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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/188

10:00 a.m., November 26, 1986

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
A. Abdallah	E. T. El Kogali
	W. K. Parmena, Temporary
	Song G., Temporary
C. H. Dallara	M. K. Bush
	L. Hubloue, Temporary
	J. J. Dreizzen
	C. A. Salinas, Temporary
M. Finaish	T. Alhaimus
	M. Sugita
G. Grosche	A. Bertuch-Samuels, Temporary
J. E. Ismael	J. Reddy
	J. R. N. Almeida, Temporary
	J. Hospedales, Temporary
	M. Foot
	S. King, Temporary
	H. Fugmann
M. Massé	W. N. Engert, Temporary
Mawakani Samba	C. V. Santos
Y. A. Nimatallah	A. Ouanes, Temporary
G. Ortiz	C. Noriega, Temporary
H. Ploix	V. Rousset, Temporary
	J. de Beaufort Wijnholds
	H. van der Burg, Temporary
	C.-Y. Lim
	O. Kabbaj
	A. Vasudevan, Temporary
	N. Kyriazidis

L. Van Houtven, Secretary
J. W. Lang, Jr., Acting Secretary
B. J. Owen, Assistant

1. Mexico - Report by Deputy Managing Director . . . . Page 3
2. Dominica - Structural Adjustment Arrangement . . . . Page 3
3. Cape Verde - 1986 Article IV Consultation . . . . Page 26

4. Principles of Burden Sharing, Fund Income Target for FY 1987 and 1988, Rate of Charge, and Rate of Remuneration - Modification of Decision . . . . Page 39
5. Access to Fund Archives . . . . Page 50
6. Assistant to Executive Director . . . . Page 50
7. Approval of Minutes . . . . Page 51
8. Executive Board Travel . . . . Page 51

Also Present

IBRD: D. Elvis, Latin America and the Caribbean Regional Office. African Department: G. E. Gondwe, Deputy Director; E. A. Calamitsis, U. R. Gunjal, E. K. Martey, J. D. Simpson. Exchange and Trade Relations Department: M. Guitián, Deputy Director; J. T. Boorman, E. H. Brau, S. Kanesa-Thasan, N. Kirmani. Legal Department: F. P. Gianviti, Director; H. Elizalde, A. O. Liuksila, R. Munzberg, J. K. Oh. Treasurer's Department: T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; D. Berthet, D. H. Brown, R. B. Hicks, G. Wittich. Western Hemisphere Department: S. T. Beza, Associate Director; J. Ferrán, A. C. A. R. Furtado, J. E. Sundgren, G. Yadav. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: L. P. Ebrill, G. D. Hodgson, K. N. Khong, K. Murakami, G. Pineau, I. Puro, M. Z. M. Qureshi. Assistants to Executive Directors: O.-S. M. Bethel, J. de la Herrán, G. Ercel, G. K. Hodges, Hong C.-W., M. Lundsager, T. Morita, J. A. K. Munthali, L. M. Piantini, S. Rebecchini, A. V. Romuáldez, D. Saha, S. Simonsen.

1. MEXICO - REPORT BY DEPUTY MANAGING DIRECTOR

The Deputy Managing Director said that the Fund had been working with the banks and the Mexican authorities in a continuing effort to obtain all the necessary commitments to complete the total financing package. Although the critical mass had been achieved, it was necessary to obtain more than 92 percent of the total amount committed so far by commercial banks. He would be in touch with individual Executive Directors on specific problems during the course of the day. In some countries, the commercial banks had not yet made a joint commitment; in some other countries the commitment may have been less than called for; and in other countries, individual banks had not yet participated in joint commitments. If there were significant delays in obtaining the full commitment, it would become more difficult to complete the financing package and obtain the first disbursements by the end of the year.

The Executive Directors took note of the statement by the Deputy Managing Director.

2. DOMINICA - STRUCTURAL ADJUSTMENT ARRANGEMENT

The Executive Directors considered a staff paper on a request by Dominica for an arrangement under the structural adjustment facility (EBS/86/248, 11/6/86).

The Acting Chairman made the following statement:

> There follows for the information of Executive Directors the text of a memorandum that I have received from the President of the World Bank to serve as the basis for my statement on the matter to the Board. This text summarizes the main points covered by the Executive Directors of the Bank and IDA in their November 18, 1986 discussion in Committee of the Whole of a paper entitled "Dominica: Policy Framework Paper, 1986/87-1988/89."
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> 1. The Executive Directors of the Bank and IDA discussed, in a meeting of the Committee of the Whole, the paper entitled "Dominica: Policy Framework Paper, 1986/87-1988/89."
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> 2. Directors expressed general approbation for the Government's medium-term program which they felt outlined a comprehensive set of policies to be formulated and implemented. They commended the past accomplishments in steadily increasing public sector savings, noting the sacrifice entailed in the tighter expenditure controls and increasingly burdensome revenue measures required. They also commended the thrust of the medium-term program designed to further strengthen fiscal performance, and to encourage private sector initiatives by improving the incentive structure. They noted the importance of improved infrastructural support, institution building, and export promotion for strengthening agriculture and attracting investment in export manufacturing.

3. Commenting on the fiscal program, Directors urged strict discipline on government expenditures, particularly the wage bill. They expressed concern about the size of the civil service wage increases recently agreed by the Government, noting the importance of an appropriate wages policy in Dominica, given its common currency arrangements with other members of the Organization of Eastern Caribbean States (OECS).

4. In this context, Directors were concerned about the impact of recent exchange rate movements on Dominica's competitiveness, and suggested that there should be some mechanism within the Eastern Caribbean Central Bank (ECCB) structure to improve member governments' flexibility to respond to such changes.

5. Again, in the context of regional groupings, Directors referred to problems of scale in an economy of Dominica's small size, and suggested that some of the issues identified in the policy framework paper, e.g., the appropriateness of investment incentives, might best be addressed in a broader regional context that would ensure a harmonization of incentive policies.

Mr. Massé made the following statement:

My Dominica authorities are pleased that the Executive Board is considering today a three-year structural adjustment arrangement in support of Dominica's efforts at structural reform. The discussions with members of the Fund and World Bank staff have been extensive, and it is gratifying that these efforts will now bear fruit.

As my colleagues in the Executive Board know, the Article IV consultation with Dominica took place only last month. The Board therefore is well acquainted with recent economic developments in Dominica, and there is no need for me to cover that ground a second time. Rather, I would like to take a more medium-term focus and highlight a few central aspects of the policy framework.

There is considerable past evidence that Dominica had demonstrated a high capacity for implementing adjustment policies. Between 1981 and 1985, a number of important structural changes took place, supported by Fund resources. The following examples show the progress that was made from 1981 to 1985.

1. The Central Government's current account balance shifted from a deficit equal to 3.2 percent of GDP to a surplus of 1.2 percent of GDP. The Central Government's use of nonconcessionary financing fell from 6.9 percent of GDP to 1.3 percent.

2. Real GDP grew on average by 2.2 percent.

3. Inflation as measured by the consumer price index fell from 13.3 percent to 2.1 percent.

4. The current account deficit of the balance of payments narrowed from 35.5 percent of GDP to 21.5 percent.

These are important accomplishments, and demonstrate the capacity of the Dominica authorities to carry out structural adjustment.

Turning now to the overall objectives under the structural adjustment arrangement, the Government's main economic goals continue to be increases in private investment, exports, and employment, and a further strengthening of domestic savings. To that end, and as set out in Table 5 of the staff paper, a wide range of policy actions has already been undertaken. My Dominica authorities are highly aware of the underdeveloped state of the private sector, and its limited ability to carry out productive investment. It is their intention to implement a program of tax reform and to further improve incentives to private investment in the productive sectors of the Dominica economy, without an overall loss in government revenues if at all possible. This emphasis upon economic development within the private sector must be underlined.

At the same time, it is important for Directors to understand the special constraints to economic development faced by small economies, especially islands such as Dominica. Because of the narrow resource base which exists in Dominica, including less developed human capital and entrepreneurial skills, the public sector may have to play a larger initial role in encouraging and developing the investment process. Often there is no private sector in particular areas of the economy. It is for this simple reason that my authorities in Dominica cannot rely solely on private sector initiative or entrepreneurship in the hope that economic development will take place.

Furthermore, in view of the continuing slow response of private investment to various incentives, notwithstanding the available savings, the authorities in Dominica have recognized the *need to temporarily expand the Government's role in initiating* investment and in providing those support services which are critical to any expansion of exports. If the private sector is unwilling or unable to use the investment opportunities, the Dominica Government may feel it necessary to initiate the investment process itself, provided, of course, that such investment is profitable, viable, and consistent with overall economic objectives. The Government's role in investment therefore should be seen as a rational, pragmatic, and short-term response to the prevailing circumstances in Dominica.

This role for the Government is particularly important in the case of the bulk water project, which was recently discussed with the Fund and the Bank staff and which has satisfied the World Bank's investment criteria for nonconcessional financing. At later stages in the structural adjustment arrangement, the Government may initiate other commercially viable, productive projects if no private sector initiative is taken. However, I will repeat again that my authorities in Dominica will continue to direct their efforts at encouraging private investment. It is their intention to divest their interest in any direct investment project to the private sector as soon as the private sector demonstrates its ability and willingness to accept and manage such investments.

It is for these reasons that my authorities are pleased that their borrowing on nonconcessionary terms within the structural adjustment facility is being accepted, provided that that borrowing is for projects which are financially and economically viable as determined by the staffs of the Fund and the World Bank. My authorities fully agree that the borrowing limits on nonconcessionary financing should be adjusted if any part of the public sector investment program intended to be financed by nonconcessionary funds is not implemented.

Finally, the staff has taken a reasonable approach to balance of payments adjustment under the structural adjustment arrangement, by expecting a temporary widening in the current account deficit during 1986-87 linked to investment-related imports and a decline in official transfers. If, as expected, the policies under the arrangement produce improvements in the structure of production and an increase in exports, the current account position should strengthen over the medium term. These improvements would help Dominica resolve its projected balance of payments problems while maintaining a reasonable growth in output and employment. This scenario demonstrated precisely the kind of pragmatic, growth-oriented approach to structural reform which the structural adjustment facility should embody.

Mr. Hospedales made the following statement:

The authorities in Dominica have wisely decided to pursue their adjustment efforts in the overall context of a three-year policy framework. Accordingly, we support Dominica's request for a structural adjustment arrangement in support of a three-year program that is aimed at achieving modest growth while solving the country's protracted balance of payments problem. We consider that the authorities' efforts merit international support.

Dominica is to be commended for significant improvements in public finances, the balance of payments, and inflation. We welcome the determination and commitment of the authorities to strengthen the adjustment program in light of the slackening of economic growth and a high level of unemployment. The severe limitation on the conduct of monetary and exchange rate policies imposed by regional central banking arrangements makes public resource management the key element in the program. On the revenue side, in addition to the tax measures already undertaken, Dominica should improve the elasticity of the tax system and broaden the tax base. On the expenditure side, Dominica is correctly emphasizing continued pursuit of austerity measures; particularly to be stressed is containment of the wage bill. Dominica expects that by the end of the program period government operations will be generating increasing public sector surpluses, in addition to structural measures to improve the operations of the public sector enterprises.

The small private sector is expected to play a leading role in the expansion of output and employment. But contingent plans should be made for public sector promotion of directly productive activities if private sector initiatives are inadequate, which is quite possible given the very small size of the private sector in Dominica.

We expect that the procedures relating to use of the structural adjustment facility will be followed in an appropriate manner. This requires that members be given access to the resources of the facility with the effective low conditionality envisaged by the Board. We particularly welcome the measure of flexibility envisaged in the financing arrangements in response to exogenous developments. We support the fact that the staff is finally recommending a structural adjustment arrangement independent of the use of any other Fund facility. We are concerned, however, with the proliferation of what appear to be benchmarks and prior actions, as detailed in Table 5 of EBS/86/248. This is not consistent with the remarks of the Managing Director when, in summing up our discussions in March of this year, he clearly stated that there "should be no overloading this conditionality with prior measures." We would therefore appreciate a precise explanation from the staff on this matter.

Mr. Foot made the following statement:

First, let me join Mr. Hospedales in welcoming the fact that we have before us a request for an arrangement under the structural adjustment facility on its own, a possibility clearly envisaged in the discussions leading up to the creation of the facility. This is particularly appropriate in two circumstances: when a country needs concessional finance because of its existing debt burden; and when the demand management policies that make up the backbone of a normal stand-by arrangement are already largely in place. Dominica clearly falls in the latter category, and I am satisfied that it fully meets the criteria for use of the structural adjustment facility. I would also like to express the hope that Dominica's receipt of a structural adjustment arrangement without a stand-by arrangement will in no way constrain the involvement of the World Bank or of donors. The policy framework paper is an appropriate and vital framework for development activity.

So far as the proposal before the Board is concerned, as this chair and others noted during the Board's recent discussion of the Article IV consultation, the constraints which result from Dominica's membership of the Eastern Caribbean Central Bank mean that much greater reliance must be placed upon the other policy instruments that are available to the authorities. Fiscal and wage policies in particular will obviously have a crucial role to play if growth is to be promoted while safeguarding the external position. It is therefore appropriate that the structural adjustment arrangement before the Board includes fairly detailed understandings on these and other key areas of policy.

Turning first to fiscal policy, the authorities have achieved a significant improvement in their current fiscal position in recent years. It is clear that continued restraint in the current budget will be required if room is to be made for higher capital expenditure and if the need for nonconcessional financing is to be contained. The arrangement includes various measures to strengthen the fiscal position, including the tax package adopted earlier this year. The program also includes understandings on the extent to which resort will be made to nonconcessional financing. The policy would seem to be broadly appropriate, particularly as it should lead to a fall in outstanding nonconcessional debt in the second and third years of the program. However, here I must depart from Mr. Hospedales's view, because I wonder whether it might not have been clearer if the understandings represented in the program on this point had been quantified by setting a benchmark for the Government's net use of credit. The course chosen--of setting a benchmark for nonconcessional financing but allowing "temporary additional borrowing from domestic sources"--seems to me to be rather less clear, particularly as we have no real idea when, or if, any temporary borrowing agreed under this procedure would be unwound.

Wages policy in the public sector will have an important role to play both in supporting the authorities' fiscal objectives and in ensuring that competitiveness is increased. In retrospect, as a number of Directors said when the 1986 Article IV consultation was concluded (EBM/86/171, 10/17/86), the last civil service wage agreement appeared rather generous, and the significant rises in real wages in the public sector may well have exacerbated wage pressures elsewhere in the private sector at a time when the real exchange rate remains substantially above its 1980 level. We are therefore glad to see that the authorities have discontinued automatic merit pay increases and that they are reviewing the size and organization of the civil service.

During the Board discussion of the Article IV consultation, a number of Directors referred to the importance of the appreciation of the real exchange rate since 1980. In that light, it was essential that the authorities, in conjunction with other members of the ECCB, continue to review the appropriateness of the exchange rate and stand ready to take corrective mesures if these prove necessary. I might add, although it is not the subject of the present discussion, that the more this chair sees of some of the currency group arrangements in existence at the moment, the less certain are we that the mechanisms have sufficient elasticity for such measures to be taken when they are needed.

With respect to the financial sector, I note that the authorities have removed all taxes on local commercial bank deposits. This should help, in conjunction with the objective of reducing the public sector's indebtedness to local commercial banks, to promote the efficient and flexible operation of the financial system. Nonetheless, I did wonder whether the staff might have examined policies in this area in rather more detail, and whether there are not other structural reforms in the financial sector that could be contemplated during the life of the program.

Finally, in terms of the arrangement under the structural adjustment facility, I note and support wholeheartedly the emphasis in bringing the private sector to the fore during the course of the arrangement, although I sense, as Mr. Hospedales has already noted, that that will not be easy from such a small base. The authorities will have to stand ready to respond if the pace of the private sector's response is less than they might hope.

To close with a few off-the-cuff remarks about Mr. Hospedales's comments on the number of benchmarks and the extent of prior actions, I, too, would be interested in the staff thoughts. My own personal feeling is that prior actions show a clear willingness to face up quickly to problems which, by definition, the authorities perceive just as clearly as the Bank and the Fund do, when they together draw up the policy framework paper. I would not go so far as to suggest that a great number of prior actions are a necessary condition at the outset of a structural adjustment arrangement. Much depends on the case in question. Dominica's record of adjustment--as Mr. Hospedales has noted, and as Mr. Massé mentioned in his opening statement--has been very good. I take it that a number of the prior actions are a result of the authorities' willingness to tackle their problems rather than of insistence by the staff. As for their number, frankly, in a situation where exchange rate and monetary policy is effectively ruled out, it is no bad thing if some of the inevitably more micro aspects are covered in detail. Again, such prior actions should not be seen as conditions to be imposed upon the authorities but as an attempt to flesh out an intended adjustment program, thereby helping the Board to understand the thrust of the policies; to know more about the country's problems and the direction in which it is going; and, in the process, to have a better understanding of the outlook for the economy over the life of the structural adjustment arrangement.

Therefore, I am not perturbed about the amount of detail in the structural adjustment arrangement. I would be perturbed if it was seen by all concerned as irksome and unnecessarily detailed. In actual fact, the detail in the arrangement is probably beneficial for all concerned, so long as it is interpreted in the framework of "benchmarks," as those have been understood.

Mr. Ouanes made the following statement:

Since we have just completed a review of Dominica's economic policies within the context of the 1986 Article IV consultation, I will confine my comments to two remarks on the request for a structural adjustment arrangement.

First, despite Dominica's sustained adjustment efforts over the past several years, growth proved more difficult to maintain. I am, therefore, pleased to see the attention paid to growth in the proposed program, which should help Dominica to achieve and sustain growth within the context of stronger fiscal and balance of payments positions.

Second, given the restrictions imposed by membership of the ECCB on the conduct of monetary and exchange rate policies, I find the focus of the structural adjustment arrangement on fiscal policy appropriate. In this context, and in view of the already heavy tax burden, I welcome the program's emphasis on improving the current account of the Central Government as a means of strengthening the fiscal position.

In conclusion, while I am concerned about recent trends in the competitiveness of the economy, I find that the overall macroeconomic and structural policies contained in the program are conducive to strengthening the fiscal and balance of payments positions. The program, together with the authorities demonstrated capacity to adopt wide range of policy actions and to sustain the implementation of needed adjustment measures, deserves the support of the Fund. I therefore support the proposed decision.

Mr. Lim made the following statement:

Much of what had to be said about Dominica's performance since it began adjustment under an extended Fund arrangement in the early 1980s was said last month when the Board concluded the 1986 Article IV consultations with Dominica, as articulated quite concisely in the

Managing Director's summing up. At that time, our chair singled out the authorities' success in moving toward fiscal balance, for which we commended them, and advised continuous caution. We do so again today.

We can briefly reaffirm the views we expressed then on three points. We were concerned over the authorities' investment policy, which is restated on page 18 of EBS/86/248. Rather than have state enterprises assume commercially viable economic opportunities which private enterprises might fail to exploit, the authorities ought perhaps to take measures that would remove impediments to efficient market operations, and thereby provide the appropriate environment for greater private sector activity. We also remarked at the time on what appeared to us to be rigidities in the procedures of the Eastern Caribbean Central Bank, intimating the need for greater flexibility and suggesting a study of the costs and benefits for participant countries. Finally, we said that we were satisfied that the norms for judging the protractedness of a country's balance of payments need were applicable to the case of Dominica.

All that having been said, however, one other point must be stressed. The protractedness of Dominica's balance of payments need appears to be not unrelated to two problems which, to date, have not been addressed by the authorities with as much rigor as we think they should have been. The first pertains to the excessively high rate of wage increase, except during the first half of 1985, and the second, to the rigidities, already mentioned, in the structure of the Eastern Caribbean Central Bank. Failure in the former and apparent impotence in the latter respect have prevented the authorities from effectively managing the country's external position. The high cost of labor, besides inhibiting private investment and, thereby, employment creation, has resulted also in some loss of competitiveness of Dominican exports. At the same time, the apparent sluggishness of ECCB responses to changes in the environment of its members seems to have forced Dominica into an adjustment posture that could be imposing disproportionate pressures on other sectors of the economy. We strongly suggest that the authorities should not allow either the structural adjustment arrangement, or considerable grants under bilateral assistance programs, to lull them into approaching these two problems with something less than urgency. We think they should intensify their latest efforts with respect to wage arrangements. We remain interested in the staff's views on the costs and benefits of participation in currency unions. I imagine a case-by-case approach may be necessary in this respect. If so, the Dominican case may prove interesting and, possibly, illustrative of a less than altogether beneficial participation.

We can support the proposed decision. As we wish the authorities success, we encourage them at the same time to move with greater urgency in the two areas to which we have pointed.

Mr. Vasudevan made the following statement:

We welcome this opportunity to discuss Dominica's request for arrangements under the structural adjustment facility for a number of reasons. First, the request is by a small island economy. Second, the request is not accompanied by a request for any other type of arrangement with the Fund. In this sense, Dominica is the first case of a member requesting assistance only under the structural adjustment facility. Third, as Mr. Massé has argued, and as the staff has revealed in its paper, the emphasis is rightly on providing and improving incentives to private investment, without ruling out the possibility of expanded participation by the Government in what the staff has called--borrowing, I suspect, Hirschman's terminology--"directly productive activities" in order to achieve the program's objectives.

While the idea of bringing about structural reforms supported by use of the Fund's structural adjustment facility is novel, and perhaps exciting, one should not be so naive as to claim that such assistance by itself will enable the task to be fulfilled. The resources available for the purpose are limited, being constrained in the first place by the maximum access allowed under the facility. The extent to which structural changes could be brought about with a mere SDR 1.88 million spread over a three-year period was not difficult to imagine. The question therefore is whether use of the structural adjustment facility has helped to promote "additionality" of non-Fund resource inflows on concessional terms to speed up the process of structural reform.

In staff papers on requests for structural adjustment arrangements in general, there is hardly any mention of the "additionality" of resource inflows, although this question was an important point of our discussion at the time of the formulation and establishment of the facility. The references to the public sector investment program in the staff paper on Dominica's request do not show that investment as a proportion of GDP would rise; if anything, according to Table 6, it will fall in 1986-87 and 1987-88 from the level of 22 percent attained in 1985-86. If, however, additional resources are needed to achieve the program objectives and to support the economically and financially viable projects which are approved by the Fund-Bank staff, the Government could, under the program, resort to nonconcessional borrowing up to specified limits during the first half of 1986-87, i.e., until December 1986. This perhaps is an argument that one could advance in support of the idea of "additionality" of resources, but this is not what was at the back of our minds when "additionality" of resource inflows was discussed in the Board. In any event, the role of the structural adjustment facility as a catalytic instrument is not easily discernible in this case. Surely, additionality of inflows cannot be achieved by providing for nonconcessional borrowing for a low-income country like Dominica. An increase in nonconcessional borrowing will lead to a rise in the debt service ratio, which already has more than doubled over the last four years. What is most desirable for Dominica is a flow of concessional resources, in addition to those taking place so far, for purposes of speeding up structural changes.

Dominica's request is heartening for its extraordinary sense of timing, made as it has been in awareness of the fact that most economic indicators have shown improvement since 1981. Mr. Massé's graphic account of the progress in the Central Government's current account balance, real GDP growth, inflation, and the external current account deficit during 1981-85 shows that a good economic base is provided for the proposed program, which should therefore be expected to have a high rate of success. Fortunately, the country's experience with an extended arrangement and a stand-by arrangement between 1981 and 1985 can be counted upon as an additional positive aid in its pursuit of medium-term structural goals. On the basis of what has been proposed as a program, we give our support to the proposed decision.

Let me, however, raise the issue of "conditionality" in the proposed program. The Managing Director's summing up of March 28, 1986 clearly argues that conditionality is not to be loaded with prior actions. But Table 5 indicates that prior actions were a part of the structural adjustment arrangement. The title of the table is a clear reflection of this fact. Second, there is the question of benchmarks for the first annual program, which number 16 in all, as Appendix C reveals. This, to my mind, is a large number, considering the meager amount of the loan for the first year of SDR 0.8 million. Such a large number of benchmarks even outstrips the number of performance criteria that are normally adopted for regular stand-by or extended arrangements. In addition, it is disconcerting to find the statement at the end of paragraph 2 on page 17 that "these benchmarks are guides both for monitoring the progress under the program and for signaling the need for additional measures if that should become necessary for achieving the program's objectives." This sentence gives the impression that monitoring is done on a periodic basis during the first year period in respect of the items covered by the benchmarks in order to enable the authorities to undertake what the staff calls "additional" measures for achieving the program's objectives. If this interpretation is correct, then the concept of benchmark is being applied as more than a mere monitoring device. This perhaps was not the stated purpose of benchmarks as agreed at the time of the establishment of the structural adjustment facility. In fact, you may recall that in reply to my question on this subject at the time of our discussion on Sierra Leone's request for a structural adjustment arrangement, the staff clearly pointed out that benchmarks are for monitoring purposes.

As to the criteria for including so many benchmarks, when all of the matters covered appear in the policy framework paper and are likely to figure in any case in a review of that paper for the second year of the arrangement, optimality would pose a cumbersome problem if too many objectives were pursued simultaneously, even if the scope for taking policy actions were unlimited. Ideally, only a handful of variables, say, 3 or 4, should be monitored. If the numbers are not limited, and if too many benchmarks are set in place, we will end up with a policy framework paper without the descriptive material on developments that have taken place already. For a better understanding of the economic situation, it is not necessary to rely on the mechanism of benchmarks. Authorities undertaking structural adjustment arrangements have a large stake in their program simply because implementing the comprehensive package of measures usually envisaged under such an arrangement often entails social costs. Therefore, governments are not likely to let such programs go to waste.

Mr. Bertuch-Samuels made the following statement:

I can be rather brief as the Board only recently had a chance to review Dominica's economic developments and prospects in the context of the 1986 Article IV consultation.

The paper before us makes it clear that the authorities have set the stage for a medium-term adjustment program that promises to go a long way toward a comprehensive restructuring of the economy and strengthening of the country's balance of payments. What is particularly encouraging is that a number of measures have already been implemented in the course of 1986 and that there has been a significant strengthening of the fiscal accounts. Also, following a temporary setback in 1985 due to special circumstances, growth is expected to recover to satisfactory levels in 1986 and beyond. I therefore support Dominica's request for a structural adjustment arrangement.

I do not need to go into details as the summary of policy actions provided in Table 5 of EBS/86/248 includes most of the measures recommended by Directors during the discussion of the Article IV consultation. Let me offer only a few comments on the one issue that the paper touches on briefly, namely, that of the exchange rate. The restrictions that regional arrangements impose on Dominica's exchange rate policy should not be taken as an encouragement for the authorities to ignore this policy aspect altogether. I agree that the arrangements in the Eastern Caribbean Central Bank make an important contribution to regional cooperation and should therefore not be discouraged. I have serious doubts, however, whether the maintenance of an unchanged exchange rate vis-à-vis the U.S. dollar for almost a decade has on balance worked favorably for the members of the ECCB. To be sure, Dominica has had a rather good record of low inflation for about five years, partly as a result of a stable exchange rate. However, an element of flexibility in the ECCB's exchange rate policy would be in the interest of all its members. I therefore welcome the authorities' intention to periodically review the exchange rate of the EC dollar, together with the other members, and would encourage them to seek an adjustment of the exchange rate if and when it becomes necessary to ensure an adequate external competitive position.

This being said, I of course concur with the staff that the focus of the adjustment has to be on fiscal policy with the aim of achieving a financial position for the public sector that is sustainable over the medium and longer term. The considerable dependence of Dominica on external budgetary assistance suggests that apart from expenditure restraint, additional avenues need to be explored to improve the domestic revenue base. It is particularly welcome therefore that the program also provides for a tax reform as well as for measures to improve tax administration.

Finally, I took note of Mr. Massé's interesting remarks about the still rather limited scope for private sector investment due to the special constraints on a small island economy. It does indeed appear that the authorities are making commendable efforts to encourage private sector initiative, but that for the time being the Government needs to continue to play an important role in investment. In view of the strong reassurances that only profitable and viable projects are to be initiated, I can therefore go along with the provision for the limited amount of contingent nonconcessional borrowing allowed for in the program. Also, in connection with Mr. Massé's remarks concerning the special constraints facing Dominica, I think that the authorities would be well advised to follow up on the suggestion by the Executive Directors of the World Bank that some of the issues identified in the policy framework paper might best be addressed in a broader regional context.

Mr. Dallara made the following statement:

Having recently discussed Dominica's economy in the context of the 1986 Article IV consultation, I will touch only briefly on a few key issues concerning the measures and the approach adopted in the structural adjustment arrangement, and also return to one issue that troubled us during the previous discussion and that remains troublesome from our point of view in connection with the structural adjustment facility.

First, we broadly support this program, and believe that it will involve a continuation of the generally strong adjustment efforts of the Dominican authorities in the recent past. The question of benchmarks, which has been touched on a number of times this morning, or rather perhaps the lack of benchmarks concerning the budget, is of particular interest to us. It is clear, in part because of Dominica's exchange rate policy, that fiscal policy and budgetary performance are particularly important in this economic program. Indeed, the exchange rate policy has a considerable bias toward fiscal policy in order to promote adjustment in a stable financial environment, as well as indirectly to ensure adequate competitiveness. Like a number of other speakers we would certainly have welcomed further analysis of the exchange rate issue in the paper before us.

It was in light of the importance that is inevitably attached to the budget in Dominica's policies that we were a bit surprised and puzzled by the lack of a specific quantitative benchmark on budgetary performance in the arrangement. We recognize that the benchmarks and limitations on use of nonconcessionary financing by the Government and guarantees of concessionary loans from external sources are important and indirectly related to the fiscal performance. And while on the whole we are not particularly troubled by fiscal policy, we were troubled by the lack of a clear, precise, quantitative benchmark, in part because of the point which Mr. Vasudevan raised earlier concerning additionality. He has stressed--and, indeed, his chair has consistently stressed--the importance of additionality in relation to programs under the structural adjustment facility and the policy framework papers, which provide an umbrella not only for Fund but for World Bank support and, hopefully, other donor assistance as well. This aspect of the role of the policy framework paper has been mentioned recently, including by senior management of the Bank, and I would welcome any comments the Bank staff might have on this issue. Where the Bank and other donor authorities, including his own, are expected to move forward in support of the policy framework to provide that additionality, they look for clear indications of strong macroeconomic as well as structural performance. Indeed, the point has been made to me on more than one occasion that vague macroeconomic targets, particularly in the absence of midterm reviews, are troublesome when it comes to using the structural adjustment facility and the policy framework papers as a basis for catalyzing additional assistance.

Thus, I believe that there is a relationship here about which we need to be mindful. If, indeed, we want the structural adjustment facility to catalyze additional funding, not only from the Bank but also from bilateral donors, then we must keep in mind the importance which donors may attach to quantitative benchmarks in such arrangements, as well as prior actions--particularly where there is no stand-by arrangement. This general comment came to mind in this particular case, owing to the vagueness, in our view, of the budget benchmarks.

Turning to a few particular aspects of fiscal policy, we believe that the authorities are by and large following appropriate policies in this respect. We agreed with the staff, however, during the discussion of the Article IV consultation in cautioning against financing the water project. I understand that the staff has now decided that this project could help to attain the program's objectives, and would appreciate any further information the staff may have on that point at this time.

In our view, the program does correctly emphasize expenditure restraint. In this connection, developments in wages for civil servants argue for action in this area; moderation in pay rate increases to limit the growth of the wage bill to no more than 3 percent in 1988/89 is, in our view, appropriate--indeed, essential--since the current wage agreement runs for that period. Preparation and implementation of tax reform in order to remove disincentives is welcome, and we hope the Fund can play a constructive role in that process.

A related issue is export processing zones, which have worked well in other cases, and we would be interested in any information the staff may have on what would be encompassed by the zone and how it might be seen to encourage private sector investment.

Encouraging progress has been made by the authorities in respect of public sector enterprises, and we look for the continued progress which is embodied in this program, particularly through privatization. We welcome the fact that the public sector investment program has been reviewed by the World Bank, that financing has been fully secured for the first year of the program, and is well under way for the second and third years. In this connection, we would commend the authorities for the cautious approach they have taken to their investment program, seeking assurances regarding financing before launching major expansions in their investment plans. We agree that the inclusion of projects must concentrate on their financial viability and would urge the authorities to continue to scrutinize closely additional projects with this criterion in mind.

Finally, concerning the issue of a protracted balance of payments problem, we raised some concerns in this connection during the 1986 Article IV consultation, and I must say we were disappointed that the staff had not responded to those concerns in formulating the documentation for the request for a structural adjustment arrangement. As we all are aware, eligible members' qualification for use of the facility depends upon their countries facing protracted balance of payments problems. It is clear that in our initial agreement on the creation of this facility we adopted a rather flexible approach toward determining what constitutes a protracted balance of payments problem. But even within the context of that flexibility we had questions and reservations. Dominica's balance of payments prospects and developments are addressed briefly on page 19 of the staff paper, where it is stated that "in the projection period, the current account deficit would be more than covered by public sector external borrowing--mostly project-related concessionary loans--and direct foreign investment, thereby facilitating an improvement in the overall balance of payments position; in particular, there are to be substantial repurchases to the Fund in each of the three years of the SAF arrangement."

The summary table on the balance of payments on page 6 of EBS/86/248 bears this out in quantitative fashion. We see an improving trend in the overall payments position through 1989, and a very substantial current account deficit before official transfers. But I would contend that in an economy of this size and nature, which is heavily dependent on external concessional financing, a more appropriate measure of the current account is after official transfers. And there we see a current account deficit which is on a downward trend as a percent of GDP, and moving below 4 percent by 1990. Furthermore, capital inflows consist of direct investment and concessional inflows, which more than fully cover the current account deficits over the medium term, leading to overall surpluses.

We recognize, of course, that Dominica has previous obligations to the Fund as well as new obligations arising from the structural adjustment arrangement. We also recognize that Dominica has a development strategy which depends upon external financing. As this chair made clear during the recent Article IV consultation discussion, we do not question whether there is a balance of payments need per se; but we do have some doubts that there is a clear case of a protracted payments problem. In the future, where there is not an absolutely clear-cut case, I hope that the staff would develop the issue in the documentation so that we could have confidence that there is a persuasive rationale for a protracted payments problem. One would not necessarily feel that the case has to be developed in quite the same systematic way in which requests for compensatory financing have to meet the various criteria for use of that facility, although that may be necessary unless we can come up with a more direct way to respond to concerns raised in connection with use of the compensatory financing facility. We have discussed this bilaterally with the staff, which is aware of our concerns, and we would welcome any additional information beyond that already shared with us in our bilateral discussions.

In concluding, let me say that we recognize the seriousness of Dominica's efforts and its intent to continue to pursue what has been, on the whole, a sound economic adjustment and growth program. In spite of our reservations, we are prepared to support the request for a structural adjustment arrangement.

Mr. Rousset said that he joined other speakers in expressing support for the arrangement under the structural adjustment facility. Over the past few years, the Fund had assisted Dominica in achieving the stabilization of its main imbalances and a surplus on the current account of the balance of payments. It was clear that further progress in terms of economic growth would depend closely upon the implementation of well-chosen structural policies.

In that particular context, and given Dominica's debt structure, which was for the most part multilateral and highly concessional, it seemed appropriate that Dominica not seek a new stand-by arrangement but turn toward the World Bank and its policy-based lending, Mr. Rousset added. In that respect, the concrete collaboration of the Fund and the World Bank in the preparation of the policy framework paper had played an instrumental role in fostering that transition and speeding up the processing of the structural adjustment credit.

On the question of the design and number of benchmarks, Mr. Rousset expressed his agreement with the comments made by Mr. Foot.

Mr. Noriega stated that his authorities wished to express their appreciation and strong support for the request by the authorities of Dominica for a three-year program under a structural adjustment arrangement. Under present circumstances, that type of arrangement was the most appropriate for Dominica. He wished only to emphasize the delicate balance of a policy of stimulating private investment when the Government was taking the lead already in several sectors. Experience in several countries showed that the transfer of public enterprises to the private sector was not always a smooth process. Therefore, it was advisable to rely on a clear and simple legal framework to avoid possible misconceptions on the part of the private sector. Such a framework would provide additional support to the achievement of the stated objective, thus further promoting the development of Dominica.

The staff representative from the Western Hemisphere Department said that the program had not envisaged any prior action. However, the authorities had taken some adjustment measures just before the program began on July 1, and if the staff had failed to mention them, it would not have given due credit to the authorities.

As to the design of the benchmarks, specifically with respect to the ceilings on fiscal variables, the staff representative explained that there were two ceilings on the Government's use of nonconcessionary financing. The first applied to nonconcessionary financing from external sources, and the second ceiling on the overall nonconcessional financing applied also to borrowing from domestic sources, mainly from the domestic commercial banks and the Social Security Scheme. Those ceilings were more or less the same as those that had been set as performance criteria in Dominica's previous Fund-supported programs.

On the number of benchmarks, it should be noted that two kinds of benchmarks were included, the staff representative said. The quantitative benchmarks were again basically those that had been included in Dominica's previous Fund-supported programs; the other benchmarks were designed primarily to monitor the implementation of policies relating to structural adjustment.

As to whether or not certain policies relating to the financial sector that the staff was still discussing with the authorities were to be included in the latter years of the program, the staff representative recalled that monetary policy was basically controlled by the Eastern Caribbean Central Bank. As the staff had mentioned in previous discussions, the harmonization of monetary policy of the members of the Eastern Caribbean Central Bank was under discussion. Certain measures had already been taken and additional measures were under consideration, particularly to make the provision of financial resources to the private sector more efficient.

