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McNamara Papers

Board actions
Structural adjustment lending
1980-1981

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Board Actions - Structural Adjustment Lending - Board papers

BOARD ACTIONS

V - STRUCTURAL ADJUSTMENT LENDING

- A. R80-17 Lending for "Structural Adjustment", Feb. 5, 1980
IDA/R80-22
- B. SecM80-202 Lending for Structural Adjustment, March 21, 1980
Statement by Mr. Stern
- C. R80-17/2 Lending for Structural Adjustment, March 31, 1980
IDAR80/22/2
- D. R81-64 Review of Structural Adjustment Lending, April 1, 1981
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International Bank for Reconstruction and Development
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FOR
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MEETING

For consideration on
March 18, 1980

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R80-17
IDA/R80-22

February 5, 1980

FROM: Vice President and Secretary

LENDING FOR "STRUCTURAL ADJUSTMENT"

Attached is a memorandum entitled "Lending for 'Structural Adjustment'" dated February 5, 1980, from the President.

Questions on this document may be referred to Mr. Stern (extension 72004) or Mr. Haq (extension 60121).

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R80-17
(IDA/R80-22)

Office of the President

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February 5, 1980

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MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Lending for "Structural Adjustment"

Introduction

1. The changes in the international economy in recent years, including the increase in the price of oil, continued high levels of inflation and prolonged period of slow growth in the OECD countries, are posing increasingly acute problems for many of the developing countries. The management of their economies has become more complex. They face deteriorating terms of trade and growing current account deficits. With increasingly severe resource constraints governments must consider how they can adjust their development patterns and economic structures to the substantially changed international economic environment. This set of circumstances has led to considerable discussion of additional ways and means by which the Bank can assist its members, including the use of a new form of lending which we have named "structural adjustment" lending.
2. In preparation for the meetings in Belgrade, we discussed the possibility of lending to assist countries which were prepared to undertake a program of adjustment to meet an existing or to avoid an impending balance of payments crisis. Subsequently, this possibility was discussed in the Development Committee and in the Annual Meeting. Such lending has several distinguishing features. First, it will be a fundamental instrument for the dialogue between the Bank and the country on various aspects of development policy and on the nature and scope of change to be supported. Second, it will provide finance over a number of years in direct support of specific policy reforms. Third, it would provide foreign exchange to finance imports not linked in advance to specific investment programs. Such loans would therefore disburse quickly - a feature of particular interest in view of the current account prospects for the next several years.

The Short-Term Prospects

3. The analysis of the prospects facing the developing countries in the next several years is not yet fully refined, but the initial assessment clearly indicates that the current account deficits will be very large and

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that growth rates will be much smaller than previously anticipated. The current account deficit of the oil importing developing countries, associated with a per capita GNP growth of 2.3%, is now estimated at US\$74 billion for 1980 and it is expected to rise further in 1981 and 1982. This compares to a deficit of US\$26 billion in 1978. As a share of GNP, the current account deficit of the low income countries in 1980 is estimated at 4.7%, compared to 3.5% in 1975 and to 1.4% in 1973. For the middle income countries it is estimated at 4.8% of GNP, slightly less than their 1975 ratio of 5.5% but substantially higher than the 0.9% of 1973.

4. There are many reasons for this increase. Obviously the increased price of oil is one factor. Other factors contributing to the increased current account deficit include the slowdown in economic growth of the OECD economies and the impact this has on both the volume and the price of LDC exports, as well as the continued high rates of inflation which affect the cost of imports. Many of the changes are permanent or long-term in character and will require long-term structural adjustments in the economies of the developing countries. These adjustments should be designed to reduce the current account deficits to more manageable proportions -- a reduction of perhaps 50% -- within five to seven years. However, during the transition period the increased deficits will require substantial additional financing on a medium to long-term basis. The low income countries which lack access to the private capital markets can only finance their deficits through increased ODA. Should ODA be inadequate, a further reduction in their already low rate of growth would be the inevitable result. Many of the middle income countries have had access to private capital but the debt accumulated since 1974 has reduced their ability to borrow and may have limited the willingness and the ability of the commercial banks to lend.

5. The relatively short-term finance available from the commercial banks and the resources available from the IMF to the developing countries for the financing of the adjustment process need to be supplemented, both in amount and maturity, if the debt problems of many of the countries are not to assume serious dimensions. "Structural adjustment lending" by the Bank can be a means to serve these needs.

6. We anticipate substantial demand for structural adjustment lending from countries in acute balance of payments difficulties and from countries with programs of adjustment which will require support if more acute difficulties are to be avoided.

7. While the likely amount of such lending available from the Bank will be small compared to the total amount of external capital required, the Bank's initiative may encourage the provision of similar assistance from other sources to those countries which are seen to be implementing appropriate policy reform measures. We expect that there will be opportunities to cofinance our structural adjustment loans with both official and private sources of finance but, more important in terms of volume, we expect that sound programs of structural adjustment, acceptable to the Bank as a basis for lending, will encourage bilateral aid agencies to expand lending for this purpose and complement and sustain lending from commercial banks for general purposes.

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The Characteristics of "Structural Adjustment" Lending

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8. Lending for "structural adjustment" is only justified if there is a specific program of structural adjustment to be supported which has as its objective increased efficiency of resource use and improved responsiveness of the economy to changes in economic conditions. The nature of such programs can only be determined in the country context and may vary widely. In many cases it will involve a reassessment of the medium-term investment program to bring it in line with a changed availability of investable and budgetary resources. The composition of the investment program may also have to be altered by, for instance, reducing investment in projects with long gestation periods and emphasizing investments which will yield results more quickly and those which have a greater employment effect. Frequently, the program will also involve the country's trade regime. For example, for countries which rely heavily on a few primary commodities for exports, diversification as a basis for expansion will be important. This may require incentives for investment in non-traditional exports, either agricultural or industrial, a revamped marketing effort and investment in transport and distribution. For countries whose industries have developed behind high levels of protection and therefore, have failed to realize their export potential, it may be appropriate to move to more uniform and moderate levels of protection to eliminate the distortions and to make such industries more internationally competitive. This may involve assistance to such industries to finance complementary investment and to redesign product lines. In other instances, it may be desirable to reorient investment to domestic markets to stimulate growth and reduce imports in the face of limited exports prospects. Programs of structural adjustment may also involve issues of domestic resource mobilization, price incentives or the efficiency of resource use. While it is impossible to specify the components of such a program, their common objective would be to reduce in the medium-term, say five to seven years, the current account deficit to a sustainable level as a percent of GNP.
9. Such programs of "structural adjustment" are neither simple to formulate nor easy for governments to decide on. In many cases assistance from the Bank, and the IMF, will be required. We are prepared to make staff and consultants available, wherever necessary, to assist governments in this process. Internally we shall have to reorient our economic and sector work program to strengthen our capacity to advise governments on their programs of structural adjustment and to evaluate such programs for lending purposes.
10. Once the objectives and main directions of the necessary structural adjustment are decided on by the country, the implementation is likely to take several years and results will be seen only gradually. For instance, a decision by the government to reduce the level of protection and make it more uniform is only a first step. Specific actions on tariffs, quantitative limitations, investment incentives, and financial support can only be decided on the basis of industry studies which may take one to two years to complete. In some countries restructuring of production and marketing strategies of public sector industries might be involved. Thus lending

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for "structural adjustment" must be conceived as an association with a borrower in a program of structural change over three to five years which will require financial support and technical collaboration throughout this period. Because lending for "structural adjustment" provides support for an evolving program, it will be important to be specific about the medium-term objectives of the government at the outset. However, policy decisions and other implementation action to be taken in the period covered by the loan should also be specified, so as to permit the borrower and the Bank to monitor progress during the period both on the immediate actions agreed to and toward the longer term objectives. Loans for structural adjustment usually will cover a 12 to 18 month period. It is desirable therefore to provide for at least one review of progress during that time. Subsequent loans needed to support the multi-year program would be based on satisfactory completion of the actions previously agreed to, confirmation or amplification of the medium-term objectives, and an additional program of specific actions to move further toward those objectives.

11. It is clear that lending for structural adjustment will only be possible where a government has accepted the need for such adjustments and is prepared to collaborate with the Bank in a review of its policies and the formulation of a program. The Bank could not, nor would it wish to, impose its views as to what constitutes an appropriate program. Lending for structural adjustment will only succeed if the program to be supported represents a firm government decision based on an intensive analysis and dialogue, in which the Bank can participate to whatever extent the government desires. To be successful, the program which emerges should be feasible from all points of view: politically, administratively and economically.

Collaboration with the IMF

12. Since lending for structural adjustment would normally address macro-economic policy issues related to the balance of payments, the need to consult the IMF is readily apparent. Since the last Executive Board review of program lending in April 1977, Fund staff have cooperated closely in processing program loans. In several cases a Bank staff member joined the Fund consultation or review team (e.g., Turkey, Jamaica and Guyana). In other instances, the Bank's program loan appraisal mission overlapped with the Fund's consultation or review mission in the field (e.g., Sudan and Zambia). It is normal practice for the Bank and the Fund staff to consult each other closely in Washington and share information and views. The Bank usually regards the success of the short-term economic stabilization or recovery program (on which the IMF standby arrangements are based) as important for the fulfillment of a government's medium-term investment or development program. For its part, the IMF relies on the Bank's judgments on the appropriateness of a country's medium-term investment program which provides a context for stabilization measures and is particularly relevant to Extended Fund Facility (EFF) programs.

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13. Lending for structural adjustment should be viewed as complementary to the Fund assistance, although it will differ in type and scope of policy measures to be agreed to and in the time frame for assessing the impact of structural reform policies to take effect. Thus, a situation may arise where an EFF operation is mounted by the IMF in a country and a parallel loan for adjustment assistance is provided by the Bank to support a set of specific policy measures aimed at long-term structural adjustment.

14. As lending for structural adjustment expands, it will be essential that the coordination with the Fund be effective. We will ensure that there is a regular exchange of information on plans for assistance and seek to expand participation in the appropriate missions.

Prospects for Lending for "Structural Adjustment"

15. The need for such lending is great as indicated by the aggregate projections. However, the extent of lending for structural adjustment will depend not on the magnitude of the current account deficit of the developing countries but on the number of countries which are prepared to formulate programs of structural adjustment and the speed with which satisfactory programs can be developed. A loan for Kenya will be circulated to the Board shortly and discussions are at various stages with the Philippines, Turkey, Bolivia, and Tanzania. Exploratory talks have been held with a number of other countries. We expect that these discussions will yield specific proposals to be placed before the Executive Directors during 1980. Undoubtedly, additional proposals will emerge in the course of the year as the balance of payments difficulties, immediate or impending, in individual developing countries are identified more clearly and governments begin to deal with them. It is therefore not yet possible to be precise about the amount of lending for "structural adjustment" or the extent to which it may affect the Bank's lending program.







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Subject / Title Lending for Structural Adjustment - Statement by Mr. Stern				
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For consideration on
April 21, 1981

R81-64
IDA/R81-52

April 1, 1981

FROM: Vice President and Secretary

REVIEW OF STRUCTURAL ADJUSTMENT LENDING

Attached is a memorandum entitled "Review of Structural Adjustment Lending" dated April 1, 1981, from the President.

Questions on this document may be referred to Mr. Please (X72677).

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April 1, 1981

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MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Review of Structural Adjustment Lending

INTRODUCTION

1. Lending by the World Bank in support of programs of structural adjustment was proposed by the President in his speech to the Annual Meeting of the Board of Governors in Belgrade in October 1979. The proposal was amplified in two documents which were discussed by the Executive Directors in February and May 1980 ^{1/}, and it was subsequently discussed and endorsed by the Development Committee at its Hamburg meeting in May 1980. During the discussions in May 1980, it was agreed that experience with structural adjustment lending (SAL) ^{2/} should be reviewed after one year. This report reviews the experience to date which is, of course, still very limited.

2. Section I outlines the circumstances which make it necessary for many developing countries to formulate programs of structural adjustment and the nature of the Bank's support for these programs through SAL. Section II presents data on SALs approved to date and being actively prepared, and describes the principal components of these SAL operations. Section III addresses the implementation of SAL, including SAL as a complement to regular Bank project and sector lending operations, and the collaboration between the Bank and the IMF. Section IV contains conclusions and a statement of the prospects for SAL operations in FY1982 and FY1983.

^{1/} Lending for "Structural Adjustment" (R80-17, February 5, 1980 and R80-122, May 9, 1980).

^{2/} References to structural adjustment loans (SALs) include structural adjustment credits; reference to Bank loans include IDA credits.

I. THE NEED FOR STRUCTURAL ADJUSTMENT

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Need for Structural Adjustment

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3. As has been emphasized in the World Bank's 1980 World Development Report and elsewhere, many developing countries are confronted with an international economic situation which is markedly more adverse than had previously been projected and one which seems likely to persist during the 1980s. There are many factors which are contributing to this deterioration in the economic prospects of these countries. The cost of energy has increased and this increase is now expected to be permanent. The effect of this on the import bill of oil-importing developing countries during the 1980s is not only the direct additional cost of oil but also the heavy investment which is required for the development of indigenous sources of energy and for conservation. The higher cost of external borrowing associated with efforts by the industrial countries to curtail inflation is likely to continue for some time, while the volume of borrowing undertaken by the developing countries will need to rise if even minimally acceptable rates of growth are to be attained. For those countries not creditworthy for significant amounts of commercial borrowing, the flow of concessionary official assistance will be critical but the growth of both bilateral and multilateral concessional assistance is being constrained by the anti-inflation policies in OECD countries and the associated budgetary pressures. The slowdown in the rates of growth of the industrial economies also is likely to make the export earning prospects of developing countries less favorable both through a reduced rate of growth of manufactured imports into OECD countries and less buoyant commodity markets.

4. This deterioration in the external prospects of many developing countries has been superimposed on development prospects which for many were already a matter for concern. In some countries, despite a reasonable rate of growth of domestic production, the growth of imports over many years has been markedly in excess of the growth of export earnings (e.g., Turkey and Philippines). The basic problem in other countries was policies which led to persistently low rates of growth. Programs of structural adjustment are required to enable countries to respond to the deterioration in their external economic circumstances in such a way as to minimize the impact on their development and growth objectives. In many cases this means that the adjustment program must deal with issues which existed before the change in the international environment and which were the causes for the previously unsatisfactory rate and pattern of growth. The deterioration in the external prospects has made problems of past performance not simply undesirable but unsustainable.

5. Economic activity in the developing countries will be held back during the 1980s unless a pattern of output growth can be generated which reduces the increasingly adverse balance of payments prospect to a

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manageable level -- i.e., a level consistent with likely flows of concessionary assistance and the ability to service commercial borrowing. Structural adjustment programs consist of policy and institutional measures needed to effect the required changes in the structure of output growth in the medium term. These changes in policies must lead to a higher rate of export earnings growth and a lower rate of import growth than would otherwise occur. Although structural adjustment programs do not address issues of human resource development and basic needs directly, more satisfactory progress in these areas is only likely if the medium-term structural adjustment needs are being addressed adequately. For instance, the prospects of reduced real income and the associated tight budgetary situation generate strong pressures to reduce social programs or even programs aimed at increasing the productivity of low income groups which may have a large requirement for recurrent budgetary expenditures. Effective programs of structural adjustment will reduce the period of such acute constraints. In addition, there is scope for governments to modify their programs of socio-economic development by directing them more effectively to the target groups and to reduce the unit cost of such programs.

Structural Adjustment Lending

6. Through its structural adjustment lending the Bank assists countries to formulate and implement structural adjustment programs and provides financial assistance during the adjustment period. Since adjustment policies and programs required will vary from one country to another the content of structural adjustment loans also will vary. However, all the structural adjustment operations have the common objective of supporting those changes in investment and output which will reduce the current account deficit to more manageable proportions in the medium-term. Consequently, most SALs have covered macro-economic concerns such as the size and composition of the public investment program, the need to improve the efficiency of enterprises in the public sector, and policy changes in the agricultural, industrial and energy sectors. (Details of the main components of structural adjustment loans are discussed in Section II.)

7. Policies which will correct the structural imbalances in an economy take time to formulate, to implement and, most importantly, to have their impact on exports, imports, investment and other activities in the economy. This period of adjustment is likely to be several years during which time the deficit in the balance of payments will continue to be at a higher level than is sustainable in the longer run. Structural adjustment lending is designed as a series of operations during this adjustment period, each supporting successive programs of action.

8. The series of operations will permit changes in the structural adjustment program to be made in response to changing circumstances and enable the Bank to satisfy itself that programs and policies are being put in place to correct structural imbalances. Governments will often find it difficult to undertake programs of structural adjustment unless

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the resources made available to them in the short run can be increased so that income levels do not have to be unduly reduced. The quick disbursing nature of structural adjustment lending permits a rapid increase in the net transfer of Bank resources. However, this increase will be offset by a decrease in Bank net transfers in subsequent years, unless structural adjustment lending is made additional to the lending program to the country.

II. STRUCTURAL ADJUSTMENT OPERATIONS TO DATE

SAL Operations

9. Three structural adjustment loans (SALs) were approved by the Board in FY1980 (Bolivia, Kenya and Turkey) for a total of \$305 million (\$250 million IBRD and \$55 million IDA). Thus far in FY1981, four structural adjustment loans have been approved by the Board (Philippines, Senegal, Guyana and Turkey (Supplementary)) for a total amount of \$357 million (\$319 million IBRD and \$38 million IDA). Structural adjustment loans are under preparation for Morocco, Korea, Mauritius and Malawi, as are second operations for Kenya and Turkey. Some of these may be presented to the Board before the end of the current fiscal year. Depending on progress made in these discussions, structural adjustment lending would be about \$800 million or 7% of the FY1981 lending program.

10. Of the ten countries for which a SAL has been approved or is under consideration for FY1981, two are in Latin America, two in the EMENA Region, two in East Asia and four in Sub-Saharan Africa. Of the ten, five are in countries with a per capita income above \$600 and five below.

Per Capita Income of Countries Receiving SAL (1979 income)

	\$		\$
Korea	1,500	Guyana	560
Turkey	1,330	Bolivia	550
Mauritius	1,040	Senegal	430
Morocco	740	Kenya	380
Philippines	600	Malawi	200

Content of SAL Operations

11. Structural adjustment programs are designed to achieve a maximum feasible level of economic growth during and after the period of adjustment by increasing the efficiency with which resources are used. This involves adjusting policies and programs in order to maintain increases in output and to correct imbalances in production, thus helping to bring down the prospective external deficit to a sustainable level. Appropriate changes in the incentive system, reorientation of investment and public expenditure programs, changes in institutional arrangements to support increased production and to improve marketing, and measures to improve the mobilization of resources, are the major components of adjustment programs. A summary of the key components of each SAL to date is presented in Table 1.

