Folder Title:	Lending Programme - General Correspondence - 1983 to 1986
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LENDING

"LENDING PROGRAMME"
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L E N D I N G

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Lending Programme

ASB

~~M. Raghavan~~

Mexico

DATE: October 8, 1986

TO: See Below

FROM: Leain-Hong Ding

EXTENSION: 72359

SUBJECT: Lending Timetables for FY87-90S including 87-89R's and Four-year FY87-90 Lending Program Review

1. The Region is going through major review of its FY87-90 Operations/Reserve program. The FY87 program was resetted at the September review meetings between Program/Projects Departments. The same will be discussed at the October 9 (for LC2) and October 10 (for LC1) meetings aiming to firm up the 88 Appraisal and Board Schedules. With 63 projects now showing as scheduled for FY89, and 60 for FY90, it is necessary to review these outer years' programs now in preparation to provide the SVPOP/PBD with our official FY87-90 Four-Year Lending program in mid-November. Consequently, the two Program Departments are asked to provide the Program Coordinator's office a marked up FY90 program using the Five-Year Lending/Reserve Program Report by country, along with the October 27 submissions of your FY87-89 lending timetables.

2. The suggested four-year FY87-90 guidelines by Department are as follows:

		FY87	FY88	FY89	FY90
LC1 Current TTs	- Amt.	2.2b	2.4b	2.7b	1.9b
	No.	20	21	24	25
Guideline	- Amt.	2.2b	2.3b	2.5b	2.7b
	No.	20	21	23	23
(Of which MXC	No.)	7	9/10	10	10
LC2 Current TTs	- Amt.	2.8b	3.5b	4.7b	4.1b
	No.	23	29	39	35
Guideline	- Amt.	2.8b	3.4b	3.5b	3.8b
	No.	23	29	31	31
(Of which BRA	No.)	10	11	11	11
Total LAC Budgeted Level	/Amt.	5.0b	5.7b	6.0b	6.5b
	No.	43	50	54	54
(Of which COPD-mngd	No.)	5	6	6	6

Note: FY87 number of projects was reduced by 3 from 46.
FY90 figures are extrapolated from 87-89.

P-1867

3. In addition, the following guidelines were approved by the RVP/Directors for monitoring of the FY88 (and future) Operations Program:

a) Initial EPS — Must be before March 31, 1987

b) Project Briefs — Must be before March 31, 1987

c) Final EPS/IM — Must be before June 30, 1987 (FY89 and later projects must have Final EPS scheduled before start of FY.)

Beginning this month, projects not in compliance with the above rules will automatically be slipped. The objective of these guidelines is to arrive at a reasonable Operations/Reserve program with realistic schedule.

Timetables Processing

4. Before the incidence of unilateral changes to timetables by Programs or Projects increase any further, this is to remind all those preparing the monthly timetables that appropriate consultations and clearance be restored in that Projects and Programs staff should agree on the schedule entered every month on the lending timetables. In the unusual event of complete deadlock, the issue should immediately be elevated for the next level, such as Division Chief or Assistant Director levels, for resolution. With the present linear processing procedure, change subsequently introduced after the timetables left the Projects Division is incumbent upon Program Divisions/Departments to clear with your Projects counterpart. Any disagreements between Programs and Projects should be noted and major slippages such as delays in Appraisal mission scheduled should be commented on the timetables. As an exception, the Program Departments and Regional Office are free to shift projects between L and S and/or lowering certain project amounts in order to balance the lending program.

Lending Timetable Schedule

5. The Lending database will be uploaded to the OMSB by close of business on Thursday, October 30, 1986. I suggest the following schedule be followed for preparation of this month's lending timetables:

Lending Timetables
Projects Divisions to Programs Divisions
c.o.b. on Friday, October 17, 1986

Lending Timetables and Marked-up FY87-90 Program
Programs Divisions to Programs Front Office
c.o.b. on Wednesday, October 22, 1986

Lending Timetables and Marked-up FY87-90 Program
Completion of Programs Front Office Reviews
c.o.b. on Monday, October 27, 1986

6. In the preparation of lending timetables, please observe the following regional guidelines:

(a) Any date falling within the next six months (i.e. through April 30, 1987) should have valid dates: e.g. board date on Tuesdays and not on holidays or board recess. All core steps from Project Brief to Board Approval (including I.EPS) should be filled in; dates beyond the six month period should be estimated for the month and year with '15' entered as the day for the month. This information is needed to provide the Bank's senior management with a meaningful elapsed time report for monitoring purpose. This requirement also applies to reserve projects;

(b) Elapsed time between processing steps should be kept to a minimum. With the new loan processing procedure, the following are the standards for scheduling projects falling under the new procedure as set out in Op Circular 86/01 (i.e. excluding Structural and Sector loans):

Initial EPS to Project Brief	9-18 months
Project Brief to Final EPS	2-4 months
F.EPS to Appraisal Departure	6-8 weeks
Appraisal Dep. to Yellow Cover	2 months
Yellow Cover to Docs. to LC/RVP	within 5 weeks
Docs. to LC/RVP to Start Nego.	2-4 weeks
End Nego. to Board Approval	6-8 weeks

(c) FY87 Projects Only. For ease of clearly identifying those FY87 loans falling under the new loan processing procedure, you are requested to enter an '*' after those project names and to footnote 'This project is to be processed under the new loan processing procedure.' in the Comments Section of the timetables.

(d) Also, for those projects falling under the new procedure, please include in the local steps the Initial EPS date (of issuance of the memorandum) and the Pre-Appraisal Review Meeting date (ref. para. 24 of Circular Op 86/01). The EPS/IM to LC is the date of issuance of the final EPS (or in the case of SAL, the Initiating Memorandum) to the Loan Committee;

(e) All projects must have probability codes (A, B, C or D); and

(f) Programs' Administrative Assistants are asked to coordinate the timetable processing with the following persons in the COPD units: Ms. Jaleh Labib, D508 for EGY projects, Ms. Caroline Cumming, A513 for IND projects, and Mrs. Andree Plant, N421 for PHN projects, to ensure timely processing.

7. An "Instruction on Processing Lending Timetables" was distributed to all LAC Division Chiefs and Administrative/Operations Assistants in August 1986, providing instructional information necessary to complete the monthly lending timetables in LAC. If you need additional copies, please contact Ms. Dila (extension 72359).

Attachment (Timetables in duplicate for LCP Division Chiefs and other managing units: EGY-Ms. Labib; IND-Ms. Cumming; PHN-Mrs. Plant)

Distribution:

Messrs. Steckhan, Gue, Picciotto, Aguirre-Sacasa, Finzi, Jennings, Wessels, McGarry, Wijnand, Thornley, Keare, Martinez, Thys, Moscote, Flood, Schultz, Thint and Ms. Barry
Weissman (EIS), Schebeck (PHN)

Cleared with and cc: Mr. Gregory

cc: Messrs. Dolenc, Bomani and Mss. Chung, Tidwell
Mss. Lamadrid, Molfino, Tveskov, Arevalo, Wilson, Wilcox, Giron-Pearson, Yarrington, Cooper, Leow-Wilcher, Lee, Berg (EIS), Labib (EGY), Cumming (IND), Plant (PHN) and Mr. Stein

Division Chiefs LC1, LC2; Administrative Assistants LCP

LDing:LNDttmemo:ejd

LENDING Program

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

1. ~~Mr. Ee Pekkarinen~~
2. ~~Ms. Stuh~~
3. ~~Ms. Koch~~
4. ~~Mr. Duenas~~
5. ~~Mr. