of them together with any one of the signatories listed under (a) or (c):

(1) The Treasurer
(2) The Deputy Treasurers
(3) The Senior Advisor, Treasurer's Department
(4) The Advisor, Treasurer's Department
(5) The Assistant Treasurer for the Operations Division for General Resources
(6) The Chief of the Accounts and Financial Reports Division
(7) The Chief of the Administrative Expenditures Division
(8) The Chief of the Operations Division for SDRs and Administered Accounts
(9) The Chief of the Special Operations and SDA Division
(10) The Acting Chief of the Financial Relations Division;

(c) Any one of the signatories listed under (a) or (b) together with any one of the following:

(1) The Assistant Chief of the Accounts and Financial Reports Division
(2) The Assistant Chief of the Operations Division for General Resources
(3) The Assistant Chief of the Operations Division for SDRs and Administered Accounts
(4) The Assistant Chief of the Special Operations and SDA Division
(5) The Senior Accountant--Accounts and Financial Reports Division
(6) The Senior Operations Officers--Operations Division for General Resources.

2. On and after August 8, 1986, the following officials of the International Monetary Fund are authorized signatories to operate the Fund's No. 2 Accounts:

(1) Any one of the signatories mentioned in paragraph 1 above, or
(2) The Senior Accountant of the Administrative Expenditures Division.

3. The foregoing officials, in conformity with this Decision, are hereby authorized and empowered in the name and on behalf of the Fund for its own account, or on behalf of the Trust Fund in accordance with Section III, Paragraph 1 of the Instrument

annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, or on behalf of the Supplementary Financing Facility Subsidy Account in accordance with Section 11 of the Instrument contained in Executive Board Decision No. 6683-(80/185) G/TR, adopted December 17, 1980, to open and operate cash, securities, and investment accounts with such banks and other institutions as have been or shall be designated as depositories of the Fund in accordance with Article XIII, Section 2, of the Articles of Agreement of the Fund, and with international financial institutions with which investments may be placed; to arrange for the deposit in such accounts of gold or currencies which shall be paid or payable to the Fund and any or all securities held by or to be delivered to the Fund; to execute and deliver any and all such drafts, endorsements, delivery orders, certificates, and other documents; to take any or all such other action as they shall deem necessary or proper in order to effect deposits in such accounts and withdrawals therefrom; and to issue such orders, demands, and instructions and to take all such other action as they shall deem necessary or proper in order to arrange for the safekeeping of such gold, currencies, and securities, the maintenance of such accounts, the withdrawal of any such gold, currencies, and securities therefrom, and the delivery of any such gold, currencies, or securities by any such depository or other institution.

4. This decision supersedes Executive Board Decision No. 7982-(85/77), adopted May 20, 1985. (EBAP/86/189, 7/31/86)

Decision No. 8357-(86/133), adopted
August 7, 1986

3. 1986 ANNUAL MEETINGS - OBSERVERS

The Executive Board approves the proposal to invite Switzerland to attend the 1986 Annual Meetings of the Boards of Governors of the Fund and Bank as an observer, as set forth in EBD/86/185, Supplement 1 (8/4/86).

Decision No. 8358-(86/133), adopted
August 6, 1986

4. 1986 ANNUAL MEETING - FORMAL NOTICE AND BRIEF AGENDA

The Executive Board instructs the Secretary to communicate the formal notice and brief agenda for the 1986 Annual Meeting by cable and by airmail letter to all Governors and Alternate Governors. (EBD/86/209, 7/28/86)

Adopted August 6, 1986

5. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 85/181 are approved. (EBD/86/210, 8/1/86).

Adopted August 7, 1986

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/86/160, Supplement 3 (8/6/86) and EBAP/86/192 (8/6/86) is approved.

APPROVED: April 24, 1987

J. W. LANG, JR.
Acting Secretary