Table 1: KEY COMPONENTS OF STRUCTURAL ADJUSTMENT OPERATIONS TO DATE

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	<u>Senegal</u>	<u>Turkey</u>	<u>Guyana</u>	<u>Kenya</u>	<u>Bolivia</u>	<u>Philippines</u>
I. <u>Trade Policy</u>						
Exchange rate policy		x			x	
Tariff reform and import liberalization	x	x		x		x
Export incentives	x	x		x		x
Improved institutional support for exporters (export insurance and financing, export promotion institutions)		x	x	x		x
Specific programs for major export or import saving sectors	x		x	x	x	x
II. <u>Sector Policies</u>						
Energy:						
Pricing policy		x	x		x	
Conservation measures		x	x			
Development of indigenous sources		x	x			
Agriculture:						
Pricing policy	x	x	x		x	
Improved institutional support (marketing, etc.)	x	x				
Industry:						
Incentive system		x		x		x
Institutional improvements and sub-sector programs		x	x			x
III. <u>Public Investment Program</u>						
Revision and review of sectoral priorities	x	x	x	x	x	
Strengthening of institutional capacity to formulate and implement public investment program	x		x			
IV. <u>Public Sector Enterprises</u>						
Financial performance	x	x	x		x	
Institutional efficiency	x	x			x	
V. <u>Resource Mobilization</u>						
Budget policy	x	x	x	x		
Interest rate policy		x	x	x		
VI. <u>Debt Management</u>						
Strengthening of institutional capacity to manage external borrowing		x	x	x	x	

12. Trade Policy. Most of the programs being supported by SALs have included policy changes to begin to correct the bias in industrial incentive systems which deter exports and promote uneconomic import substitution. The Philippine SAL provided support for the initial stages of a five-year program to correct the import-substitution and capital-intensive biases in the industrial incentive policies. The program covers export incentives and promotion measures; tariff reform, trade liberalization, and investment incentives; and industrial restructuring. The programs of structural adjustment in both Turkey and Kenya have also commenced the process of liberalization of imports in order to increase the competitiveness of domestic industry. Furthermore, both these countries have extended their export incentive schemes significantly. A moderately higher and more uniform rate of import duties and a limited system of export subsidies is also part of Senegal's structural adjustment program. In all these countries, further action to increase the international competitiveness of industry and to reduce the bias against exports is to take place on the basis of studies of effective protection which have been agreed under the SALs.
13. Some of the schemes to reduce the bias against exports have also been extended to agricultural exports. But the problem of exports and import substitution for agricultural products derives primarily from the more general problems of increasing agricultural production. Policy and institutional changes to address these problems represent the major part of the structural adjustment program in Senegal. In particular the Government has already increased the price of groundnuts, the major export crop. Improvement in incentive prices to agricultural producers has also been a component of the adjustment program in Bolivia (beef, dairy products and poultry) and in Guyana (rice and sugar).
14. An incentive system which encourages both conservation and import substitution in energy is an important component of adjustment programs. The SAL in both Bolivia and Guyana have included policies to transfer the rising cost of fuel to consumers and this has also occurred in Turkey as part of the process of reducing subsidies. Not only are these price increases necessary to reduce the rate of growth of fuel imports, but they also make investment in domestic energy sources more profitable.
15. Although not part of SAL agreements, the maintenance of a realistic exchange rate is of central importance for the structure of export and import-substitution incentives. In Turkey and Bolivia a flexible exchange rate system is an important part of government policies and in Kenya and the Philippines the Governments recognize the need to keep the exchange rate under review as a major component of industrial reform.
16. Institutional Changes. "Getting prices right" in order to develop a pattern of incentives which reflects the priorities of structural adjustment is of central importance. However, the objectives of incentive pricing policy need to be reinforced by appropriate institutional changes. Incentive prices to farmers to produce food in substitution for imports

will, for instance, be frustrated if marketing organizations absorb the increased prices in increased profit margins or in increased inefficiency. They will also have a limited impact unless a structure of research and extension activities can make known new and adapted agricultural packages to farmers. Similarly increases in incentives to exporters must be buttressed by improvements in the responsiveness of industrial enterprises in the public sector and by improved information on export market opportunities and availability of export credit.

17. The adjustment program in Senegal gave particular emphasis to institutional changes in the agricultural sector. The administrative over-commitment of the public sector is being reduced by transferring certain responsibilities to the private sector. Within the public sector, enterprises are being reformed and made subject to greater financial discipline through the formulation of program contracts. Major reforms of regional development agencies, the State cooperative system, the credit system, research organizations and other public agencies in the agricultural sector, have been introduced or are being studied following the liquidation of ONCAD, the previously dominant and highly inefficient institution in the agricultural sector.

18. A central feature of structural adjustment in Turkey is improvement in the efficiency of the state economic enterprises which dominate many sectors of the economy. The SAL to Turkey is supporting policies which begin to address this problem by subjecting the state economic enterprises to much greater financial discipline and by other measures to improve the efficiency of each enterprise.

19. Improvements in institutional support to non-traditional exporters such as the availability of credit and insurance facilities have been a component of structural adjustment programs in Turkey, Kenya and Philippines. In the case of Guyana, a revolving export development fund has been established as part of the SAL.

20. Public Expenditure Program. Both the level and composition of public investment expenditure and of government recurrent expenditure have had to be reviewed by governments as part of their adjustment programs. In particular, the shortage of resources has required governments to reduce the level of the public investment program and to reorder priorities within the program. Costly and urgent investment requirements have arisen in the energy sector in order to develop indigenous sources of hydro-power, oil, gas, coal, in substitution for imports. Governments have revised sector priorities for investment and adopted procedures to ensure that individual projects are carefully evaluated, least cost options adopted, and projects with low rates of return excluded. For instance, the SAL to Senegal included understandings relating to the application of cost-benefit analysis and the application of economic selection criteria. The revised sectoral priorities for investment will be reviewed regularly as part of SAL operations. The most intensive of these reviews is being undertaken as part of Bank economic work in Turkey.