On the basis of a review in late 1985 and early 1986, the ECCB members decided not to take an exchange rate action, particularly as the extent of appreciation varied significantly among the member countries, and also because the external value of the U.S. dollar had just declined, the staff representative noted. However, the ECCB members did agree to monitor developments closely, and in the meantime to provide temporary financing to those member countries which were hard hit by the appreciation. Under the circumstances, Dominica had decided that the costs of independent exchange rate action--basically, the need to establish a separate central bank--outweighed the benefits. Accordingly, the authorities had adopted the second-best solution by providing fiscal incentives to production and exports: increasing productivity through improvements in infrastructure, intensifying the promotion of exports and tourism, and steering wage adjustments along a downward path.

On the basis of the World Bank staff's review of the feasibility study on the water export project and a realistic assessment of cash flows, it appeared that the project would help Dominica to achieve its medium-term objective of strengthening its fiscal and external positions, the staff representative remarked. Export earnings from the water project were expected to exceed both the operating costs and the additional debt servicing. According to the latest information, the process of implementing the project--for example, production--would start probably early in the next fiscal year.

During the Board's discussions on the establishment of the structural adjustment facility, the staff representative recalled, Directors had noted that in determining the existence of protracted balance of payments difficulties, consideration should be given to the past and prospective behavior of the current account deficit of the balance of payments, and to other current account and financial indicators such as stagnant or declining export volume, a depressed volume of imports, access to international capital markets, the level of international reserves, and prolonged use of Fund resources. Directors had also emphasized that the suggested criteria should not be used in a mechanical way and that countries that had followed appropriate adjustment policies in the past should not be disqualified from use of the structural adjustment facility.

In that context, Dominica's economy has made significant gains in the past five to six years, but the balance of payments position continued to be vulnerable to external shocks, the staff representative noted. Over that period, the ratio of imports to GDP fell. In 1985, the volume of major agricultural exports was significantly below, and tourism had barely recovered to their levels prior to the 1979 hurricane, while activity in the new manufacturing sector was depressed by the increased economic difficulties and trade restrictions in the CARICOM region. Dominica had virtually no freely usable foreign exchange reserves and was not sufficiently creditworthy to have access to the international capital market. The country had relied heavily on external grants and concessionary loans in financing its balance of payments.

Dominica had generally followed prudent domestic policies, the staff representative added. It had kept spending within the limits indicated by external earnings and assistance, and Dominica thus had met its external financial obligations without incurring arrears. In that respect, support from the Fund under extended and stand-by arrangements had made a contribution. Indeed, Dominica had been a user of Fund resources for a number of years, and continued Fund support would be expected to serve as a catalyst for donors' assistance and help Dominica in discharging its external debt obligations in an orderly manner.

The program supported by the structural adjustment arrangement aimed at expanding exports and tourism while restraining domestic expenditure to achieve a sustainable balance of payments position over the medium term, the staff representative from the Western Hemisphere Department concluded. On the basis of the program, moderate growth of output was expected to continue, and the external current account and overall payments position were projected to improve, as a reflection of the success of policies to deal with the country's balance of payments problem. The projection assumed a stable external environment, a sustained growth of exports that was large compared with recent experience, a continuous and sizable inflow of donors' assistance, and the implementation of the program in a timely manner. Those assumptions were surrounded by a great deal of uncertainty, not the least because of the ever present danger of natural disasters, which can have far-reaching consequences in a small economy. Even if the balance of payments were to turn out as projected, by 1990 Dominica's external current account deficit still would be equivalent to some 11 percent of GDP, and the country would need external grants and concessionary loans equivalent to 13 percent of GDP.

The staff representative from the Exchange and Trade Relations Department said that although the Managing Director's summing up had been cited with respect to prior actions relating to programs under structural adjustment arrangements, what was relevant in the case of Dominica was that there were no prior actions in the normal sense. True, the table listed a number of actions that the authorities had been taking on their own initiative, for which it was necessary to give them credit in the staff paper.

As far as the benchmarks were concerned, the Managing Director's summing up stated that: "Benchmarks or indicators will have to be constructed in a flexible way. They will not necessarily all be quantified but will essentially be devised to help monitor progress in policy implementation and in reaching the objectives of the program that had been described in the authorities document. I want to make it very clear that these benchmarks or indicators will not be associated with disbursements." The benchmarks listed in the staff paper, as had been pointed out, were both quantitative and nonquantitative. The nonquantitative benchmarks related essentially to the implementation of structural elements of the program which several Directors on past occasions had decided should be covered in staff papers. Those benchmarks were not in any sense associated with disbursements, and they were intrinsically different from performance criteria.

With respect to the last sentence in paragraph 3 on page 17, stating that benchmarks are guides both for monitoring progress and also for signaling the need for additional measures if they should become necessary, the staff representative said that he would have thought that the concept of a monitoring device inherently carried the meaning that deviations that became evident in the process of monitoring would be the basis for adopting appropriate new measures as needed. That notion was in fact already reflected in the Managing Director's summing up, which stated: "Deviations from benchmarks will of course be noted and an effort will be made to understand why they have happened. If the reasons are such that they could derail the direction of a program, policy adjustments may be necessary, and they will be taken up in discussions leading to the arrangement in support of the next annual program."

With respect to Mr. Dallara's concern about the existence of protracted balance of payments difficulties in Dominica, the staff representative from the Exchange and Trade Relations Department said that he regretted that that concern had not been allayed, as had been thought, at the time of the 1986 Article IV consultation discussion. In future, whenever there was some element of doubt about the protracted nature of the balance of payments need, the staff would try to cover it adequately.

Mr. Vasudevan remarked that he had always been troubled by the way in which the staff couched its responses to such questions as those that had been raised during the present discussion on prior actions and benchmarks. The title of Table 5--Summary and Timing of Actions Affecting Economic Performance Under the Structural Adjustment Facility--seemed to him to imply that the prior actions had in fact been taken in the context of the structural adjustment arrangement, particularly as so many measures were involved. He suggested that the matter be taken up when the structural adjustment facility was reviewed.

As for the number of benchmarks, even though the guidelines in the Managing Director's summing up referred to flexibility, they could not be interpreted as justification for as many as 16 or 20 benchmarks, Mr. Vasudevan considered. However, his main point concerned the lack of an accepted analytical approach similar to the one applied in establishing performance criteria under a stand-by or extended arrangement. The question that had not been answered to his satisfaction was what criteria or model was to be used in establishing the number and type of benchmarks needed to ensure that the agreed policies were being implemented.

Finally, Mr. Vasudevan said that he wondered what procedures the staff followed in monitoring a program. The staff had referred to the statement in the Managing Director's summing up at EBM/86/56 (3/26/86) that: "Deviations from benchmarks will of course be noted, and an effort will be made to understand why they have happened." It was not clear whether the staff followed developments on a quarterly, semiannual, or nine-monthly basis. It was also not clear to him that the statement that "if the reasons [for the deviations] are such that they could derail the direction of a program, policy adjustments may well be necessary" should be taken to imply that additional measures would be needed, as suggested in the staff paper. Presumably, all the necessary measures would already be in place.

Mr. Foot stated first that nothing he had heard during the discussion suggested to him that Dominica had been pushed into taking actions it would not otherwise have taken or that it was in any way unhappy with the process by which the structural adjustment arrangement had been brought before the Board. If his understanding was correct, that was a very important point to bear in mind.

His second point concerned the number of prior actions and benchmarks, Mr. Foot said. It had been generally agreed that the public sector was dominant in Dominica and, unless the Government was going to do nothing, it was not surprising that a number of actions--both taken in the past and intended--would be listed. As he recalled from memory, the very first prior action listed in the first table in a staff paper, under the first structural adjustment arrangement with Burundi, was the reduction of the moisture content of coffee exports. That might be a prior action, but it was not in any sense one that was out of the ordinary; it had been listed by the staff, among other measures being taken to flesh out the program, and in order to increase the Board's understanding.

The third point he wished to make was on the question of additionality of resources, Mr. Foot remarked. He endorsed Mr. Dallara's relevant remarks about the benefit donors would derive from having clear benchmarks in their sights when they came to evaluate programs. Everyone was in favor of additionality, but miracles could not be expected. The Fund staff and the authorities had to budget for what was known. There was a natural rhythm to the schedule of negotiations, both for the World Bank and also for consultative group meetings where those were appropriate. It was only some years after the event, after everything possible had been done to ensure that the financing was provided on schedule, that it would be seen whether or not the policy focus of the framework paper had led to additional resources for the countries concerned, both from the World Bank and also from donors.

Mr. Dallara remarked that although it could go without saying, perhaps it needed to be said--in light of the way in which the staff representatives had responded to his remarks on the determination of a protracted balance of payments need--that at least as far as his chair was concerned, and perhaps others as well, silence after a staff response to a question did not always necessarily imply full agreement with the response. Silence might imply a willingness to pursue the matter bilaterally or, for that matter, not to take the time of the Board in an extensive discussion. Obviously, individual concerns from time to time would not be fully resolved in the Board, which was not always the right forum to attempt to fully resolve them. But he hoped that his silence on the approach of the staff representatives to the issue of the protracted balance of payments problem was not an indication that he fully agreed with the staff because he remained unconvinced that Dominica was a clear case of protracted balance of payments need. In addition, he remained somewhat unconvinced that the lack of a precise quantitative benchmark on the budgetary position in the program was entirely constructive for the purpose of either monitoring and/or for that of catalyzing flows.

The Acting Chairman said that he gathered from both Mr. Dallara's comments and those of Mr. Vasudevan that there would be further discussions with the staff on the issues raised. Over time, as a series of cases was dealt with, he felt sure that such issues would surface in the context of the Board's discussion to permit the chair to gain a sense of the direction of the Board's thinking on the evolution of the structural adjustment facility. Differences of view had been emerging: from one perspective, there were too many benchmarks in programs, whereas from another, there were perhaps not enough. The staff would need to take these views into account as it dealt with future cases, and the more fundamental review of the facility would also provide an opportunity to synthesize and focus the Board's views on some of those important policy questions.

Mr. Massé said that he felt sure that many governments in his constituency would prefer, as a matter of principle, to have fewer benchmarks and therefore fewer performance targets, but as a practical matter, in a small economy like that of Dominica and also of other islands in the Caribbean, there was no doubt that the staff and the public servants cooperated on defining the benchmarks. There was a dialogue between the staff and the authorities on necessary policy actions; there was a discussion in which various proposals were made; and usually there was an agreement on the actions considered to be necesssary. He had taken part in some of the discussions in Dominica and knew that many of the measures covered by benchmarks would have been not only agreed to but put into place by the Government in any case because the authorities had agreed that they would have been proper actions to take on their own, even without a structural adjustment arrangement. Without any doubt, that arrangement gave the Government the encouragement to put them into place; the existence of some guarantee that in fact the actions would be implemented was helpful not only to the public servants involved but also to the politicians involved. In sum, many of the benchmarks in the arrangement were the result of a dialogue on policy actions with the staff and were fully agreed with the staff as being what was needed and not what was imposed from the outside.

The most convincing argument that a protracted balance of payments problem existed was to be found in the vulnerability of an economy like that of Dominica to official transfers, Mr. Massé considered. When there was a variation in those transfers, which were a very large percentage of the total investment budget, there was an immediate effect on the balance of payments, of as much as 3 or 4 percentage points of GDP. The only way for Dominica to reduce its vulnerability was to transform the structure of its economy, increase its capacity to export and to earn foreign exchange, and improve its ability to employ its people even in face of variations in its sources of foreign exchange. That element of vulnerability to official transfers and to the variability of those transfers was one of the important reasons why there should be a structural adjustment facility in a case such as that of Dominica.

Finally, Mr. Massé said that he had listened carefully to the comments of Directors, in particular those about the rate of increase of wages and those about the consequences of belonging to the ECCB. In respect of the ECCB, Dominica did not have much of a choice at present. However, it was quite useful to be aware of the pros and cons so that eventually, if the point of decision was reached, an efficient decision could be taken.

The Acting Chairman remarked that Mr. Massé's point on the importance of concessional assistance in the case of Dominica led him to reiterate that like most Directors who had spoken, both the management and the staff attached a great deal of importance to the question of promoting additionality. The Exchange and Trade Relations Department in particular had been leading an effort to find ways, working with the area departments, either in the context of the Development Assistance Committee or with individual donors and in conjunction with the World Bank, to see how the structural adjustment facility and the policy framework papers could be used more effectively by donors as a basis for providing the additional financing needed to support structural adjustment. The comments and advice of Directors, stemming from their own experience either as representatives of donor countries or as representatives of recipient countries, would certainly be welcome.

