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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/174

10:00 a.m., December 4, 1985

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	K. Yao, Temporary
	J. K. Orleans-Lindsay, Temporary
C. H. Dallara	M. K. Bush
J. de Groote	
	V. Rousset, Temporary
	M. B. Chatah, Temporary
	M. Sugita
	B. Goos
J. E. Ismael	
	J. Hospedales, Temporary
	M. Foot
	O. Isleifsson, Temporary
	L. Leonard
E. I. M. Mtei	
	J. J. Dreizzen, Temporary
	E. M. Taha, Temporary
	J. E. Rodríguez, Temporary
J. J. Polak	
	A. V. Romuáldez
G. Salehkhou	O. Kabbaj
A. K. Sengupta	V. Govindarajan, Temporary
	N. Coumbis
Huang F.	Jiang H.

L. Van Houtven, Secretary
L. Collier, Assistant

Also Present

IBRD: David Reese, Western Africa Regional Office. African Department: A. D. Ouattara, Director; R. J. Bhatia, Deputy Director; C. Enweze, G. Kalinga, J. D. Simpson. Exchange and Trade Relations Department: E. H. Brau, S. Kanesa-Thasan, T. Sasaki. Legal Department: J. M. Ogoola, S. A. Silard. Research Department: W. C. Hood, Economic Counsellor and Director; D. J. Andrews, N. M. Kaibni, T. K. Morrison, M. A. Wattleworth. Treasurer's Department: M. F. Melhem. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: P. E. Archibong, S. M. Hassan, G. W. K. Pickering. Assistants to Executive Directors: A. Bertuch-Samuels, Bo T., K. Celebican, J. de la Herrán, L. Hubloue, S. King, H. Kobayashi, A. Mustafa, W. K. Parmena, M. Rasyid, M. Sarenac, H. van der Burg, Yang W.

1. EXECUTIVE DIRECTOR

The Chairman welcomed to the Executive Board Mr. Huang Fanzchang, Executive Director for China.

2. REPORT BY DEPUTY MANAGING DIRECTOR

The Deputy Managing Director reported briefly on the Twenty-Fourth High-Level Meeting of the Development Assistance Committee held in Paris on December 2, 1985, at which he had commented on collaboration between aid agencies and the Fund (see text of his comments circulated on December 4, 1985).

3. KENYA - PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY - FLUCTUATIONS IN COST OF CEREAL IMPORTS

The Executive Directors considered the staff paper on a request from Kenya for a purchase equivalent to SDR 37.9 million under the decision on compensatory financing of fluctuations in the cost of cereal imports (EBS/85/250, 11/8/85; and Sup. 1, 12/3/85).

Mr. Mtei made the following statement:

Over the last four years the Kenyan authorities have implemented a strong adjustment program to arrest and reverse the deterioration in the country's balance of payments. Despite a worsening in Kenya's terms of trade, the prudent financial policies coupled with flexible price and exchange policies adopted by the authorities have been met with significant success, thereby reducing the current account deficit from over 11 percent of GDP in 1981 to 2.3 percent in 1983. The overall balance of payments was also sharply turned around over the same period from a deficit of SDR 198 million to a surplus of SDR 89 million, and gross reserves reached an equivalent of 3 1/2 months of imports by the end of 1983.

In 1984 the improvement in Kenya's balance of payments was temporarily held back by the adverse consequences of a severe drought. To compensate for the decline in domestic food production and meet the resulting food shortages, food imports were increased fivefold in 1984, and a further 45 percent increase is expected in 1985. As a result, the current account deficit widened to 3 percent of GDP in 1984 despite a 17 percent growth in exports, and overall balance of payments surplus was reduced by 50 percent. A further deterioration in the balance of payments is projected in 1985 with the current account deficit reaching 4.5 percent of GDP and the overall balance shifting from a surplus of SDR 45 million in 1984 to a deficit of SDR 100 million in 1985. Gross reserves are also projected to decline to an equivalent of 2.8 months of imports by the end of 1985.

The Kenyan authorities, in their continued adjustment efforts over the last four years have been working in close consultation with the Fund. In fact their stabilization program has been supported by a series of stand-by arrangements. On October 21, 1985 the Executive Board had a chance to review Kenya's performance under the current stand-by arrangement which entered into effect on February 8, 1985. As had been noted by Directors, Kenya has so far met all the performance criteria set under the arrangement. The authorities have put in place a variety of policy measures as recommended by the staff to maintain the medium-term viability of the balance of payments. They intend to continue in their close cooperation with the Fund and are grateful for the technical and financial support they have been receiving.

For the year under consideration, Kenya experienced an excess of SDR 63.1 million in the cost of commercial cereal imports. This amount could have been greater, had it not been for the generous support of the international community which provided substantial quantities of food in the form of aid. The increase in the cost of cereal imports was partially offset by an increase of SDR 25.2 million in Kenya's exports reflecting mainly favorable international tea prices. As I have already mentioned, this increase in cost of cereal imports is the result of the severe drought, a factor which was beyond the authorities' control. However, with the return of good weather in 1985, the excess in cost of food imports is expected to be only temporary and would be reversed as domestic food production increases. The staff projection shows that maize production in 1985/86 would reach 2.2 million tons, an amount which would cover domestic consumption and allow for some stock rebuilding.

With a balance of payments need as evidenced by the widening current account and overall balance of payments deficits, a temporary and reversible excess in cost of cereal imports caused by factors beyond the control of the authorities and the close cooperation of the authorities with the Fund in finding solutions to Kenya's balance of payments problems as demonstrated by the current stand-by arrangement, it is clear that Kenya's request for a purchase of SDR 37.9 million under the decision on compensatory financing of fluctuations in the cost of cereal imports would meet all the requirements set forth in that decision, and I would urge my colleagues to give their support to the proposed decision.

My Kenyan authorities are grateful to the staff for their valuable assistance and for the cooperative and candid manner in which they have handled Kenya's request.

Mr. Ismael commented that the substantial increase in cereal imports in the year ended June 1985, required to compensate for the drop in domestic production as a result of the 1984 drought, provided a legitimate reason for Kenya's request for a purchase under the compensatory financing facility. There was no doubt that the excess in import costs was clearly temporary in nature and beyond the control of the authorities.

Under Kenya's present circumstances, other requirements for such a purchase were also satisfied, Mr. Ismael continued. The increase in the current account deficit from 2.3 percent in 1983 to 3.0 percent in 1984 and to an estimated 4.5 percent in 1985 indicated that Kenya's balance of payments need was indisputable. Kenya had also met the test of cooperation through its successful implementation of Fund-supported adjustment programs in the past few years. In fact, only a few weeks previously, the Board had commended Kenya for its performance in economic adjustment, despite some unfavorable exogenous factors. In addition, Kenya had met all performance criteria under the current stand-by arrangement. As Kenya met the criteria for a purchase under the compensatory financing facility, he supported the proposed decision.

On the amount of the purchase, the staff had arrived at a figure about SDR 8 million higher than that mentioned in the staff report for the 1985 Article IV consultation (EBS/85/217, 9/13/85), Mr. Ismael observed. Although the staff's calculations seemed fair and reasonable, he had two observations. First, the staff's projection of export earnings in the two postshortfall years appeared to be less optimistic than envisaged in the medium-term balance of payments projection presented in EBS/85/217. Total export earnings of SDR 984 million projected for 1987, for example, were about 15 percent below the corresponding figure in the medium-term projections. Even allowing for the fact that the figure in EBS/85/250 referred to the year ending June 1987 while the figure in EBS/85/217 referred to January-December 1987, the new projection clearly indicated a less favorable outlook for the balance of payments. He wondered what implications that forecast might have on future economic development and adjustment policies in Kenya. In addition, the less optimistic projection had resulted in a higher offset against the compensable amount; he would appreciate further information from the staff on that matter. Second, on a technical point, the staff had used an arithmetic average in calculating the amount of excess in cereal imports and a geometric average in calculating export shortfalls. He asked the staff to explain the rationale for that difference--in particular, whether other options were available as the alternative methods clearly produced different results for the amount of excess or shortfall.

He hoped that the compensatory financing purchase would provide further encouragement for the authorities to persevere with their adjustment efforts, Mr. Ismael concluded. At the same time, they should stand ready to strengthen the adjustment policies and to take the contingency measures necessary to cope with any future unfavorable developments.

Mr. Taha stated that Kenya satisfied all of the relevant conditions for the requested drawing under the compensatory financing facility. The balance of payments need was well established. The overall balance of payments deficit for 1985 was estimated at SDR 100 million, compared with a surplus of SDR 45 million in 1984, and gross reserves had fallen to a level equivalent to less than three months' imports. The authorities were taking appropriate measures to strengthen the balance of payments, and a small surplus was projected for 1986.

The excess in cereal import costs for which Kenya was requesting the purchase was mainly the result of the recent drought, Mr. Taha observed, a factor that was clearly beyond the authorities' control. Fortunately, that situation was also temporary, as the weather had already improved, and food imports were projected to decline substantially in 1986. As the calculations for the requested drawing were based on actual data for the shortfall year, there was no risk of overcompensation.

Kenya also satisfied the test of cooperation with the Fund for a drawing that raised outstanding purchases under the facility to above 50 percent of quota, Mr. Taha noted. The authorities were following a prudent financial policy and were taking steps to expand Kenya's export capacity and to improve the competitiveness of its exports. The member had an operative stand-by arrangement with the Fund, and the program was on track. He therefore supported Kenya's request for a compensatory financing purchase.

Mr. Orleans-Lindsay said that he supported the proposed decision because all the criteria for a drawing under the compensatory financing facility had been met. Kenya clearly had a balance of payments need, as indicated in Table 1 of the staff paper, which showed that the current account deficit had widened in 1984 and 1985 and that reserves had fallen to relatively low levels because of the need to finance higher food imports, especially maize and wheat. That situation had been caused by the adverse effects of a severe drought, a factor that was beyond the control of the authorities and that had also proved to be temporary because prevailing improved weather conditions were expected to help domestic food production in 1985/86, thereby reducing the need for food imports.

Kenya's proposed purchase met the test of cooperation because there was ample evidence that Kenya had been cooperating with the Fund since 1980/81, when its major stabilization effort had begun, Mr. Orleans-Lindsay observed. The recently concluded review under the present stand-by arrangement (EBM/85/154, 10/21/85) had indicated that progress in the implementation of the program was commendable. There was no doubt that the authorities were determined to continue to cooperate with the Fund in finding solutions to Kenya's balance of payments problems.

Mr. de Groote said that he welcomed Kenya's request for a purchase under the decision on compensatory financing of fluctuations in the cost of cereal imports, and he fully supported the proposed decision. It was clear that Kenya's request met all the requirements of the decision establishing that exceptional financing mechanism. First, the effect on the balance of payments of the adverse weather conditions afflicting Kenya's agricultural sector in 1984 had been amply demonstrated in the staff paper and Mr. Mtei's statement. Second, Kenya's commitment to cooperation with the Fund in an effort to solve its balance of payments problems needed no further proof; in a previous Board discussion (EBM/85/154), Executive Directors had been unanimous in commending the Kenyan authorities on their successful implementation of Fund-supported adjustment programs since the beginning of the decade.

The amount of the request was based on an estimated excess in the cost of cereal imports, amounting to SDR 63.1 million, and an estimated export excess of SDR 25.2 million, Mr. de Groote noted. While those figures had been calculated according to the formula established in the decision--which he fully endorsed--it was worth noting that the calculated excess of cereal imports probably underestimated the real excess sustained by Kenya for the year ended June 1985. The figure of SDR 63.1 million had been reached by subtracting from Kenya's cereal imports for the excess year the arithmetical average of its actual and projected imports for a five-year period centered on those 12 months. As the excessive imports of the shortfall year had to be fully included in the calculation of that average, the medium-term trend of imports thus obtained would be somewhat inflated, and the estimated excess of import costs would be correspondingly deflated. According to the present formula, for which there unfortunately seemed to be no valid alternative, the figures tended to underestimate Kenya's real excess imports.

The Kenyan experience showed that the implementation of appropriate adjustment policies could considerably strengthen a country's ability to cope with exceptional circumstances that lay beyond its control, Mr. de Groote observed. The adjustment policies of the Kenyan authorities had been adequate to ensure that the country's external situation and domestic food production system were not fundamentally harmed by the weather conditions of 1984. The disruption, like the conditions that caused it, was therefore transient.

The Kenyan experience showed that a country's room for maneuver, in terms of the external flexibility needed for successful implementation of structural adjustment policies, could be seriously damaged by exceptional import requirements, Mr. de Groote said. That fact was strikingly illustrated by the decline in Kenya's official reserves from 3.5 months of imports in 1983 to an estimated 2.6 months in 1986. The quick disbursement of the purchase approved at the present meeting would make a meaningful, if modest, contribution to the reversal of that situation and would assist Kenya in making further progress in its growth-oriented and structural adjustment strategy. The compensatory financing of cereal import fluctuations was an integral part of the Fund's general adjustment policies and was therefore justified, not solely for humanitarian reasons as had sometimes been argued.

Mr. Foot noted that the World Bank had identified some structural impediments to grain production in Kenya, in particular those associated with the authorities' marketing policies. As the need for higher cereal imports was the main factor behind the present request, he wondered whether some discussion of that subject in the staff paper might not have been appropriate.

The possibility of a compensatory financing request had been raised some time previously, Mr. Foot recalled, and he would be interested to learn from the staff or Mr. Mtei what factors had determined the present timing. In conclusion, he supported the authorities' request.

Mr. Goos said that he had no difficulties with the requested drawing, as all requirements under the compensatory financing decision had been met; he therefore supported the proposed decision.

Mr. Dallara said that he supported the present request. He would be interested in the staff's latest evaluation of progress under the stand-by arrangement since the relatively recent Board review.

While the request was clearly justified on its own merits, the purchase would bring Kenya's total use of Fund credit to over 300 percent of quota, a rather high level, Mr. Dallara commented. The balance of payments table in EBS/85/250 and the more detailed medium-term information provided in connection with the recent review of Kenya's program indicated the already high outstanding obligations to the Fund coming due in 1986 and beyond. In spite of an external debt profile that was well managed in a number of respects, Kenya had an external debt position that bore close scrutiny and cautious management. Additional Fund exposure must therefore not be taken lightly, and in that connection, he wondered what implications could arise for Kenya's continued use of Fund resources beyond the current program. The guidelines on access as stated in the Chairman's summing up of the Board discussion of December 2, 1983 (EBM/83/167) had made it clear that outstanding use of Fund credit was among the many factors to be taken into account in reaching a judgment regarding the appropriate access for a particular member.

He merely wished to underscore that Kenya was a country with significant outstanding use of Fund credit, Mr. Dallara observed. In assisting Kenya in dealing with its very clear temporary balance of payments problems, he hoped the Fund was not sowing the seeds of future difficulties. He urged the Kenyan authorities to be mindful of the need to minimize, to the extent possible, their external debt, including that debt to the Fund.

Mr. Huang remarked that Kenya's economy had been hard hit by a severe drought in 1984, which had led to a sharp reduction in food production and a substantial increase in cereal imports. Consequently, the balance of payments position had deteriorated significantly. Kenya's excess in cereal imports was, however, of a short-term nature and attributable to circumstances beyond the Kenyan authorities' control. The achievements of Kenya's current economic stabilization efforts, which were financially supported by a stand-by arrangement with the Fund, clearly demonstrated that the Kenyan authorities would be able to overcome their temporary balance of payments difficulties and regain the momentum for sustained economic growth. Therefore, Kenya's request for the use of Fund resources under the compensatory financing facility was justifiable, and he supported the proposed decision.

Mr. Rodríguez stated that he also supported the proposed decision. When the current stand-by arrangement with Kenya was approved in February 1985 (Decision No. 7904-(85/21), adopted February 8, 1985), the Executive Board had been concerned about the fragile situation of the Kenyan economy, despite the noteworthy progress achieved. Moreover, although the authorities had met all the performance criteria, as discussed during the review in October 1985 the current financial situation remained weak. Without reinforcement of the measures already implemented, the gains obtained could be lost. In that respect, the timing of the request for a compensatory financing drawing by the authorities to cover a shortfall in the balance of payments was appropriate. It demonstrated the realistic and efficient manner in which they had pursued the review of economic trends and had adopted policy adjustments, which would promote the viability of the current stand-by arrangement.

He commended the authorities for their commitment and courageous efforts during the period of economic stabilization supported by the use of Fund resources, Mr. Rodríguez said. Since the early 1980s, the authorities had collaborated closely with the Fund, which had played a major part in the achievement of the significant adjustment of the internal and external sectors of the economy.

The shortfall had clearly arisen from factors beyond the authorities' control, changing the favorable prospects for the economy in the medium term, Mr. Rodríguez commented. The proposed purchase was justified by Kenya's balance of payments need, and the member had met all the criteria for a compensatory financing drawing.

Mr. Salehkhou commented that Kenya's request for a purchase under the decision on compensatory financing of fluctuations in the cost of cereal imports was justified and met all the requirements. The balance of payments need had been clearly established; the shortfall appeared temporary and was beyond the authorities' control in view of the drought. As demonstrated by its having met all the performance criteria under the current stand-by arrangement, Kenya had been cooperating with the Fund and would continue to do so to correct its economic situation. The authorities' request was justified, and he warmly supported the decision.

Mr. Pickering said that he fully supported the proposed decision. Kenya had met all the necessary performance criteria. The use of Fund resources under the compensatory financing facility would allow Kenya to reinforce the strong policy measures that it was currently undertaking.

Mr. Govindarajan asked the staff for further information on the calculations made for the current request. He supported the proposed decision as Kenya had satisfied all the necessary conditions.

The staff representative from the African Department explained that the World Bank's structural adjustment loan disbursed in Kenya had taken on a sectoral loan approach in which agriculture continued to be the principal sector. The Bank was expected to concentrate a considerable amount of resources on agriculture in the near future, and doubtless would be involved in grain marketing. The National Cereals and Produce Board (NCPB) had played a positive role before the drought, having had the foresight to accumulate enough grain to tackle the first months of grain unavailability. Later, the good producer price policy pursued by the Government and the return of favorable weather had prompted bumper crops in 1985/86. Although that development could have posed a threat to the marketing process in Kenya, the staff did not expect the NCPB to participate in purchasing or other aspects of grain marketing as in the past.

Active consultations were taking place between the staff and the Kenyan authorities on the use of Fund resources, the staff representative said. Since the recent review of the current stand-by arrangement, the staff had received indications that the performance criteria for September had been met. The rate of inflation, which had risen to 16 percent earlier in 1985, had declined to about 13 percent by July and to 12 percent by September. The stand-by arrangement therefore was very much on track.

With regard to Kenya's net use of Fund resources, the staff representative from the African Department explained that the issue had been taken into account in the staff's long-term projections for the balance of payments in the staff report for the 1985 Article IV consultations and review under the stand-by arrangement. It seemed unavoidable that Kenya would face a net repayment to the Fund.

The staff representative from the Research Department noted that the proposed purchase was higher than the amount referred to in the paper (EBS/85/217) discussed by the Board in October and that the request for a drawing had been delayed even though the consequences of the drought had been known for some time. It had been expected that the Kenyan authorities would provide data early in 1985 to support a request for a drawing under the decision on compensatory financing of fluctuations in the cost of cereal imports. Unfortunately, the authorities had been unable to produce the required data in time for the request to be presented to the Board when it discussed the review under the stand-by arrangement. That delay also meant that the paper under consideration contained actual export and cereal import data through June 1985, whereas the previous review paper had been based on actual data only through the first two months of the year. In the event, exports had been lower than previously expected in the first six months of 1985--the second half of the shortfall year--and as a result the proposed purchase was larger than previously estimated. That factor, together with the different periods on which projections were prepared, and additional information available in the preparation of the paper under consideration, including a 3 percent change in the exchange rate assumption, explained the apparent discrepancy between the export projections used in the current paper and those for calendar years given earlier in EBS/85/217.

The arithmetic average had been used to calculate export shortfalls until August 1979, when the Board had decided to shift the calculation to a geometric average, the staff representative explained. The geometric average had been introduced following studies that indicated that an arithmetic average calculation tended to exaggerate shortfalls, given that exports tended to grow at a constant rate rather than by a constant amount. For example, if a country's exports were to grow by 10 percent a year, the country would show an export shortfall year after year if the calculations were based on the arithmetic average; it would show a zero shortfall if the calculations were based on the geometric average.

The staff had undertaken an analysis of the appropriate formula to use in the calculation of the excess in cereal import costs for the Board's consideration prior to adoption of the cereal decision, the staff representative continued. The calculations had clearly indicated that the arithmetic average preserved a better balance between shortfalls and excesses since cereal imports tended to grow by a constant amount rather than at a constant rate with wide annual fluctuations around that trend; a geometric average calculation would break down when, as in the present case, imports of cereals were zero in any one of the five years used to calculate the trend. Consequently, the geometric average applied to export shortfalls was not selected for the cereal facility; member countries could not opt for a geometric or arithmetic calculation.

Mr. Mtei remarked that Kenya's balance of payments need was clear and that the situation had been brought about by factors beyond the authorities' control. The shortfall was temporary because the drought had given way to good weather that had already produced a bumper crop. The test of cooperation had been met by Kenya's stand-by arrangement with the Fund.

The Executive Board then took the following decision:

1. The Fund has received a request from the Government of Kenya for a purchase of SDR 37.9 million under the Decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports (Executive Board Decision No. 6860-(81/81), adopted May 13, 1981).

2. The Fund notes the representation of Kenya and approves the purchase in accordance with the request.

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

Decision No. 8145-(85/174), adopted
December 4, 1985

4. SIERRA LEONE - 1985 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1985 Article IV consultation with Sierra Leone (SM/85/307, 11/14/85; and Cor. 1, 11/26/85). They also had before them a report on recent economic developments in Sierra Leone (SM/85/314, 11/25/85).

Mr. Mtei made the following statement:

My authorities in Sierra Leone are in broad agreement with the staff analysis and appraisal contained in the report, although they feel that not enough emphasis was given to the policy measures taken so far to reverse the deteriorating economic trends. In particular, the substantial achievement recorded in the agricultural sector without which the economy would have further worsened, was probably not adequately noted. The significant decline in the GDP growth rate from 8.0 percent in 1983/84 to 0.8 percent in 1984/85 is largely traceable to acute shortage of foreign exchange which resulted in further compression of imports. The resultant effect of this development is a serious decline in output in the manufacturing sector, caused by inadequate supplies of spare parts, equipment, and raw materials; while insuffficent supplies of consumer goods have aided inflationary pressures. Besides, this perennial problem of shortage of foreign exchange has rendered economic management intractable, placing Sierra Leone in a very uncomfortable position of accumulating a high level of external arrears, including those due to the Fund, and defaulting on timely payments of debt obligations.

Aware of these problems and in an effort to address them, the authorities resorted to a number of policy measures some of which have begun to bear fruit. It is noted that the direction of policy shows that the Government is serious in tackling the problems, and the policy measures already in place would have produced greater beneficial impact if the expected cooperation from the international community had materialized. For instance, from page 37 of SM/85/314 we note that after the agreement with the Paris Club in February 1984, only four countries have agreed to the rescheduling of an estimated amount of $16 million--an amount which in itself is insignificant compared to Sierra Leone's public debt of approximately $349 million at end-June 1985.

The authorities firmly believe that as the mainstay of the economy, improvement in the performance of the agricultural sector would establish the foundation for sustained economic growth through strengthening the productive base of the economy and ensuring self-sufficiency in food production. In this connection, the pricing policy of the Government should be commended as having produced a salutary effect on some major primary export commodities--notably, cocoa and coffee. Increases in the producer prices of these commodities introduced during 1984/85 have largely been responsible for their increased output. The Marketing Board's purchases of coffee and cocoa amounted to 10,000 tons and 10,900 tons, respectively, in 1984/85 compared with their respective figures of 2,100 tons and 9,000 tons in 1983/84. In the case of a few other agricultural commodities, the output of which indicated a less favorable price effect, the staff reported that that was attributable to the fact that farmers devoted more attention to the production of cocoa and coffee. Given the declared strong commitment of the Sierra Leonean authorities to further strengthen the producer prices and intensify border surveillance against smuggling, there are bright prospects for increased purchases of export crops by the Sierra Leone Produce Marketing Board (SLPMB) in 1985/86.

It is to be noted that high priority is being given to improvement in the agricultural delivery system and in the streamlining of the activities of the existing Integrated Agricultural Development Projects (IADPs) and the Agricultural Sector Support Project (ASSP) introduced in June 1985, with the assistance of the World Bank. It is envisaged that by end-December 1985, this project will lead to a 50 percent reduction in the surplus labor force in the Ministry of Agriculture.