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21. In some cases the effective management and modification of the public investment program have necessitated strengthening the institutions responsible for investment program formulation and project selection, through technical assistance. The SALs to both Guyana and Senegal were supplemented by Technical Assistance Projects designed, in part, to strengthen the investment planning, implementation and monitoring capacity in the country.
22. Within the overall constraint on budgetary expenditure, recurrent expenditure on development services frequently is of higher priority than new capital investment -- e.g., expenditure on agricultural research and extension, operational expenditures for schools and hospitals, maintenance of roads. Moreover, the balance within the budget between development and non-development recurrent expenditure has had to be reexamined by governments. The Kenyan Government's program has given emphasis to selective cutbacks in order to give preference to recurrent development expenditures and particularly to the needs of the productive sectors (agriculture) and to exports. Furthermore, a three-year forward budget system is being developed to ensure that the tight budgetary situation does not lead to the build-up of future commitments which cannot be funded. Most SALs include reductions in the budgetary impact of subsidy programs for both inputs and consumer goods by focussing these programs more sharply on the target groups. For instance, the growing burden of subsidies to state enterprises and the rising cost of fertilizer and other agricultural input subsidies in Senegal, Turkey and Guyana, are being curtailed as part of their adjustment programs.
23. Resource Mobilization. Increasing mobilization of resources for development and investment becomes particularly difficult when the rate of growth of real national income is falling. This applies both to public sector resource mobilization through public enterprises and the budget, and to private savings. These policy issues have been central parts of adjustment programs supported by the Bank and by the IMF.
24. In most of the structural adjustment programs the maintenance of positive real interest rates is recognized as important for increasing the mobilization of private savings. In the adjustment program for Turkey, commercial bank interest rates have been deregulated and the Government's policy more generally is to develop a structure of interest rates which reflects expectations of inflation. The SALs to Kenya and Guyana also included undertakings to establish or maintain positive real interest rates.
25. In many of the countries in which the Bank is supporting adjustment programs, public enterprises had become a net drain on budgetary resources instead of contributing to the flow of national savings. In a very constrained budgetary situation, governments in these countries are introducing measures to reverse this situation. A central feature of the adjustment program in Turkey is to limit access by the state economic enterprises to the budget and the Central Bank for financing their operational deficits. The adjustment programs in Bolivia and Guyana include pricing policies to ensure greater self-financing for public enterprises. The Senegal adjustment program is using "program contracts"

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between the government and public enterprises which specify how efficiency is to be increased and their financial position strengthened.

26. Structural adjustment programs have also had to address the problem of a slowdown in the growth of tax revenues, due to lower growth in real national income, in the face of continued growth of government expenditures. This problem is aggravated by the fact that many countries have already attained high tax/GNP ratios. Various approaches have been tried in the structural adjustment programs. For instance, in the case of Turkey, which has a tax/GNP ratio close to 20%, the tax reform program was designed to deal with this dilemma by improving the incentive and equity effect of the tax structure while also increasing the revenue elasticity of the system.

The Form and Procedures for SALs

27. The procedures which have been developed for SAL operations reflect the importance of the time lags involved in programs of structural adjustment. Changes in policies and institutions will have their intended impact on production, exports, import growth and savings only over several years. Furthermore, results are uncertain and can be affected by many factors outside the control of the country. Since policies will have to be adjusted in the light of experience, programs for structural adjustment, and the SALs, are conceived as multi-year programs.

28. The procedure has been to obtain from the government a statement of its medium-term objectives for structural change and the range of measures which it intends to take over several years to achieve these objectives. These understandings have been embodied in Letters of Development Policy sent to the President of the Bank and referenced in the Loan Agreement. They are the framework for the Bank's support of the structural adjustment program. Within this framework, a detailed and monitorable program of action, usually covering steps to be taken in the next year, is developed and incorporated in the loan documents. In reviewing SAL proposals, the Bank has focussed on the longer-term objectives for adjustment, on actions already taken by a government, and on the immediate and subsequent actions it proposes to take. Where the longer-term program cannot be fully defined, the agreements provide for studies or other actions to develop the adjustment program beyond the 1-2 year period of the monitorable action program.

29. In addition to the broad understanding on a multi-year program and the more detailed program of monitorable actions for the first year, all SALs to date have had tranching provisions although this is not regarded as a necessary feature. Release of a second tranche (the Turkey SAL also had a third tranche) has been made conditional on specific actions to be taken. Typically tranche releases are planned for approximately three-to-four months after approval or effectiveness of the loan/credit. While this provides an opportunity for a preliminary review of the implementation of the whole program of action, and of the studies and preparatory work required for the subsequent SAL operation, the focus of the review is on the specific actions which are required to trigger the

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tranche release. The range of these actions has varied. For instance, release of the second tranche of the Philippine SAL is dependent on specific actions to extend the liberalizing of import licensing and the realignment of tariffs. The Senegal SAL second tranche is to be released when agreed measures have been taken regarding import duties and export premiums and when an investment program has been adopted reflecting agreed priorities. In Turkey, the actions to be taken covered many components of the adjustment program and this also was the case with the Guyana SAL. Of the four tranche release decisions, three (Kenya, Bolivia and Philippines) have been delayed by about 2-3 months in order to give the governments additional time in which to fully implement the agreement for tranche release. Both the second and third tranches of the Turkey SAL were released without delay.

30. Although monitoring of a SAL focuses on the agreed action program, ultimately, of course, the concern of governments and of the Bank is with the achievement of the objectives of the action program such as increases in agricultural production, exports and savings. Review of the implementation of the agreed action programs and progress towards the attainment of the longer-term objectives of the structural adjustment program will be the basis for considering follow-up operations.

III. IMPLEMENTATION OF STRUCTURAL ADJUSTMENT LOANS

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The Role of the Bank in the Formulation
and Implementation of Adjustment Programs

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31. Programs of structural adjustment cover policy and institutional issues which have been causes for concern in many developing countries long before the current crisis, such as failure to adopt incentive prices for agriculture, inadequate attention to the composition of public investment programs, inefficient inward-looking industrial policies, parastatals which are a drain on budgetary resources rather than generators of such resources. The Bank uses the opportunities provided by its project and sector lending, and through its dialogue on economic and sector issues, to work with governments in addressing these policy concerns. But whatever the past need for governments to improve policies and institutions in order to speed up the pace of development in their countries, the present prospects for most developing countries convert this need into an imperative if they are to achieve both a minimum level of development of their economies and restore balance of payments viability. In view of the inadequate record of many countries in the past in taking policy action on such issues a basic question is whether SAL operations can accelerate such policy reforms.

32. The unique feature of SAL which makes this acceleration possible is that it consists of financial support for a specified program of policy actions by a government. Thus, at all stages of the preparation, appraisal implementation and ex-post review of the operation, the focus is on the program of policy actions. Furthermore the repetition of this cycle through three or four or more SAL operations provides the opportunity to develop timetables for undertaking the studies required for formulating further stages of policy action, to review the efficacy of actions taken, and to assess the linkages of policy actions in different sectors.

33. The Bank, through its project operations and economic work, regularly provides both technical reports on policy issues and a forum for discussing these reports with a view to policy action by government. However, there is an understandable tendency to limit specific policy actions to those which are reasonably close to Bank-financed operations. For example, power loans generally deal with the power rates which the utility charges. In the context of such loans the Bank can also seek broader agreements on energy pricing but experience suggests this can be more difficult. But it is unlikely that in the context of a power loan specific policy changes in other sectors of the economy could be negotiated. Likewise while broad policy concerns such as the industrial incentive structure and agricultural pricing have been addressed in individual projects or sector loans, such efforts have been only partially successful. The specific needs of the project tend to dominate the timing of preparation and appraisal of an operation, the authorities concerned with the project have a mandate limited to the sector, and the disbursement of Bank funds typically is linked to the implementation of the

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project. While sector and sub-sector lending can provide opportunities to emphasize policy issues, and these opportunities are being increasingly developed by the Bank, experience with SAL operations suggests that they can provide a more effective forum for dealing with major policy issues in a comprehensive and systematic way.

34. Once a structural adjustment program is agreed to, support for it is not limited to structural adjustment loans but involves project lending and economic and sector work as well. For instance, policy and institutional changes agreed to under SAL have been supported further by a loan for agricultural research in Senegal, loans to state economic enterprises in Turkey, and a financial apex loan in the Philippines.

35. SAL operations also are closely linked to economic and sector work--the basis for the Bank's policy dialogue. The preparation, appraisal and implementation of SALs have required a very large input of economic staff time. In some cases economic work in progress contributed to the formulation of the structural adjustment program. For instance, the Philippine SAL was based on the industrial sector work which the Bank had undertaken as part of its regular sector work program. In other countries, where the economic and sector work was not as directly applicable to the priorities of the structural adjustment program, a major reorientation of, and increase in, economic and sector work programs has been required.

36. However, even where the regular economic and sector work was well advanced and directed to the requirements of the structural adjustment program, the additional input of economist staff time required--especially at the more senior levels--to formulate and appraise a SAL operation has been extremely large. In addition, there is a major staff requirement for implementation reviews and other follow-up actions. In addition, there also has been a qualitative change in the nature of the economic and sector work as the emphasis shifted from analysis and diagnosis to assisting governments in articulating policy options and evaluating proposals for action.

Relationship Between SAL and IMF Programs

37. Both the IMF and the Bank have increasingly focussed on the medium-term adjustment process. For its part, the Fund has become concerned that balance of payments viability and financial stability cannot be achieved in many developing countries except in the context of measures which not only address demand management problems in the short run, but also those which address medium-term supply problems. ^{1/} This greater emphasis on the supply aspects of these economies

^{1/} IMF "Review of the Fund Extended Facility" (SM/80/278, Dec. 29, 1980)

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recognizes that adjustment programs can only be introduced and become effective over a period of several years and consequently that Fund resources must be made available to support a country's balance of payments during this period adjustment. The Bank, for its part, has become more concerned than in the past that the longer-term development objectives which it supports will be unsustainable unless programs of medium-term structural adjustment are put in place by the developing countries.

38. In pursuing its responsibilities, the IMF continues to give primary emphasis in its programs to understandings on the macro-financial issues, particularly in the areas of monetary, budgetary and exchange rate policy. The pursuit of policies which will provide an "appropriate financial framework"^{1/} is regarded by both institutions as an essential prerequisite for development. In formulating the "supply" aspects of its stand-by and EFF programs the IMF has concentrated, in addition to overall financial and exchange rate policy, on price, subsidy and tax policies which create the appropriate incentive framework particularly in energy, agriculture and industry. This latter set of issues, however, have not generally been developed by the Fund into performance criteria. They have been discussed with governments and examined by the Fund as part of its evaluation of a government's program but they have not been used directly to trigger the release of Fund resources, although in some cases actions have been a prior condition for stand-by or extended arrangements. The performance criteria of the Fund have continued to be macro-financial criteria. The IMF also has been particularly concerned to ensure that in the context of structural adjustment programs a government is developing a public investment program which in its size and composition reflects both the level of resources available for public investment and the priorities of the structural adjustment program. In some recent agreements with the IMF (Guyana, Morocco, Pakistan), governments have undertaken to review with the Bank on a regular basis their public investment programs.

39. A recent paper to the Board of the IMF emphasized the need to reinforce the supply aspects of EFFs.^{2/} This IMF paper concluded that: "In general, implementation of the more traditional demand-oriented policies appears to have followed the path envisaged in the programs more closely than was the case with structural policies" and therefore that the IMF should increase the: "intensity and broaden the basis of joint studies and exchanges of views on alternative policy options, increasingly also in close collaboration with the World Bank".

^{1/} IMF "Fund Policies for Adjustment Under Current Conditions" (EBS/80/146, June 30, 1980, page 6).

^{2/} IMF: "Review of the Extended Fund Facility" (SM/80/278, dated December 29, 1980).

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40. The Bank, in its SAL operations, has, as already noted, also given emphasis to price, subsidy and tax policies in relation to incentives in the energy, agricultural and industrial sectors. However, the Bank has gone beyond these incentive policy issues in order to seek understandings and precise agreements on the institutional and procedural changes which are required in a country in order to support and make more effective the changes in the incentive system. Furthermore, the public investment program and the level and composition of recurrent expenditure are central concerns in most SALs.

41. The Bank's emphasis on supply-side issues reflects the sectoral specialization of its staff and its continuing involvement in country sectoral programs and problems. This detailed sectoral knowledge is also the basis for the substantive review with a government of the size, composition and financing of its public investment program and the related recurrent expenditure budget. By drawing on this sectoral experience the Bank has assisted governments in formulating and implementing structural adjustment programs in the context of SAL programs and in many cases has also contributed to IMF programs.^{1/} The Fund, for its part, has contributed to Bank-supported adjustment programs by providing assistance to members in designing appropriate balance of payments adjustment policies.