The Executive Directors then turned to the text of the proposed structural adjustment, which they approved, effective November 26, 1986.

The decision was:

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

2. The Fund approves the arrangements set forth in EBS/86/248, Supplement 1.

Decision No. 8456-(86/188), adopted
November 26, 1986

3. CAPE VERDE - 1986 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1986 Article IV consultation with Cape Verde (SM/86/253, 10/10/86; Cor. 1, 11/25/86). They also had before them a background paper on recent economic developments in Cape Verde (SM/86/262, 10/27/86; Cor. 1, 11/25/86).

Mr. Mawakani made the following statement:

On behalf of my Cape Verdean authorities, I would like to express my appreciation to the staff for the constructive discussions held in Praia in connection with the Article IV consultation. They highly value these discussions as they constitute an opportunity for a frank and mutually enriching exchange of views about economic and financial developments taking place in Cape Verde.

In the earlier years of this decade, the economy of Cape Verde registered relatively high rates of growth that were fueled by large foreign-financed infrastructural investments and substantial emigrant remittances. However, over the past two years, with the completion of some major projects in the transportation and communication sectors, a decline in emigrant remittances, the persistence of drought, and a slowdown in air and sea traffic, economic activity weakened somewhat. Nonetheless, by following prudent and pragmatic policies, the Cape Verdean authorities have kept the internal and external finances of the country under control and maintained a comfortable level of international reserves.

In view of the heavy burden of natural constraints such as the dispersion of the islands and the lack of arable lands on the development of an adequate production base, the Cape Verdean authorities are determined to give top priority to the development of an interisland and international communication network and to the agricultural sector. In that regard, as in the First National Development Plan (FNDP), the Second National Development Plan, 1986-90 (SNDP) currently under discussion, puts a great deal of emphasis on the development of the transport, communication, and agricultural sectors. The fishing sector, in which Cape Verde has a comparative advantage, would be allotted a higher share of total investments than under the FNDP. All in all, the Cape Verdean authorities believe that providing an adequate infrastructure could be conducive to the strengthening of the private sector.

The relatively important role of the public enterprise sector in the economy of Cape Verde has to be considered against the background of a country made up of ten separate islands with a rather small population. The limited size of the market and natural constraints have been major impediments to the development of a dynamic private sector. Consequently, the Government has had to step in to supplement activities that could be undertaken by the private sector. It should be noted, however, that this large public enterprise sector does not constitute an undue drain on the Government's resources. Except for the enterprises in charge of the utilities, almost all the other enterprises are financially sound and many of them pay taxes to the Government. Nevertheless, the authorities would like to see more private participation in the economy. Thus, under the SNDP, it is their intention to take measures aimed at encouraging the private sector's involvement in the production process. Both domestic and foreign investors would be encouraged to join in mixed ventures or to start their own companies.

In the fiscal sector, the overall deficit in 1986 is estimated to have fallen to about 10 percent of GDP from 12 percent in 1985. However, as the Government consistently follows a policy of matching current expenditure with current revenues, the overall deficit mainly reflects the level of capital expenditure, which is financed by grants and concessional loans. The balance on the fiscal current account is, therefore, a more relevant indicator in the case of Cape Verde. The deficit recorded in 1984 is estimated to have been reduced from C.V. Esc 229.5 million in 1985 to C.V. Esc 50 million in 1986. The authorities are committed to pursuing a fiscal policy stance characterized by conservatism, prudence, and pragmatism. This was demonstrated in 1985 when they postponed an increase in salaries so as not to create an imbalance in the recurrent account when expected revenue did not materialize. Furthermore, bank borrowing by the Government has been kept to a minimum, and in 1986 there will be either very little or no recourse to bank financing. In order to enhance government control over expenditure, current and capital expenditures were consolidated, for the first time, in the 1986 budget.

Monetary and credit policies continue to be cautious and are aimed at reducing pressures on prices and the balance of payments. The restrained budgetary position of the Central Government has contributed to the success of this policy. In connection with their policy of increasing the participation of the private sector in the development of the economy, the authorities started a new credit facility in 1985 with technical assistance from the World Bank. Under this facility, loans are made available to small businesses to develop industrial and agroindustrial projects. The authorities are also taking steps to improve the level of savings in the economy. In that context, the interest rate was increased in 1985 and is now positive in real terms.

The large trade deficit of Cape Verde is accounted for by its limited export base and its need to import almost all of its consumer and capital goods. However, this is balanced by emigrants' remittances, service earnings, and official transfers from abroad. As a result, the overall balance has stayed in surplus and has allowed for an accumulation of reserves equivalent to about three months of imports. This outcome has also been made possible by the prudent demand-management policies of the authorities as well as by the pursuit of a flexible exchange rate policy.

An important element that could guide the authorities in the formulation and implementation of their economic and financial policies is the development of an up-to-date statistical apparatus. They are well aware of the shortcomings of the present data base and are determined to improve it.

In conclusion, in spite of tremendous odds, Cape Verde, with the assistance of friendly nations and multilateral institutions, has been able to achieve a certain measure of economic progress. The generosity and timeliness of the external financial assistance, together with an efficient use of this assistance, have been instrumental in helping Cape Verde record a sustained rate of growth over the past years. It is the authorities' hope that Cape Verde will continue to enjoy the esteem of the international financial community and that the necessary commitments for granting foreign aid will be made during the round table meeting scheduled for early December 1986.

Mr. Abdallah made the following statement:

The 1986 Article IV consultation with Cape Verde gives us the opportunity to review recent economic developments in a country which, I believe, has managed its affairs relatively well under difficult conditions imposed by severe structural dislocations.

It is clear from the staff report and from Mr. Mawakani's statement that the structure of the economy of Cape Verde and its state of development do not provide adequate room for maneuver to contain temporary shocks. The country, which consists of several islands off the west coast of Africa, has a very small population and is poorly endowed with natural resources. Furthermore, Cape Verde has suffered from persistent drought, which has resulted in the decline of agricultural production, almost all the country's foodgrain requirements are having to be met with imports. In addition, the small size of the domestic market has severely constrained manufacturing output.

Notwithstanding these constraints, the performance of the economy has been satisfactory, if not impressive. The real rate of economic growth has been quite significant in the last few years, reflecting investments in the service sector and infrastructure. However, following the completion of major infrastructural projects, and reflecting a decline of activity in the transportation and agricultural sectors, among others, the growth of real GDP is expected to decelerate substantially this year. Meanwhile, although statistics are not available, there are indications that inflation has subsided somewhat. At the same time, the authorities have been sufficiently careful in managing their domestic and external financial policies to maintain a comfortable level of reserves, estimated at about three months of import cover at the end of 1986. In part, this level of reserves is needed to safeguard the country from unforeseen developments in view of the country's vulnerability to exogenous shocks.

The authorities no doubt realize that the country is facing severe structural problems. Over the years, they have achieved a reasonable rate of economic growth under stable financial conditions through the pursuit of prudent fiscal and monetary policies. The authorities deserve to be commended for taking this policy stance. Indeed, the authorities are well advised to continue exercising caution in the overall conduct of economic and financial policies.

In that vein, I note that until recently, the authorities have relied heavily on external grants to finance investment expenditure, thereby managing to keep the debt service ratio very low. However, in 1986, that ratio is estimated to reach 11 percent compared with 0.5 percent in 1981. The projection for the medium term raises the ratio to 19 percent in 1990. While this is still a manageable position, compared with that of many other African countries, it is not a desirable one for Cape Verde, and the authorities should exercise more caution. Any recourse to external borrowing should be evaluated most carefully as advised by the staff, who suggest that the World Bank should be involved in the evaluation.

Let me raise one question concerning ship repair facilities, which the staff report says are underutilized because of the diversion of fishing boats to other repairers. Could the staff explain the reason for that diversion, and indicate whether the process can be reversed?

Finally, I support the proposed decision.

Mr. van der Burg made the following statement:

In sharing the staff's appraisal, I would like to commend the Cape Verde authorities for their prudent management of the economy and their wise use of available external aid. The Government's finances were an example, the budget deficit having been kept at a level that ensured its financing from available external sources and, despite adverse exogenous circumstances, little use was made of central bank credit.

Nevertheless, there are some elements of concern. First of all, there is the foreseen rise in the debt service ratio in the medium term to 19 percent. While I have no exact yardstick to judge whether or not this is too high, it seems to me, as it did to Mr. Abdallah, that it is rather on the high side for a country with only a limited and vulnerable export base, all the more so as the increase in the ratio will be accompanied by a rapid decrease in the ratio of reserves to imports. The authorities should, therefore, pursue prudent policies under their new development plan with respect to external borrowing and overall demand-management policies.

In this connection, exchange rate policy could play a useful role. From the staff report it is clear that the authorities prefer to have a stable rate because the inflation rate now moves more or less in line with that of their trading partners. I share their preference because such stability might contribute to domestic monetary stability as well. Yet, as always, it is important to have a competitive exchange rate, and in this case I would point to the need to expand exports, liberalize the rather restrictive external payments system, and attract workers' remittances. The authorities, therefore, should be prepared to adjust the exchange rate if circumstances make this necessary.

Second, there are some structural weaknesses that deserve attention. Most important is the position of ELECTRA, the public water and electricity company, that clearly is in need of a major overhaul. Its operations not only require a substantial government subsidy, but its pricing structure is also inadequate, leading to inappropriate cultivation practices, as is clear from the background paper. The financial system also deserves attention. The separation of the central bank's accounts is indeed welcome, and could be followed by the introduction of a broader array of instruments to mobilize sufficient domestic savings.

Third, the data base of the country is rather limited and I would urge the authorities to use the available technical assistance from the Fund to improve it.

In conclusion, Cape Verde is an excellent candidate for a structural adjustment arrangement. I hope that the authorities will be able to submit a valid request for use of the structural adjustment facility.

I can support the proposed decision.

Mr. Salinas made the following statement:

During the last five years the economic and financial performance of Cape Verde has been more than satisfactory, with positive real growth, a remarkably high rate of investment, a declining trend in the rate of inflation, and a comfortable balance of payments and reserve position. These outcomes have been achieved in spite of a number of geographical constraints facing the economy, including a very poor resource base and a severe drought, which has hit the country for more than 15 years in a row.

However, recent developments seem to indicate that the strategy for pursuing economic growth during the past five years is no longer sustainable, and that there is now a need to introduce corrective measures in key areas of the economy so as to offset the adverse impact that some external developments are beginning to have. There is no doubt that the completion of some major projects in the transportation and communication sectors, together with the decline in emigrant remittances and the slowdown in sea and air traffic through the area, has hampered economic activity and weakened the basis for maintaining the pace at which the economy was growing in the past.

The extent to which these factors continue to exert adverse effects cannot be fully assessed at this stage; however, they should serve as a reminder to the authorities to move toward projects unrelated to the service sector as a means of diversifying the economic base of the islands and of reducing their vulnerability to external shocks.

The prudent policies that have already been framed in response to the newly created conditions, and the intention of the authorities to give priority, under the Second National Development Plan, to sectors such as fishing and agriculture, are most welcome steps toward the strengthening of the economic base of the country. In addition, if adequate infrastructure is provided, the development of these sectors, in which Cape Verde has a comparative advantage, would increase the scope for a major participation of the private sector in productive activities.

However, and as noted in Mr. Mawakani's statement, the enlargement of the scope of the private sector in the economy, although desirable, does not appear feasible in the short run, at least in a meaningful way, owing to the limited size of the domestic market and because of natural constraints such as the dispersion of the islands. Nevertheless, I believe that these circumstances may be turned around somewhat in the medium and long run. The smallness of domestic markets can be overcome with an export-oriented policy, and the natural constraints can be overcome with an appropriate communication and transportation infrastructure. Of course, this is a time-consuming process that certainly requires major investments for which financing is not always available.

Meanwhile, our advice to the Cape Verdean authorities would be to maintain their adherence to prudent demand-management policies, and more specifically to contain their fiscal deficit at a level financeable by external grants and concessional loans. In this respect, the authorities' policy of matching current expenditure with current revenues seems reasonable, if foreign assistance is fully allocated to investment projects, which should have the recommendation of the World Bank. But again we believe that there is room for improving fiscal performance by means of strengthening tax administration, finding appropriate solutions for the poor performance of some parastatals--for instance, by increasing the rates of the utility company--and certainly by restraining expenditure.

A tighter credit policy may also be required, as recommended by the staff, owing to the rather unfavorable external payments outlook, while exchange rate policy should be aimed at ensuring an appropriate degree of competitiveness, export diversification, and a sustainable external position. To that extent it should remain flexible and allow for exchange rate adjustments when deemed necessary.

We note that the economy depends heavily on foreign assistance in terms of grants and concessional loans, and we believe that the authorities' approach to their economic problems fully deserves such assistance. We hope that the international financial community will make the necessary commitments to grant foreign aid to Cape Verde during the next round table scheduled for early December.

We support the proposed decision.

Mr. Almeida made the following statement:

There has been no change in the economic environment of the country since the 1985 Article IV consultation, with economic growth being almost entirely dependent on foreign aid and on workers' remittances. The authorities have continued to tailor their development policies according to strict economic criteria. All major public investments have generated substantial profits, and the authorities have maintained prudent fiscal and monetary policies. They are so prudent that Cape Verde is one of the few countries where the staff's estimate of the budget deficit is smaller than that estimated by the authorities.

The medium-term balance of payments outlook prepared by the staff and the authorities under the usual assumptions and policies shows a lack of sustainability in the medium term. I cannot agree, however, with the staff suggestion that there is a need for demand-management policies, particularly to constrain import growth. Rather, it is obvious to me that Cape Verde's problems are of a structural nature, as the country is endowed with limited natural resources and has suffered the effects of a 16-year drought that should be better addressed in the context of an arrangement under the structural adjustment facility. We encourage the staff and the authorities to pursue this avenue.

It is not very common to see a staff appraisal that is not too critical, as in the present case, so we are happy to say that we support the staff recommendations except for two minor points. First, the staff seems to suggest on page 7 of its report that the effective real exchange rate has been constant during the past six years. I wonder how any such conclusion can be reached when the report notes the lack of a reliable consumer price index and emphasizes an urgent need for price indices to be developed. Second, the staff recommends that the present specific tax on petroleum be changed to an ad valorem tax but at the same time calls attention to the need to prevent a decline in tax revenue. In the present context of unstable oil prices, I think the authorities are wise to maintain the present system; only on the hypothesis of higher oil prices should a change of taxation be considered.

I am satisfied that the deployment of resources has been prudent and that foreign aid has been used in a constructive and positive way; I am sure that Cape Verde will maintain the confidence of the international financial community and that this will be reflected in the aid commitments to be made at the round table meeting in December. Cape Verde has perhaps one of the highest investment ratios in the world, well above 50 percent of GDP in the last three years, and I am quite sure that the authorities will try hard to maintain this ratio.

Ms. Bush made the following statement:

The Republic of Cape Verde clearly faces many constraints to its economic development, including its very narrow export base. Recently, remittances and external receipts from the services sector have been declining, in large part, of course, for reasons beyond the authorities' control. Because of some of these factors, the medium-term balance of payments outlook is not strong. Given the likelihood that some of the inflows I have mentioned may not recover to their 1983 peaks, it would appear that additional efforts are needed to bring about balance of payments adjustment in order to eliminate the financing gaps projected for 1989-90. Prudent fiscal and monetary policies will be important in this respect, and I note that the authorities concur with that view. Other policies, also aimed at fostering growth in the productive base of the economy, will be as important.

With the budget deficit, including grants, still at around 10-11 percent of GDP, some stronger efforts to control spending might seem to be required. We note that the budgetary process has been improved, and we note also that viewed simply in terms of current expenditures, the budget situation looks somewhat better than the ratio of the deficit to GDP would imply. But we do feel that perhaps the authorities could take a look at some different mechanisms for controlling spending in view of the overall need to control demand in the economy. In one area--development spending--the World Bank can provide advice on project selection. Investment spending has until now been funded primarily with external grants, which has helped, of course, to moderate the growth in the debt service ratio, and we recommend that cautious financing policies be followed in the future. Concentration on export-oriented investment would be particularly appropriate.

On the revenue side, we agree with the staff that the change from specific to ad valorem customs duty rates should be extended to petroleum products, and that there is room for improvement in tax administration. I wonder if the staff might comment on the appropriateness of the present tax system with respect to types of taxes and their rates, and on whether tax reform could play a useful role.

While parastatals in general have performed well, it does seem that the Central Government has been required to make transfers to some parastatals; also, some entities are in need of reorganization in order to improve their efficiency. The fishing/shipping company might be a candidate for improvement and reform, and we would be interested in learning of any plans or views of the authorities with respect to reorganizing this particular parastatal.

Pricing policy in Cape Verde, as we understand it, is influenced by the parastatal, Empresa Publica de Abastecimento (EMPA), which has a monopoly on the sale of some items. We welcome the authorities' commitment to improve this organization, and we would be interested in the possibilities for expanded private sector involvement in the more commercially oriented activities. In particular, we concur with the staff view that the role of EMPA should be limited to areas where there is no prospect for private sector involvement. In that connection, we wonder if it is wise to continue price controls even though, as we understand it, they are frequently not applied. Our concern in that respect relates to the need to encourage production of import substitutes. Finally, it would appear that some adjustments in the tariffs of the public utility company--for water and electricity--could be justified in light of its losses, and we welcome the authorities' commitment to make such pricing adjustments, although we wonder whether it is necessary to postpone them until the planned reorganization is completed.

As for monetary policy, the maintenance of positive real interest rates has been helpful in encouraging the growth of financial savings, although the lack of a consumer price index to help monitor real interest rates, as well as to establish a real effective exchange rate, is a constraint on effective policy formulation. We urge the authorities to take advantage of Fund technical assistance in this area.

With respect to the central bank, we would also be interested in any comments that could be offered on the possibility of its reorganization and on how that might contribute to the improved utilization of credit in the economy.

The exchange rate appears to have been managed flexibly thus far, and we hope that the authorities will continue to monitor it closely. In particular, the medium-term balance of payments projections might suggest that an active exchange rate policy could prove useful in promoting exports of goods and services, including nontraditional items, as well as in encouraging economies on the import side. I would appreciate having the staff view of the appropriateness of exchange rate policies in these circumstances, in particular given the very narrow export base. We welcome the measures that the authorities have taken to liberalize the exchange control system and believe that the process should be continued.

We would also be interested in details on the incentives planned to attract private foreign investment. I note from Mr. Mawakani's statement that joint ventures will be encouraged with foreign partners. We commend the authorities for their move in that direction, and also more generally for the increased emphasis that they say they intend to place on private sector development. I would be interested in whether or not the World Bank credit facility, which is supposed to encourage private sector investment, will in any way be related to the encouragement also of foreign direct investment.

Finally, we understand that Cape Verde is a potential candidate for use of the structural adjustment facility. The country faces an unfavorable medium-term balance of payments outlook under current policies, and we therefore do urge the authorities to tackle some of the more pronounced structural weaknesses, including those currently restraining expansion of the productive sectors. Once again, World Bank assistance can continue to be helpful in Cape Verde, as could, of course, the Fund's support under the structural adjustment facility.

The staff representative from the African Department said that the diversion of fishing fleets from the waters off Cape Verde was apparently the result of a natural phenomenon: the selection of other repair yards was related to the availability of fish. Otherwise, the cost and quality of services at the local repair shipyard were competitive with those of neighboring countries. Although the ship repair yard was at present oversized, given the volume of business, the Second Development Plan contemplated improvements in the yard, including its reduction in size and the conversion of the company operating it, so as to provide for the servicing of smaller fishing vessels, rather than industrial fishing vessels. In addition, to resolve the company's financial problems, the authorities had bought out one of the company's partners, and were trying to reach a financial arrangement with the other one.

Available tools to assess movements in the real effective exchange rate were not ideal, the staff representative stated. Although the weighting of the index did seem adequate at present, there was not a reliable consumer price index. The staff had recommended all along during the mission, and throughout its report as well, that an effort be made to produce a reliable consumer price index. However, for the time being, use had to be made of whatever data were available; the results had not been flagged in the staff report, because they were not considered to be of first quality. The staff had not detected an appreciation of the real effective exchange rate since 1979; in other words, with 1979 as the base year, the real effective exchange rate in mid-1986 remained at 99.

With respect to the shift from specific to ad valorem rates of import taxes on oil products, tax collections would depend on the rates applied, the staff representative noted. Even though oil prices were depressed at present, taxes collected would be higher or lower, depending on whether the ad valorem rates were higher than the specific ones. In any event, the mission's advice was that in the long term taxes should reflect import values rather than specific rates.

As for the possibility of increasing taxes through tax reform, the tax base in Cape Verde was not very large, the staff representative explained, although the authorities hoped to increase it by diversifying and increasing exports, and thus income. In the near future, the tax system might come under greater strain, in the sense that to give much needed incentives to the private sector, tax breaks might have to be contemplated as a short-term measure. In the long run, those tax breaks would result in higher incomes.

At present, the public utility company was the only parastatal which charged prices that did not quite cover costs, the staff representative commented. Nonetheless, the rather precarious financial situation of the electricity company had improved because of the drop in oil prices. In addition, the Government was contemplating a selective increase in tariffs for large users. Furthermore, in the Second Development Plan, tourism was seen as one of the motors of growth, and to promote tourism, it was essential to have a good supply and distribution of electricity and water. The Government's efforts to cut down costs would also be addressed by improving services.

With respect to the reorganization of the Bank of Cape Verde, there had already been some procedural streamlining, and an effort to make the Bank's services more effective, the staff representative noted. A continued effort was also being made to improve the accounting systems of the central bank, the development bank, and the commercial bank sections. Meanwhile, the Bank of Cape Verde was making heavy use of a computer-based information system. However, the completion of overall reorganization might be delayed until early in 1987.

With respect to the appropriateness of the exchange rate policy, the authorities had managed to keep the real effective exchange rate at what appeared to be a competitive level, the staff representative noted. The staff had advised the authorities first, to compile a consumer price index; and then to adjust the weights as frequently as necessary, as they hinged on a pattern of trade that was bound to change in the years ahead. Meanwhile, a flexible exchange rate policy should be continued, with the aim of increasing exports and boosting tourism in the island, a sector that was very sensitive to costs and exchange rate movements.

The Government had already taken some steps to encourage private sector activities, the staff representative said, the most notable one being the maintenance of real interest rates. An investment code was being prepared, the objective being to publish it with the final version of the Second Development Plan. In addition to the reorganization of the Bank of Cape Verde, the commercial bank would have to be improved to provide services to new users, both national and foreign. The monetary authorities had authorized the introduction of foreign currency accounts for immigrants. In the future, those accounts might have to be extended to other investors.

As far as the medium-term sectoral policies were concerned, the staff representative from the African Department explained that an important feature of the Second Development Plan was a cost/benefit analysis in productive sectors, to encourage foreign investment. Tax breaks and credit facilities were also contemplated. The staff understood that the credit facility financed with World Bank funds was already in operation at the central bank, but whether it would be made available to foreign investors was a matter for verification.

Mr. Mawakani noted that the staff had fully covered the issues raised. The Cape Verdean authorities were very aware of the problems facing their economy and had taken a pragmatic approach in trying to solve them. As for the possible negotiation of a structural adjustment arrangement, they were having internal discussions about the best approach to take and would contact the staff later. He hoped that Directors would consider any request sympathetically.

The Acting Chairman then made the following summing up:

> Directors were generally in agreement with the thrust of the appraisal in the staff report for the 1986 Article IV consultation. They noted that notwithstanding the geographical and resource constraints as well as adverse weather conditions Cape Verde had been able to achieve relatively high rates of economic growth while reducing the rate of domestic inflation. Directors noted that implementation of the 1982-85 Development Plan had been successful and had not unduly burdened Cape Verde's debt servicing capacity. Thus, the internal and external financial position of Cape Verde had remained basically sound, and external reserves were at a reasonable level.
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> Directors noted Cape Verde's uncertain medium-term outlook, given the less favorable prospects for foreign financial assistance, the transfers from Cape Verdean workers living abroad, and the high dependence on imports. In the circumstances, Directors encouraged the authorities to pursue prudent demand-management policies, to keep the appropriateness of the exchange rate under review, to follow realistic domestic pricing policies, and to expedite institutional reform of the Bank of Cape Verde. Cautious fiscal policies would also be necessary, and would need to be aimed at restraining expenditure and improving revenues in order to improve overall domestic savings. The revenue improvement could be accomplished through tax reform and improved tax administration. With respect to expenditures, Directors stressed the need for improvements in the operation and the financial position of the utility company as well as other state enterprises. They also stressed the need for the authorities to exercise caution with respect to the

new development plan, particularly in the selection and rate of implementation of specific projects to strengthen the productive bases of the economy, and to ensure the full involvement of the World Bank. Directors welcomed the emphasis in the new development plan on the agricultural sector and on increased private sector involvement in the production process.

As to the financing of the plan, Directors expressed the hope that foreign support on concessional terms would be forthcoming, and they urged the authorities to refrain from borrowing on a scale and on terms that could lead to an unsustainable debt service burden. The projected increase in the debt service ratio in the medium term and the projected decline in the ratio of imports to reserves were noted with some concern by Directors.

It is expected that the next Article IV consultation with Cape Verde will be held on a 24-month cycle, with an intervening staff visit, after which a brief report would be circulated to Directors.

The Executive Board then took the following decision:

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with Cape Verde, in the light of the 1986 Article IV consultation with Cape Verde conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. As described in SM/86/253, Cape Verde maintains restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2. The Fund urges Cape Verde to simplify the exchange system and, in particular, to terminate the bilateral payments agreement with a Fund member as soon as possible.

Decision No. 8457-(86/188), adopted
November 26, 1986

4. PRINCIPLES OF BURDEN SHARING, FUND INCOME TARGET FOR FY 1987 AND 1988, RATE OF CHARGE, AND RATE OF REMUNERATION - MODIFICATION OF DECISION

The Executive Directors considered a staff paper on the rate of charge and rate of remuneration for the first half of FY 1987 (EBS/86/242, 11/3/86; and Cor. 1, 11/4/86).

The Acting Chairman recalled that Executive Directors had already approved, by lapse of time, the decision in Section V of EBS/86/242 providing for set-offs of the amounts to be repaid by the Fund to a member with respect to special charges on overdue obligations in the General Resources Account paid by the member for the first quarter of FY 1987 against charges due for the second quarter of FY 1987 (Decision No. 8442-(86/178), 11/6/86).

Mr. Ismael said that he had been glad to learn that the first adjustment of the rate of charge and the rate of remuneration on the understanding that the burden of deferred income arising from overdue obligations should be shared equally, could be implemented without undue difficulties. He noted that additional income of SDR 73.2 million was required in the first half of FY 1987 for that purpose leading, for the current adjustment period, to an increase of 39 basis points in the rate of charge to 6.39 percent and to a reduction of 45 basis points in the rate of remuneration to 5.44 percent.

For future adjustments, Mr. Ismael said that he agreed with the staff that difficulties could arise as a result of the current practice of adjusting the rate of charge and the rate of remuneration semiannually whereas actual payments of charges and remuneration were made quarterly. The staff had pointed out the possible anomalies of a divergence of the adjustment period and payment cycle. Members might not realize that payments of charges and of remuneration after the first and third quarters were only provisional in nature. In addition, budgetary and legal problems might well arise when members had either to refund any excess remuneration received or pay additional charges to the Fund. To overcome those potential problems, the staff had recommended that the adjustment and payment periods be made to coincide. He could support adjustment of charges and remuneration every three months rather than every six months as at present.

Mr. Lim said that he supported the staff suggestion that the payment of charges and remuneration, and adjustments to the rate of charge and remuneration to take account of deferred charges, be timed to coincide. As indicated by the staff, that would avoid possible difficulties associated with provisional payments at the end of the first and third quarter of each financial year, and the subsequent adjustment of those payments. Of the two methods of aligning the transactions suggested by the staff--to change the timing of payment of remuneration and charges from a quarterly to a six-monthly basis or to change the adjustment period in respect of deferred charges from a six-monthly to a quarterly basis--he preferred the latter solution. The main argument tilting the balance in favor of quarterly adjustments was that a lengthening of the period during which charges (and remuneration) accumulated from three to six months would increase the payment to be made at the settlement date. As mentioned in the staff paper, that was likely to make it harder for members in difficult financial circumstances to settle accrued charges on a timely basis.

Moreover, the staff had indicated that quarterly adjustments to take account of deferred charges were not likely to be more subject to substantial fluctuations in charges or remuneration than six-monthly adjustments, Mr. Lim observed. The operational difficulties that might have been posed by a quarterly adjustment period were therefore less important than might have been thought earlier. Based on the data included in the staff paper, neither alternative seemed to have significant implications for the Fund's income, the rate of charge, or the rate of remuneration.

If the Executive Board did not wish to opt for a quarterly adjustment period, Mr. Lim concluded, he could support the maintenance of the existing arrangements for the time being, in which case it would be desirable to record the provisional nature of the first and third quarter payments in a decision of the Board.

Mr. Parmena said that his chair was pleased to note that the new approach adopted in the current financial year for sharing the financial burden caused primarily by overdue obligations, but also by the increase in the Fund's income target, was working smoothly. Therefore, he supported the proposal to raise the rate of charge retroactively in the first half of FY 1987 from 6.00 percent to 6.39 percent to take into account half of the total amount of deferred charges for that period, namely, SDR 36.6 million, for the contribution of the borrowers. He also supported the downward adjustment of the rate of remuneration so as to take into account the creditors' share of the increase in the income target from 5.0 percent to 7.5 percent, as well as the creditors' share of the burden of deferred charges for the six-month period, namely, SDR 36.6 million. In that connection, he had been glad to note that the adjustment could be effected within the floor to the remuneration coefficient of 85 percent that had been agreed upon when the compromise burden sharing package was adopted.

As for the problem of periodicity between the current semiannual adjustments in the Fund's income position and the quarterly payment of charges by borrowers and of remuneration to creditors, Mr. Parmena said that he also concurred with the staff that it was desirable to synchronize the periods. The need to make provisional quarterly payments of charges and remuneration that would be subject to adjustment or even reversal would thereby be eliminated.

He had noted the staff's preference for quarterly payment and adjustment periods, Mr. Parmena went on, but considered that the case for six-month intervals was overwhelming, even if only on account of reducing the pressure of work on the staff itself. Furthermore, the Board was required to review the Fund's income position semiannually. The staff had argued that a lengthening of the period during which borrowers' accumulated charges might make it more difficult for them to settle their accrued charges. That argument reflected a misunderstanding of the pattern of foreign exchange earnings of most borrowing members, which relied on one or a few export crops that earned foreign exchange in one or two seasonal periods during the year. A repayment system that corresponded with the earning pattern of such borrowing countries would help them to improve their record with the Fund. A three-month repayment period would unnecessarily increase the number of countries having overdue obligations to the Fund from time to time, and possibly impair programs supported by their arrangements with the Fund. In addition, the staff had indicated that the semiannual payment option would be more favorable to the Fund's income position. Therefore, he strongly advocated a system in which the payment and adjustment periods coincided at six-monthly intervals.

Mr. Song said that adjustments to the rate of charge and to the rate of remuneration for the period May 1-October 31, 1986 of 6.39 percent and 5.44 percent, respectively, seemed to be in line with the requirements of Executive Board Decision No. 8348-(86/122) and they could thus be put into effect. He had noted also that no special charges on overdue repurchases would be levied during that six-month period, and that the special charges already paid by some members with respect to the period May-July 1986 would be reversed. In that connection, he had taken note of the decision in EBS/86/242, which had been in effect since November 6, 1986.

As for the other problems that arose from the difference between the adjustment period defined in Executive Board Decision No. 8348-(86/122) and the periods involved in the payment of charges and of remuneration, Mr. Song said that he would prefer to set the method of payment so as to coincide with the adjustment period. In other words, charges and remuneration should be paid semiannually rather than quarterly. The advantages of semiannual payments included the offsetting of some of the operational problems arising from use of the current method; the possibility of simplifying accounting procedures; and the avoidance of potentially substantial fluctuations in charges and remuneration payable from quarter to quarter, a problem that still needed to be taken into account. Hence, it would not necessarily be desirable to adopt the same quarterly period for the payment of charges and of remuneration and for the adjustment period.

Mr. Grosche commented that he saw no compelling need to change the burden sharing mechanism with the aim of making the payment and adjustment periods coincide. Quarterly adjustments to the rate of charge and the rate of remuneration might result in larger fluctuations, which had been one of the reasons for deciding on semiannual adjustments. His concern with a method of semiannual adjustments was that members would encounter greater difficulties in settling their accrued charges on a timely basis. Should the current method be retained, it would indeed be helpful to make a special, explicit reference to the provisional character of the payment of charges and of remuneration after the first and third quarters of a financial year, even though that was already reflected clearly in the decision on burden sharing. Clarification should be given to members when they were notified of the quarterly amounts due or to be received by them.

He had been struck by a certain inconsistency arising from the fact that on the one hand, a member country receiving remuneration in the first quarter of the financial year but that was not due to receive remuneration in the second quarter would not have to participate in the creditors' burden sharing, whereas on the other hand, the adjusted rate of remuneration was calculated as an average for both quarters, Mr. Grosche said. Based on the second quarter, the adjustment resulted in a remuneration coefficient of 82.2 percent, which was below the floor defined in Section V.2(f) of the decision on burden sharing. As that decision did not stipulate that the agreed floor for the remuneration coefficient was inapplicable during the first half of the current financial year, the fact that the remuneration coefficient had reached 82.2 percent should by no means be taken as a precedent. He could accept the outcome only under the special provisions for the first half of the current financial year described in Section V.2(e).

Mr. Nimatallah remarked that as indicated in the staff paper, the Fund was experiencing some operational difficulties associated with the implementation of the Executive Board's recent decision on burden sharing. Those difficulties arose from the fact that charges and remuneration were paid quarterly, whereas the adjustments associated with burden sharing were to be made on a semiannual basis. Clearly, it made sense to rectify the situation by synchronizing the period of payment of charges and remuneration with that of the adjustments. Of the two available options--namely, either a semiannual or a quarterly period for both payments and adjustments--the staff was in favor of the latter. He could go along with a quarterly basis as an experiment, but leaving open the possibility of reviewing experience with it at a later stage.

Mr. Hospedales stated that he had been pleased to note the adjustments being made to the rate of charge and remuneration for the first adjustment period under the burden sharing mechanism, together with the decision on the set-offs, which had already been put into effect.

It seemed reasonable, as operational procedures began to be developed for the application of the burden sharing decision, to simplify the Fund's financial operations, Mr. Hospedales considered. Therefore, it would be desirable to have the payment and adjustment periods coincide rather than to continue the current system under which charges and remuneration were paid quarterly while adjustments under the burden sharing mechanism were made semiannually. In order to avoid different financial effects on members, as elaborated by the staff, he would therefore support a decision to make adjustments to the rate of charge and the rate of remuneration under the burden sharing decision quarterly rather than semiannual; a decision to that effect should be submitted for lapse of time approval.

Mrs. Ploix said that she saw no operational difficulties in implementing the new mechanism that had been agreed upon for making periodic adjustments to the rates of charge and remuneration. However, it was necessary to show flexibility in the learning process, and consideration of a slight change in the adjustment period from six months to three months could improve the functioning of the whole scheme.

For her part, she supported the suggestion of the staff, Mrs. Ploix remarked. In addition to the reasons put forward by the staff, two other considerations in favor of quarterly payment and adjustment periods were first, that the current rate for the payment of charges and remuneration was consistent with the three-month period used for all SDR-related operations, such as the calculation of the SDR interest rate and transfers of SDRs. A shift from three to six months for the payment of charges and remunerations in order to coincide with a semiannual adjustment period would break that logical link. Second, good management called for a more frequent examination of any rapid changes in external conditions that had an economic or financial impact, an argument that also applied to the adjustment of the rate of charge and the rate of remuneration.

Mr. Sugita stated that he could accept the adjustments to the rate of charge and the rate of remuneration for the first half of FY 1987 that were explained in the staff paper since they were in accordance with the decision adopted by the Board in July 1986. As to the adjustment period, he agreed with the arguments of the staff in its paper and endorsed the proposal that the adjustment to the rate of charge and the rate of remuneration be made quarterly rather than semiannually.

Mr. Hubloue said that he agreed with the staff that there were good reasons for adopting the same period for the payment of charges and remuneration and for the adjustments required under the decision on burden sharing. He also agreed that in view of the differing financial effects on member countries, and of the possible impact on overdue obligations of extending the period for paying charges to six months, the adoption of a quarterly adjustment period would be preferable. Moreover, it appeared that the operational difficulties posed by a quarterly adjustment would probably prove to be less important than they had appeared at first sight.

Ms. Bush observed that owing to the anomalies that arose from having a semiannual adjustment period for the rate of remuneration and rate of charge, but a quarterly period for the payment of remuneration and charges, she supported the proposal of the staff to change the adjustment period to match the payment period. She would not support the opposite change to a six-monthly period for the payment of remuneration and charges. A lengthening of the periods for the latter payments would be unwise at the present time, particularly from the standpoint of borrowing countries, because it might aggravate the difficulties some of them were having in repaying the Fund.

The changeover to a quarterly adjustment period was also important to her authorities in particular, and for various reasons, Ms. Bush added. For instance, the potential need to repay remuneration to the Fund would create possible problems for the United States because it would raise some difficult budgetary and accounting issues. A change to a quarterly adjustment period would reduce, and in fact presumably eliminate, the possible need for a repayment of remuneration, and would thus obviate any potential difficulties for her authorities in that respect.