In the mining sector--a sector which provided about 60 percent of Sierra Leone's export earnings in fiscal year 1984/85--the authorities are taking firm measures to revitalize some of the ailing mines and make them more efficient. In the recent institutional changes introduced in the diamond mining industry, a Government-owned Precious Metals Marketing Company (PMMC) has surrendered its 49.0 percent government share in the National Diamond Mining Company (DIMINCO) to Atlanteen International which is 60 percent-owned by PMMC and 40 percent by Bin Rafaah. This development could in part be viewed as a process in the privatization of the mining industry--a process which augurs well for increased efficiency in this sector. It is worth noting that government policy of allowing exporters of gold and diamonds to retain their export earnings for use as they consider fit has led to a significant increase in the recorded sales of these minerals. From 92,000 carats in 1983/84, purchases of alluvial diamond rose to 154,000 carats in 1984/85, while recorded purchases of gold rose from 7,300 ounces to 19,200 ounces.

Given appropriate arrangement for the surrender of export proceeds, it would appear that the authorities are pursuing the right policy in the mining sector.

In recognition of the need to reduce the budget deficit, among other things, the stance of fiscal policy has been restrictive. The public services are being streamlined and the ministries reduced from thirty to twenty. Steps are being taken to phase out subsidies as a matter of policy. Subsidies on rice are to be eliminated by end-December 1985 and those on fertilizers by 1987. The retail prices of petroleum products are being revised with a view to eliminating the subsidy. In addition, the Government is reviewing the structure and operations of the public corporations with the object of making them more efficient and less dependent on subventions or budgetary subsidies. Consequently, total expenditure which was about 20 percent of GDP in 1984/85 is expected to decline to about 13.8 percent in 1985/86.

On the revenue side, a number of measures are being taken by the authorities to improve tax collection. The Income Tax and Customs and Excise Departments are intensifying revenue enforcement measures including, among others, the strict enforcement of anti-smuggling measures. Higher taxes have been imposed both on personal income and on certain consumer items, largely of a luxury nature, as well as higher rates of export duty on diamond and gold. As a result, revenue and grants will rise to 9.0 percent of GDP in 1985/86 compared with 7.6 percent in the preceding year. It is expected that the impact of all these measures will be reflected in an overall reduced fiscal deficit to about 3.0 percent of GDP in 1985/86 compared with 12.0 percent in 1984/85.

In the monetary area, policy direction is designed to reduce balance of payments pressures and contain inflation. The authorities are taking measures to reduce bank financing of the budget deficit; in addition, efforts are being made to channel credit to the directly productive sector of the economy. The staff report confirms that "credit to the private sector...rose considerably in 1984/85." In an effort to ensure efficient mobilization and allocation of resources, ceilings on lending rates charged by commercial banks remain eliminated, thus providing the commercial banks the freedom to apply much higher rates in their operations, while observing the minimum lending and savings rates set by the monetary authorities. The resource mobilization process is being intensified in the rural areas through the establishment and operation of rural credit banks throughout the country. The authorities do not consider further adjustment of interest rates appropriate now in view of the fact that both lending and saving rates are now at an all-time high.

In the external sector where developments remain worrisome with persistent balance of payments disequilibrium, the authorities have responded with some policy measures to correct the payments imbalance. As a result, the overall balance of payments, though still under serious pressure in 1984/85, reflected about 26.0 percent improvement on the preceding year's position. The overall balance of payments deficit at SDR 43.6 million in 1983/84 was reduced to SDR 31.9 million in 1984/85. A significant proportion of that improvement was attributable to about a 20 percent increase in the value of exports resulting partly from government effective agricultural pricing policy and partly from some recovery in the world prices of coffee and cocoa. Steps are being taken to reduce imports which in 1984/85 rose by 16.0 percent in contrast to a decline of about 25.0 percent in the preceding year. In this regard, the staff recommendation for privatization of rice imports has merit, considering the fact that rice imports constituted a dominant proportion of the overall increase in imports in 1984/85. Meanwhile, the existing official policy of progressive increase in the price of rice to bring it more in line with the free market price will tend to reduce both the implicit budgetary subsidy and the level of import of this commodity.

On the crucial issue of the exchange rate, there was a substantial devaluation of the leone early in the year which, together with the the recent exchange measures, has boosted export earnings from the sale of gold and diamonds. In order to improve the flow of foreign exchange into the banking system, the authorities are renegotiating retention provisions in the mining sector. In the meantime, the authorities are keeping the exchange measures under close and constant review. It is noted in this connection that the staff places a great deal of emphasis on the parallel market rate. However, I personally believe that in an environment like that of Sierra Leone where noneconomic factors play such a dominant role, the parallel market may not be the major indicator for an appropriate exchange rate.

In the medium term, projections are that Sierra Leone's financial and economic situation will remain difficult. The existing difficulties in meeting external payments will continue as a sizable financial gap of SDR 79.1 million projected for 1985/86 under scenario A, widens to SDR 85.7 million in 1987/88. In the circumstances, even though the authorities attach a very high priority to the settlement of all overdue obligations and are doing their level best to remain current with the Fund and other creditors, without debt rescheduling and an increase in official capital inflows, the achievement of that objective and the task of revitalizing the economy will remain difficult.

In the meantime, the authorities remain committed to discharging their overdue obligations and to remain current with the Fund thereafter. They reiterate their earlier position that the Government will endeavor to retire as much of their financial obligations as soon as this becomes possible. A far-reaching decision on the matter has been delayed because the new Government which has just come to power requires time to settle down. It is hoped that following the forthcoming discussions with the staff, a forceful decision on the matter will be taken.

Mr. Foot observed that Sierra Leone's economic situation had deteriorated since the previous Article IV discussion (EBM/84/160, 11/5/84). Failure to implement a badly needed flexible exchange rate policy had led to the breakdown of the 1984-85 Fund-supported program; moreover, as the official and parallel exchange rates had diverged further, production and exports had dwindled, the tax base had shrunk, and the budget deficit had widened. Given the reliance on bank financing, the inflation rate had accelerated sharply. In short, many of the limited gains that had been achieved under the 1983-84 adjustment program had been undone in little over a year. Arrears to the Fund had emerged and increased. When those arrears had been discussed at end-September, Mr. Abdallah had reassured the Board that the new Sierra Leonean authorities were keen to eliminate arrears so as to negotiate a new Fund program. In that context, he was encouraged to see that the Article IV mission had been able to talk with both the outgoing and incoming presidents of Sierra Leone. Mr. Mtei had mentioned the need to give the new Government time to settle down; however, time was running out for the necessary constructive discussions with either the Fund or the World Bank. He strongly urged the authorities to heed the advice of the Fund and the Bank and in so doing to take the first steps toward realizing Sierra Leone's full economic potential and regaining the confidence of donors and creditors.