Bank/Fund Collaboration

42. The convergence of interests and of involvements of the Fund and the Bank has given fresh emphasis to the need for close collaboration between the staffs of the two institutions. In recognition of this, in June 1980, the managements of the Fund and the Bank reminded their respective staffs of the importance of close collaboration. In doing so the modalities of collaboration, as expressed in instructions issued in 1970, were still deemed to be appropriate; briefings by each institution before and after missions; the exchange of drafts and final reports; consultation on technical assistance; coordination of field operations, including participation by staff of one institution in missions arranged by the other; collaboration between resident staff; and the use of material prepared by one institution in the reports of the other. It was emphasized that steps should be taken to ensure, in particular, effective professional collaboration, avoidance of conflicting policy prescriptions to member governments, and coordinated work plans. Although it is recognized that policy issues have both stabilization and developmental aspects, nevertheless it is agreed that the Bank should look to the Fund for views on exchange rate, monetary, fiscal, and foreign borrowing policies including the establishment of medium-term targets for the current account of the balance of payments. Similarly it is agreed that the Fund should look to the Bank for views on development priorities as

^{1/} It should be noted that this also has occurred in countries (e.g., Pakistan and Morocco) in which the Bank has not yet agreed a SAL operation.

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reflected in the size and composition of the investment program, recurrent outlays in development sectors, the efficiency of resource use and micro pricing decisions.

43. A review of experience with collaboration during 1980 has been undertaken which shows that substantive collaboration has improved and that the level of cooperation is good but still uneven. An important way in which effective collaboration can take place is through the participation of staff of one institution on missions of the other. As Table 2 shows, Fund staff participated in 7 Bank economic missions in 1979 and 12 in 1980. There has also been a doubling from 1979 to 1980 both in the number of Fund missions in which Bank staff participated (from 6 to 12) and in the number of parallel missions (from 10 to 21). Parallel missions vary from brief overlaps to substantive overlaps with the sharing of certain tasks. Two of the 21 concurrent missions were joint missions.

Bank/Fund Collaboration in Mission Work

1979

Bank Economic Missions	93
Bank Missions with IMF Participation	7
IMF Missions with Bank Participation	6
Concurrent Missions	10

1980

Bank Economic Missions	103
Bank Missions with IMF Participation	12
IMF Missions with Bank Participation	12
Concurrent Missions	21

44. The instructions to staff have emphasized that it is particularly important to have adequate briefings, exchange of documents and consultations on proposed recommendations to governments and to Bank management in those cases in which a SAL is being considered. The record since structural adjustment lending was introduced suggests that this flow of information and documents and substantive consultation between the staffs take place.

45. Continuing attention will be given to developing cooperation with the Fund. Bank staff have recently been reminded again of the importance of this cooperation and of their responsibility in implementing it. In particular, their attention has been drawn to two difficulties in collaboration which derive essentially from the problems of the different timing of Bank and Fund activities. Firstly, the Fund, in several of its operations, has required analyses and evaluations of public investment programs and of sector policies to be undertaken within tight time schedules. In some instances, the Bank has not been able to respond to such requests given its current state of knowledge and

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the timing of its program of economic and sector work. Action is now being taken both to ensure that the Fund is made more aware of what the Bank can contribute to the evaluation of these issues within a given time schedule, and to modify, as far as possible, the Bank's program of economic and sector work in order to respond better to Fund requests.

46. Secondly, in a few cases, the sequence of Bank and Fund operations has not been properly synchronized. For instance, a Bank program, agreed with the government to improve incentives for exports did not coincide with Fund negotiations and agreements on exchange rate policy and on fiscal policy. Conversely, in some cases, agreements with the Fund relating to ceilings on government borrowing could subsequently only be adhered to by cuts in development expenditure which were critical for Bank operations. The number of cases in which such problems have arisen has been very limited and they have been resolved rapidly by the managements of both institutions. The staff has been advised to be alert to potential problems of these kinds and to ensure that management is informed as early as possible.

Number of Countries

47. In addition to the ten countries for which SALs have either been approved or are likely to be ready for Board consideration during FY1981, active consideration is also being given to SALs in several other countries, including Ivory Coast, Jamaica, Pakistan and Thailand.

48. The Bank has been willing to consider requests for a SAL in all cases in which a government has presented a program which adequately addresses the country's adjustment problems, or which provides the basis for formulating such a program, and where the government has been willing to reach agreement with the Bank on a monitorable program of action.

49. Difficulty in gaining political acceptance for the adoption and implementation of structural adjustment programs has been and remains the overwhelming obstacle to proceeding more rapidly with Bank structural adjustment lending. These political obstacles derive from the established interests in the existing structure of incentives and present institutional arrangements, however inefficient they might be from a national standpoint. While adjustments can be gradual, in the medium and longer run the implementation of major changes in policies, programs and institutions is essential if structural adjustment is to be achieved, and balance of payments viability and reasonable levels of growth restored.

50. The difficulty which governments have in gaining political acceptance for adjustment programs is a general problem. However, these difficulties are magnified in countries in which levels of per capital income and of institutional development are low. Furthermore the needs of these countries to undertake programs of adjustment are frequently very great.

51. Many of these countries are in Sub-Saharan Africa. Their growth prospects, as presented for instance in the World Development Reports, are bleak, reflecting the fact that these are the least developed countries in terms of their per capita incomes (and therefore their absolute savings potential) and in their level of human resource and institutional development. Natural calamities such as droughts have also adversely affected production

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in many of them. However, the development strategies which these countries have pursued have also contributed to and, in some cases, are the main cause of poor performance. The impact of adverse changes in terms of trade, changes in OECD growth rates, and changes in the aid climate for many of them have, therefore, aggravated balance of payments and growth prospects which were in any case matters of major concern. In these countries, more than in most other countries, SAL operations have to address the underlying problems of development strategy as well as the more immediate adjustment problems. The major policy and institutional reforms supported under the SAL to Senegal reflect the depth of change in development strategy which is required if many Sub-Saharan countries are to be able to attain their development objectives and maintain balance of payments viability in the medium term.

52. In countries in which it is not possible for the Bank to agree with a government on a program of structural adjustment which can be supported through a series of SALs, the Bank has supported policy improvements on a more limited basis in the expectation that these could be broadened gradually. These operations have focussed on policy and institutional reform in priority sectors and subsectors of an economy. The prototype of this approach has been the Sudan Agricultural Rehabilitation Project which the Board approved in March 1980 and which supplemented a Fund EFF arrangement. The project addressed the rehabilitation needs of the agricultural sector but agreement was also reached on the size and composition of the total public investment program. A similar sectoral approach is under consideration in Tanzania.

53. Although the major obstacle to the adoption of adjustment programs is political, the shortage of specialist staff in government is often an aggravating factor. Specialist staff are required to analyze the various aspects of the adjustment problem and to formulate alternative action programs to deal with these problems. Some alternatives will be more politically acceptable than others and consequently the technical capacity to formulate policy options is important. Where this capacity is weak, technical assistance can be provided to reinforce local staff. Technical assistance has been provided by Bank staff in the course of undertaking regular economic and sector work and also in undertaking other operational responsibilities. Reports prepared by such missions have been available to governments and these have covered issues of macro-economic and sectoral policy, and institutional reform. Furthermore, special aide memoires have frequently been prepared in order to assist governments in diagnosing problems and preparing solutions. In one case, a Bank staff member has been assigned for a year to provide technical assistance.

54. To complement what the Bank can do out of its regular staff work and its administrative budget, technical assistance has been provided whenever necessary from appropriate sources -- e.g., UNDP, bilateral assistance, or Bank-IDA financed technical assistance projects. Bank policy has been to ensure that technical inability to formulate a structural adjustment program would not be a barrier to SAL.

Implication of SAL for Other Bank Lending

55. The Bank seeks to support many objectives in a country in addition to structural adjustment, which involves the Bank in institution

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building, investment and policy issues in many sectors. To the extent that SAL operations must be financed at the expense of other operations the contribution the Bank can make in many of the sectors and subsectors may be adversely affected.

55. The possible difficulties and changes involved in accommodating SAL operations into the Bank's programs of country activities was emphasized in a recent paper to the Board.^{1/} In recommending that SAL operations should be made additional to the existing lending program, it was stated:

It would be ironic for Bank financing (of SAL) to come at the expense of its continuing support for borrowing countries' investment programs. The whole point of the Bank's response is to help countries sustain as much momentum as possible in their programs to promote growth and to alleviate poverty through investments which increase the productivity of the poor.

56. Without additionality, SAL operations must be primarily financed out of reallocations of funds from regular project operations within a country. In some countries this reallocation is possible without delaying the implementation of a country's investment program because as part of the adjustment process the public investment program is having to be reduced and its composition modified. For instance, in Turkey, Kenya and Senegal, the completion of ongoing projects as rapidly as possible has been given preference in the adjustment program over new project starts except in high priority areas such as energy and exports. The impact of this priority to ongoing projects is likely to have some effect on the desirability of new project commitments by the Bank. However, this effect in practice has been small because the Bank's project financing is in sectors and for projects of high priority.

57. Furthermore, as already noted, SAL lending and project lending are often mutually supporting. Actions by governments supported by SAL are intended to improve the policy and institutional framework within which projects are formulated and implemented, thus making for a more rapid and effective implementation of projects. Conversely, the policy improvements need to be reinforced by appropriate project operations. For instance, the constraints on the investment budget make it more necessary for low-cost and better-targeted solutions in the social sectors (e.g., water supply, education, urban, health) which can be supported by Bank project operations. Similarly the major industrial reforms being supported by the SAL to the Philippines require parallel policy action in the field of financial policy. This is to be supported under a separate Bank operation.

Allocation of Resources

58. Generally the foreign exchange made available by the SAL can be applied to a broad range of imports. However, in a few cases, a portion of the foreign exchange has been allocated for specific items, within the borrower's foreign exchange allocation program. The SAL to Turkey, for example, set aside a specific amount for imports by the private sector, for inputs of the fertilizer and pesticides industries and for basic industries

^{1/} "Possible Expansion of IBRD/IDA Lending over Presently Planned Levels" (R80-325, November 14, 1980, para. 29).

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(e.g., steel). A more limited list of eligible imports has also been agreed under the Guyana SAL and a portion of the loan is allocated to an export development fund which will provide for the imports required by exporters. Generally it has been agreed that counterpart funds would be utilized to finance the agreed public investment program, except in the case of Senegal where the use of counterpart funds was limited to financing development expenditures of para-statal enterprises, primarily in the agricultural sectors, which entered into program contracts with the Government.

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IV. CONCLUSIONS

59. While experience to date has been limited structural adjustment lending shows every sign of becoming an effective means of assisting those countries where the government is both able and willing to formulate a specific and comprehensive program of adjustment. Each operation thus far has provided a focus for intensive discussion of a wide range of critical issues including trade policy, institutional reform, effectiveness of public expenditures and resource mobilization. These discussions, in turn, have led to the adoption by governments of detailed action plans which promise to re-establish a viable balance of payments position in the medium-term, while maintaining the maximum feasible development effort. The Bank's structural adjustment loans have effectively complemented the use of Fund facilities by the same borrowing countries.

60. As anticipated when the program was initiated, the particular requirements of each country vary and SALs have been designed in a flexible manner. It is still too early to draw any firm conclusions about the effectiveness of the programs agreed to. Nor is it yet clear whether, or to what extent sector loans with a significant general policy content can become the precursors of broader programs. However, there seems little doubt that the SAL operations have assisted borrowers in designing and beginning to implement programs of structural change which are broader in scope and more sensitive to longer term development objectives than would have been likely otherwise; and that they are providing the foundation for analysis of policy options which should help in shaping further policy changes.

61. There are ten countries in which SALs have either been approved or are likely to be ready for Board consideration during FY1981 and several others in which preparatory work and discussions have begun. This is a relatively small proportion of the countries requiring programs of structural adjustment. Of course, structural adjustments are being introduced in several countries without direct Bank involvement, and in others the Bank supports the necessary sectoral and other policy changes through its project and sector operations. Nevertheless, more developing countries need to identify their long-term problems more clearly and formulate and implement structural adjustment programs in order to maintain a reasonable rate of growth and development during the 1980s. This is particularly true of the poorest and least developed of the Bank's member countries and special efforts are being made by the Bank to assist governments in these countries to formulate appropriate programs.

62. It is impossible to project with precision the number of countries in which the Bank will be able to support a program of structural adjustment during the next two years. This will depend on the speed with which follow-up operations can be prepared, and on the number of additional countries

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for which SALs can be formulated. For a number of those countries in which SALs have already been approved, follow-up operations can be expected during FY1982-83. In addition, it is expected that a first SAL to at least four other countries will be submitted to the Board for approval during FY1982, for a total of about 10 operations. However, during FY1982, it is expected that other countries will recognize the need to address their adjustment problems in a substantive and comprehensive manner and will seek Bank technical assistance in formulating their programs. These developments can then be expected to lead to further SALs in FY1983.

Robert S. McNamara
President

by Ernest Stern