Mr. Alhaimus remarked that owing to the potential difficulties of adjusting the rate of remuneration and rate of charge semiannually, he agreed with the staff's suggestion to adopt a quarterly adjustment period.

Mr. Engert said that he agreed that, to the extent that the adjustment period with respect to the rate of charge and the rate of remuneration differed from the respective payment periods, it would be beneficial to make clear the preliminary nature of the charges collected and the remuneration paid by the Fund after the end of the first and third quarters of a financial year. However, it seemed reasonable to harmonize the adjustment and payment periods so that they were both on a quarterly and semiannual basis. Although his authorities had no great problem with the current method, and would certainly not want to move to a semiannual payment period, they were ready to give favorable consideration to a quarterly adjustment period.

He had the impression that the analysis in the staff paper of the impact of a harmonization of the respective payment and adjustment periods on the Fund's income position was perhaps not complete enough, Mr. Engert stated. However, he suspected that the difference in the impact would not be significant, although in his judgment, the possible impact on overdue financial obligations of extending the payment period to six months argued for harmonization on a quarterly basis.

Mr. Mawakani made the following statement:

> I take note of the explanation provided by the staff on the adjustment to the rates of charge and of remuneration for the first adjustment period, as provided under Executive Board Decision No. 8348-(86/122), adopted on July 25, 1986, and on some issues that are likely to arise during future adjustment periods. I agree that the period for payment of charges and of remuneration and that of the adjustment in their rates should be simplified by unifying the periods. Of the two possibilities that have been suggested--namely, to reduce the adjustment period from a semiannual to a quarterly basis, or to extend the period of payment of charges and remuneration to a semiannual basis--I favor the latter. Both the payment of charges and of remuneration and the adjustment to the rates could be made during the six-month period.
>
> The reasons for opting for the semiannual period are first, and most important, the positive effect that the half-yearly payment of charges and of remuneration will have on the Fund's income position. After all, underlying the whole issue of burden sharing and the decision connected with it, as well as the problem of overdue obligations and the policies and procedures for solving them, is the need to strengthen the Fund's financial position and character as a cooperative, intergovernmental monetary institution. As indicated by the staff on page 6 of EBS/86/242, because the balance subject to payment of remuneration is larger than the balance on which charges are levied, the Fund would gain interest on SDRs or

save the remuneration expense for one quarter if the semiannual period is adopted. On balance, and for the time being, I think that the gain to the Fund is an important factor that supports the conduct of such financial operations on a half-yearly basis. The cost to creditor members of interest forgone through extending the period of payment should be considered as further financial assistance from the large creditor members to the relatively small debtor members in financial need.

Second, the Board initially set the adjustment period at six months in order to eliminate the possibility of substantial fluctuations in the rates of charge and remuneration. However, the staff suggests on page 5 of its paper that the operational difficulties that were expected to arise have now become less important. I think that it is essential for the success of the Fund's financial operations that the possibility of any fluctuations be kept to a minimum or eliminated by maintaining these transactions on a half-yearly basis.

Third, lengthening the period during which charges are paid will help to provide the kind of flexibility that members in arrears to the Fund have been calling for, namely, more time to organize themselves to settle their charges. I do not think that lengthening the period will make it more difficult for members to settle on a timely basis. In this context, I would like to add that a longer period favors the inflow of export proceeds to low-income countries, thereby putting them in a better financial situation than a shorter period during which no export proceeds might be collected.

Mr. Wijnholds commented that while he was not all that certain that the current method needed to be changed, he would have no difficulty in supporting the staff proposal to make the repayment and adjustment periods coincide on a quarterly basis.

Mr. Kyriazidis stated that his chair believed that it might be helpful if the two periods coincided. He tended to prefer the quarterly adjustment period for both purposes.

Mr. Fugmann said that he agreed with the staff calculations of the adjusted rates of charge and remuneration. As for the adjustment and payment periods, he continued to attach importance to avoiding too large fluctuations in the rates of charge and remuneration. However, the arguments of the staff were convincing and he could support the adoption of a quarterly adjustment period. One important argument in that connection was the need to avoid making it more difficult for members in tight financial circumstances to settle accrued charges on a timely basis, as the staff itself had mentioned. Mr. Nimatallah's proposal to operate the new system on an experimental basis was advisable.

As far as special charges were concerned, Mr. Fugmann said that he continued to view it as an anomaly that such charges were not being levied at present because the adjusted rate of charge exceeded the SDR interest rate. He was fully aware that that outcome was a result of an earlier decision by the Board (Executive Board Decision No. 8165-(85/189) adopted December 30, 1985) but he hoped that the issue could be taken up when that decision was reviewed.

Mr. King said that his chair also favored moving to a quarterly period for adjusting the rates of charge and remuneration as a fair way of keeping a close track on developments. Moving to a longer period might entail a slight risk of higher arrears than would otherwise be the case.

Mr. Vasudevan said that he agreed with the proposed increase of 39 basis points in the basic rate of charge of 6 percent and with the reduction of the average rate of remuneration to 5.44 percent for the first six-month period of FY 1987. He had had no objection to the decision to set off payments received as special charges during the May-July period against the charges due from the concerned members for the second quarter, because the amounts and the number of members involved were small. However, he would appreciate being given more time to consider matters submitted to the Executive Board for its approval on a lapse of time basis.

The idea of having the adjustment period coincide with the period for the payment of charges and remuneration was desirable from the viewpoint of administrative convenience, Mr. Vasudevan considered. The staff had made a case in its paper for lessening operational difficulties by adjusting charges and remuneration rates every quarter. Yet it had not been shown clearly that the case for semiannual adjustment of charges and the rate of remuneration was weak or nonexistent. He did not believe that extending the period of the payment of charges by members would make it hard for members in difficult circumstances to settle accrued charges on a timely basis. On the contrary, it could help them to sort out their problems and make adjustments that would facilitate the payment of charges.

In conclusion, Mr. Vasudevan stated that for the reasons given in the first two full paragraphs on page 6 of EBS/86/242, and in order to reduce substantial fluctuations in charges and remuneration payable, the adjustment period of six months need not be changed and that it might be more useful to consider semiannual payment of charges and remuneration.

Mr. Ortiz remarked that he also had no objection to making the periods of payment and adjustment coincide. He was all for making it easier for members in financial difficulties to settle charges on a timely basis. In that respect, the staff and Executive Directors seemed to take a different view. Like those Directors speaking for constituencies that included a number of countries in difficult financial positions, he tended to favor a six-monthly basis.

Ms. Bush remarked that, like Mr. Fugmann, she too had found it anomalous that special charges were not applied when the rate of charge was above the SDR interest rate. She supported his suggestion that the matter be reviewed at some appropriate time.

Mr. Dreizzen stated that he was in favor of retaining the current system, namely, the six-month adjustment period.

The staff representative from the Treasurer's Department, in response to remarks by Mr. Grosche and others, agreed that there was no compelling need to change the system at the present time. Moreover, it was unlikely that very large amounts would be involved in any refunds. However, there was an issue of implementation; as Ms. Bush had mentioned, making the refund might pose problems for some members, and point to an apparent inconsistency between the decision of the Executive Board on burden sharing and national legislation. In addition, there was the possibility, to which Mr. Grosche had referred, that members might pay charges or receive remuneration in one quarter but not the next, which could make adjustments difficult.

A question had been raised about the effect of a change to quarterly adjustments on reaching the floor in the burden sharing decision, the staff representative noted. Those limits would not have been reached had quarterly adjustment periods been in effect since the introduction of income deferrals. That did not, of course, give any assurance as to the future; the impact then depended on the amount of deferrals each quarter, which could not be predicted with any degree of accuracy.

The anomaly of the relationship between special charges and the rate of charge, to which Mr. Fugmann and Ms. Bush had referred, had been discussed at some length when the system of special charges was introduced, the staff representative recalled (Executive Board Decision No. 8165-(85/189), adopted December 30, 1985). The rate of charge applicable at the present time was the adjusted rate of charge. It might be worthwhile to reconsider the impact of burden sharing on the determination of special charges when they were reviewed in the near future.

It was difficult to answer in the abstract the question whether members would find it easier to make timely payments of charges under a quarterly or a semiannual system, the staff representative considered. Essentially, the argument underlying the position advanced in the staff paper was that in general it might be easier for members to make timely settlement of smaller payments than of larger ones. While there was some validity to the point raised by Mr. Mawakani and other Directors on the advantage of the coincidence of seasonal receipts with payments obligations, it was not certain whether the receipt of export proceeds would in fact always coincide with the semiannual adjustment of charges.

The short notice given of the lapse of time decision on the set-off, to which Mr. Vasudevan had referred, had been related to some extent to the availability of data, and to the shortness of time between the end of the six-month period to which the adjustment referred and the actual collection of the charges against which the amounts paid were to be offset, the staff representative from the Treasurer's Department explained. The proposal to offset had been intended to benefit countries that had already paid charges; it would have been undesirable to collect a larger amount. The amounts involved were small, but unfortunately they had not been covered by the Board's earlier decision on a set-off, which had had similar effects. Certainly, unless it was inevitable for operational reasons, the staff would avoid lapse of time decisions at very short notice.

The staff representative from the Legal Department stated that it was clear from Section III of the decision on burden sharing, which referred to adjustment periods of six months, that any payments of remuneration and charges with respect to the first quarter in any of the adjustment periods were provisional. Thus, there was no need to change the decision on burden sharing to confirm the provisional nature of those payments, although it would be possible to do so in the notifications to debtor countries of charges and to creditor countries of remuneration. However, if the Board decided to change the existing system of adjustment periods, the payments would no longer be provisional but final, and the issue would not arise.

The anomaly in the first adjustment period of FY 1987, to which Mr. Grosche had referred, had been built in from the outset in the decision on burden sharing, the staff representative explained. Section V, paragraph 2(e) of Executive Board Decision No. 8348-(86/122) explicitly stated that remuneration payments for the first quarter of that particular adjustment period would not be affected by the provisions on burden sharing; there would be no such exception in the future even if the existing system of semiannual adjustments was continued. The issue of the ability of a country to reimburse remuneration to the Fund referred to a different question, namely, the possibility for a country to perform an obligation to clear the Fund's accounts with respect to the remuneration received and to be refunded by a member country. That issue could no longer arise if the adjustment system was changed to quarterly adjustment periods.

As for the anomaly relating to the remuneration coefficient for the adjustment period from May 1 to October 31, to which Mr. Grosche had referred, the staff representative continued, the rationale of the decision on burden sharing required that average remuneration actually received during an adjustment period did not fall below 85 percent. The difficulty existed only with respect to that first adjustment period since no remuneration payment for the first quarter could be affected by the decision on burden sharing, although at the same time, creditor countries had agreed to bear the cost of the deferred income for a six-month period. Therefore, the adjustment amount to be borne by the creditors had to be for the full six-month period; that amount was deducted from the payment for the second quarter; and the average remuneration coefficient was to be calculated on the basis of the full adjustment period for which creditors bore that part of deferred income.

The decision on special charges referred to the rate of charge, the staff representative from the Legal Department noted, and as the staff representative from the Treasurer's Department had pointed out, the relevant rate was the adjusted rate. At the time when the decision on special charges had been adopted, the rate of charge included the effects of deferred income. Since then, the system of burden sharing and adjustment at the rate of charge had been introduced, and the comparable rate was currently the adjusted rate, which took into account the effects of deferred income. The problem referred to arose because the reference point, the SDR interest rate, had declined so that there was no negative difference between the SDR interest rate and the rate of charge.

Mr. Grosche said that he wished to join other Directors in their strong support for a synchronization of the periods. He was in favor of a quarterly adjustment.

The Acting Chairman took note of the support for the staff proposal to put the adjustment of charges and remuneration on a quarterly basis. A formal proposed decision would be circulated for approval on a lapse of time basis (see EBS/86/242, Sup. 1, 12/10/86; EBM/86/202, 12/17/86).

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/86/187 (11/24/86) and EBM/86/188 (11/26/86).

5. ACCESS TO FUND ARCHIVES

The Executive Board approves the proposal to allow access to the Fund's archives by Mr. G. Schleiminger and Mr. J. Kaplan, who are preparing the history of the European Payments Union on behalf of the Bank for International Settlements, as set forth in EBD/86/307 (11/20/86).

Adopted November 24, 1986

6. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/86/291 (11/20/86).

Adopted November 24, 1986

7. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 86/46 and 86/47 are approved. (EBD/86/304, 11/19/86)

Adopted November 25, 1986

8. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/86/295 (11/24/86) is approved.

APPROVED: July 7, 1987

LEO VAN HOUTVEN
Secretary