He generally endorsed the staff appraisal, and in particular its emphasis on reforming the exchange system, eliminating subsidies--especially on oil imports--and widening the tax base, Mr. Foot said. The overall deficit of the Central Government was estimated to have widened alarmingly in 1984/85 and, in the absence of corrective measures, was forecast by the staff to remain high in 1985/86. However, Mr. Mtei's statement presented a different picture, and he would welcome clarification of the different views relating to fiscal measures taken since the staff report had been written and on the possible effects of the measures. In the latter case, the authorities would be wise not to assume too much until firm results were available. In 1984/85 the provisional outturn for the budget deficit had been almost twice the original budget forecast and reflected the pressure for both higher expenditure and lower revenue in the economy. The increase in "other expenditure" noted in the paper was worrying, as it reversed all the effects of expenditure restraint achieved in the 1983-84 adjustment program. The 25 percent increase in wages and salaries earlier in 1985, in the absence of supporting measures suggested by the staff at that time, was a particular cause for regret. The increase in the subsidy on imported oil reflected the inappropriate level of the official exchange rate.

Reform of the exchange system must be an essential feature of any new Fund-supported program for Sierra Leone, Mr. Foot continued. A discrete change in the exchange rate, such as the one in February 1985, while a step in the right direction could bring only temporary benefit if the new rate was maintained in the face of continuing high domestic inflation. One third of Sierra Leone's competitive advantage gained in February appeared already to have been eroded. The thriving parallel exchange market, the increasing incidence of smuggling, and dwindling official foreign exchange receipts, all gave testament to the inappropriateness of the current official exchange rate. The detrimental effect on exports was demonstrated most strikingly by the recent closure of DICOR, which, unlike the rest of the diamond market, had been forced to operate at the uncompetitive official rate.

He supported the staff appraisal and the proposed decision, Mr. Foot concluded. He encouraged the new Government to take urgent action before the Board's next review of Sierra Leone's arrears to the Fund.

Mr. Taha commented that the present economic situation in Sierra Leone was critical, and medium-term prospects were not promising. He endorsed the thrust of the staff analysis and the proposed decision.

The authorities must reaffirm their commitment to implement a comprehensive adjustment program, Mr. Taha stated; the urgency of such a move could not be overemphasized. Both demand-side and supply-side measures were needed to reduce existing imbalances and to enable better exploitation of the country's considerable growth potential.

Sierra Leone had accumulated large external arrears, including some to the Fund, Mr. Taha continued. To discharge those obligations in an orderly manner, Sierra Leone would need Fund financial assistance, which would not be forthcoming unless the overdue obligations to the Fund were settled. He welcomed the payments made so far, but relatively large amounts remained outstanding. He urged the authorities to settle their financial obligations and to resume normal relations with the Fund. That move should facilitate debt rescheduling by other creditors and could perhaps instigate the resumption of needed capital inflows. However, the authorities' efforts so far had fallen considerably short of what was required.

Developments in the external sector were worrisome, Mr. Taha remarked. Even on the basis of relatively optimistic assumptions, the balance of payments prospects were not expected to improve markedly over the medium term. Implementing the required appropriate policies would help to secure adequate imports and capital inflows to facilitate reasonable growth and relative price stability. To conclude, he hoped that the authorities could initiate--and maintain--a comprehensive adjustment program that also involved the World Bank in the near future.

Mr. Goos said that the staff report clearly showed that Sierra Leone's economy had deteriorated to an alarming point. More alarming was the fact that the deterioration seemed to be largely self-inflicted as a result of the continued inability of the authorities to implement firm and comprehensive adjustment measures. The Government had taken a number of corrective steps in the right direction, but those steps undoubtedly had fallen short of requirements. Recent experience indicated that by further postponing a comprehensive package of adjustment--including the introduction of a market-determined exchange rate system--the economic and financial problems of Sierra Leone were bound to increase further, as exemplified by the growing financing gaps projected in the medium-term scenario under the assumption of unchanged policies as well as by the disquieting trends in inflation and the overall fiscal deficit. Under such conditions, the eventual and unavoidable adjustment burden would only become more painful.

The rapidly growing amount of overdue obligations to the Fund and other external creditors gave cause for serious concern, Mr. Goos remarked. Under such conditions, the willingness of creditors and donors to maintain or resume earlier levels of support was being put to a severe test. It could not be overstressed that the Fund's ability to effectively help the country in overcoming its economic and financial difficulties was severely limited by such arrears. Accordingly, strong and comprehensive adjustment efforts would clearly be in the best interests of the country, and such efforts would also be consistent with its international responsibilities, not least to the Fund and its membership. He was in full agreement with the staff's recommendations for measures to rectify the alarming situation, and he urged the authorities to adopt the necessary measures without further delay.

The staff noted that the economy was functioning largely on the parallel market, Mr. Goos pointed out. He was not clear as to what extent that parallel market consisted of officially tolerated activities or black market activities. From the staff report, he understood that the Government was able to tap some resources generated in that market to meet part of its foreign exchange requirements. On the other hand, the report referred to a shrinking tax base as a result of widespread parallel market activities. He asked the staff or Mr. Mtei to comment. In conclusion, he supported the proposed decision and urged the authorities to settle promptly their overdue obligations to the Fund.

Ms. Bush commented that Sierra Leone's financial and economic situation was critical. The fiscal and balance of payments positions had reached unsustainable levels in spite of the authorities' efforts to reverse their deterioration, and the future prospects for recovery under current policies looked grim at best. In fact, Scenario A of the staff's medium-term balance of payments projections showed that, based on current policies, a financing gap, before rescheduling, would emerge averaging SDR 76 million a year over the next five years. Under current policies, it was unlikely that concessional and exceptional financing would be forthcoming; thus the financing gap represented a further buildup of arrears.

The authorities had taken measures in various areas, Ms. Bush noted, but it was clear that much more comprehensive adjustment measures were needed to correct the existing imbalances. While there had been a devaluation of the leone early in 1985, other exchange rate measures did not appear to have brought adequate amounts of foreign exchange back to the banking system. Foreign exchange shortages continued to persist across the board and the supply of foreign exchange through official channels was inadequate. Action to bring about a flexible and unified exchange rate system and liberalized trade, with strong supporting policies--particularly in the pricing area--were urgently needed.

The exchange rate measures taken by the authorities were commendable, Ms. Bush continued. The increase in producer prices for certain exports was welcome, and she urged the authorities to continue adjusting producer prices and tariffs in order to compensate for the depreciation of the parallel exchange rate. Furthermore, much of the additional income received for increased exports of cocoa and coffee had been absorbed by higher outlays for subsidies and administrative costs. The authorities' intention to phase out subsidies and to review the public sector enterprises with the goal of making them more efficient and less dependent on subsidies was appropriate: privatization of the rice sector could help to increase production and alleviate the need for further subsidies in that area, while further privatization of the mining industry should lead to increased efficiency.

The fiscal situation remained difficult in spite of the authorities' efforts to strengthen revenue collection and adhere to stricter expenditure restraint, Ms. Bush remarked. A more realistic import valuation for customs purposes, strict adherence to personnel reductions and wage restraint, and further control over extrabudgetary expenditures would help the fiscal position.

It was necessary for Sierra Leone to heed the Fund's advice, Ms. Bush stressed. Urgent action was needed in many areas, not only to ensure that Sierra Leone became current in its financial obligations to the Fund, but to reverse the deteriorating balance of payments position and to restore normal relations between Sierra Leone and its other creditors. She hoped for a commitment by the new Government to come to grips with the urgent need for reform and to work closely with the Fund to implement a needed adjustment program. In conclusion, she supported the proposed decision.

Mr. Yao remarked that the performance of Sierra Leone's economy in recent years gave cause for concern. Overall economic activity had been stagnant; the budget deficit had widened and its continued monetization had not only led to a rapid expansion in the money supply and acceleration of inflation but had also contributed to the deterioration of the balance of payments.

The evolution of the fiscal deficit was worrisome, Mr. Yao commented. Except for 1983/84, the overall deficit on a commitment basis had increased steadily from Le 178 million in 1980/81 to Le 521 million in 1984/85, because of the low tax/GDP ratio and a rapid increase in current expenditure. Indeed, the marked decline in the tax/GDP ratio from 17.6 percent in 1980/81 to 7.6 percent in 1984/85 was worrisome, particularly as it reflected a shrinking of the tax base owing to a growing parallel market. The situation was unsustainable in the medium term, and would have to be reversed. The authorities were aware of the seriousness of the fiscal problem; their efforts to strengthen tax administration and to contain expenditure growth through wage and salary controls and a gradual reduction of subsidies on rice and petroleum products were welcome. While those steps were in the right direction, further action would be required to reduce the budget deficit to a sustainable level.

The balance of payments continued to be under pressure as evidenced by the low level of foreign reserves and the accumulation of external arrears, Mr. Yao stated. Table 5 of the staff report showed that under current policies, there was little sign of improvement in the medium term. For example, under Scenario A, the financing gap would amount to SDR 74 million on average a year, thereby exacerbating the arrears problem confronting Sierra Leone. He thus supported the staff's recommendation that the authorities adopt a comprehensive adjustment program that would redress the imbalances and pave the way for sustainable growth. While the exchange rate would play a crucial role, he shared Mr. Mtei's view that the parallel market might not be the major indicator for an appropriate exchange rate because of the shortage of foreign reserves.

He welcomed the priority placed by the authorities on the settlement of all overdue obligations, Mr. Yao concluded.

Mr. Polak remarked that the economy of Sierra Leone was in a distressing position. That development was not new: with minor oscillations, the economy had been on an unsatisfactory trend for the past five years. The authorities were in broad agreement with the staff analysis and appraisal, but they apparently were not able or prepared to act to reverse the situation. Although Mr. Mtei and the staff had mentioned various measures that had been taken in the past year, those actions were too little and too late. The deterioration of the economy was exemplified by the informal economy's increasing role, even in foreign trade; the answer was not the strict enforcement of antismuggling measures but fundamental policy action.

The situation in Sierra Leone was not hopeless, Mr. Polak commented, and he agreed with the staff that "timely and sustained implementation of strong and comprehensive adjustment policies" could turn the situation around. The staff had described the measures that were needed, and he endorsed them. He welcomed the intention of the authorities to resume discussions with the staff, but it was of paramount importance to relations between Sierra Leone and the Fund that the country take prompt action to correct its arrears with the Fund.

The staff representative from the African Department recalled that it had been asked to what extent the parallel market was officially tolerated. On the export side, in the diamond and gold sectors, exporters were allowed by the authorities to sell their foreign exchange receipts at the market price and use those proceeds at their discretion. However, government enforcement of tax obligations in those sectors left much to be desired; foreign exchange proceeds went to the exporter, and the Government was not able to monitor tax receipts.

However, the parallel market in the agricultural export sector was not tolerated and operated essentially because there was a large differential between the producer prices paid by the Sierra Leone Produce Marketing Board and those in neighboring countries, the staff representative remarked. As illustrated in Table IX in the report on recent economic developments, the discrepancy between the producer prices in Sierra Leone and in Liberia for palm kernels had averaged 35 percent in 1984 but had widened in 1985 to 79 percent in favor of Liberia. For coffee, the discrepancy between the two producer prices had averaged 51 percent in 1984 in favor of Liberia and had widened to 65 percent in 1985; for cocoa, the discrepancy and had been 65 percent in 1984 in favor of Liberia and had widened to 122 percent in 1985. Significant amounts of produce moved across the border with consequent losses for both the Sierra Leone Produce Marketing Board and tax revenues.

The Government allowed a large number of imports at the parallel market rate, the staff representative continued. However, the tax base had been eroded because the cost valuation took place at the official exchange rate, while assessments were not made at the appropriate rate and, moreover, not all imports were assessed for tax purposes. For that reason, the tax/GDP ratio had declined significantly over the past few years.

Although the Government did not appear to tolerate the capital flight that had occurred, the causes--interest rate and exchange rate differentials--had not been addressed, the staff representative continued.

The staff was not aware of any significant new revenue measures--nor any new budgetary measures--since the previous consultation discussion, the staff representative from the African Department concluded. The staff was also not aware of any action in the areas generating excesses in the budget--particularly the exchange rate, subsidies on petroleum products, or other extrabudgetary items.

Mr. Mtei said that it would be inappropriate to align the official exchange rate with the parallel market rate in the particular circumstances of Sierra Leone's socioeconomic environment. That view was shared by the Sierra Leonean authorities. They were firmly convinced that a float of the leone, as advocated by the staff, would not eliminate the parallel market rate or stabilize the official market rate in the absence of significant resources enabling the authorities to intervene in the market or of countermanipulative actions by unofficial large holders of foreign exchange. He hoped that the negotiations for the surrender of foreign exchange under way with the major mineral exporters would result in substantial accruals to the authorities of those vital assets for the proper management of the economy.

Although it had been said that his opening statement painted a rosy picture, that was not his intention, Mr. Mtei noted. He could not overemphasize the fact that the economy of Sierra Leone had been in great difficulty. He had stressed the policy measures implemented by the authorities because they had not been described thoroughly in the staff report, but he acknowledged that they were perhaps "too little and too late," as Mr. Polak had said.

The authorities were making every effort to generate resources to settle their outstanding financial obligations to the Fund, Mr. Mtei said. Efforts so far had not yielded the expected results because official foreign exchange inflows had seriously diminished, and prospects for loan facilities were not bright. The authorities wished to discuss with the Fund avenues for resolving the problem so that Sierra Leone might become current with the Fund as soon as possible.

Strong adjustment efforts had been made by the authorities since 1982 with attendant severe social hardships on the population, Mr. Mtei reported. The authorities believed that their efforts had not been matched by appropriate Fund support, thus undermining their credibility in political circles and forcing them to resort to budgetary expansion and intensification of restrictions. However, the new Government in Sierra Leone desired an early resumption of discussions with the Fund aimed at establishing a comprehensive package of measures for the effective rehabilitation of the economy so as to pave the way for growth that would provide the basis for honoring obligations both to the Fund and to other creditors. They hoped that the World Bank would also participate in that endeavor.

The Chairman made the following summing up:

> Executive Directors expressed broad agreement with the thrust of the appraisal contained in the staff report for the 1985 Article IV consultation with Sierra Leone. They regretted that the progress toward adjustment which was achieved in 1983/84 had been eroded and reversed during 1984/85 due to a relaxation of the authorities' efforts. Furthermore, they expressed great

concern about the continuing sharp deterioration in the Government's budgetary operations in 1985/86 and the expansionary monetary policies pursued by the authorities as well as about the distortions observed in the producer price system for main export crops. All this has resulted in a serious dislocation of the exchange system and an intensification of inflationary pressures. These developments have encouraged increased smuggling and have aggravated the scarcity of foreign exchange flows to the official sector, leading to a rapid accumulation of arrears, both domestic and foreign, including overdue obligations to the Fund.

Directors noted that the recent sharp increase in the fiscal deficit was attributable mainly to the adverse impact on the tax base of the present inappropriate exchange system and the consequent increase in the volume of tranactions outside official channels, as well as to the large wage increases, the outlays associated with the subsidy on oil, and the increased recourse to the parallel market by the authorities to finance some external payments, though not to liquidate external arrears. In this context, Directos urged the authorities to implement comprehensive measures aimed at improving the fiscal situation, to eliminate subsidies, and to adopt appropriate pricing and interest rate policies.

Directors observed that the real effective exchange rate of the leone has continued to appreciate substantially, that the official exchange rate is currently far out of line, and that as a result the foreign exchange situation of the official sector remains very critical. In view of this, Directors re-emphasized the urgent need for the authorities to implement a major reform of the exchange system, including the introduction of a market-determined flexible exchange rate system, a liberalization of the import-licensing regime, and the valuation of imports for duty purposes at the freely determined market exchange rates. Only in that manner could endemic smuggling and the growing parallel economy be tackled effectively. Foreign exchange receipts will be retained in the banking sector only if the official exchange rate is allowed to reflect market forces, Directors stressed. Administrative devices cannot address the fundamental weaknesses stemming from the present exchange rate system.

Directors were concerned that external arrears had increased much further since the 1984 consultation. They were particularly troubled to note that Sierra Leone's overdue obligations to the Fund had continued to increase since their recent consideration of the complaint on these obligations. Directors urged the authorities to eliminate their overdue obligations to the Fund promptly and to remain current with the Fund thereafter. They hoped that comprehensive discussions with the authorities could lead to a substantive program of adjustment.

Noting Sierra Leone's critical medium-term prospects on the basis of present policies, Directors stressed that immediate and sustained implementation of strong and comprehensive adjustment policies would enable Sierra Leone to redress existing imbalances and improve the country's medium-term prospects and its access to official development assistance.

It is expected that the next Article IV consultation with Sierra Leone will be held on the standard 12-month cycle.

The Executive Board then took the following decision:

1. The Fund takes this decision relating to Sierra Leone's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1985 Article XIV consultation with Sierra Leone, in the light of the 1985 Article IV consultation with Sierra Leone conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Sierra Leone's exchange system involves restrictions on payments and transfers for current international transactions, including external payments arrears and multiple currency practices, as described in SM/85/307 (11/14/85). Sierra Leone continues to maintain bilateral payments agreements with Fund members. The Fund urges the authorities to reduce reliance on exchange restrictions, including the multiple currency practices, and to eliminate the bilateral payments agreements with Fund members.

Decision No. 8146-(85/174), adopted
December 4, 1985

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/173 (12/2/85) and EBM/85/174 (12/4/85).

5. EDUCATION ALLOWANCE - REVIEW

Effective for the first full scholastic year which starts on or after August 1, 1985:

a. The maximum allowance for tuition in the staff member's country of assignment shall be increased to $4,300 from $4,000 per annum.

b. The "base" maximum allowance for tuition and boarding for children studying outside the staff member's country of assignment shall be increased to $6,150 from $5,800 per annum.

c. When children are studying outside the staff member's country of assignment, the "base" subsistence grants at primary and secondary school levels shall be raised to $1,475 from $1,400 per annum, and at postsecondary level to $2,950 from $2,800 per annum. (EBAP/85/287, 11/27/85)

Adopted December 3, 1985

6. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 85/31 are approved. (EBD/85/298, 11/25/85)

Adopted December 2, 1985

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/85/291 (12/2/85) and by Advisors to Executive Directors as set forth in EBAP/85/290 (11/29/85) and EBAP/85/291 (12/2/85) is approved.

APPROVED: July 14, 1986

LEO VAN HOUTVEN
Secretary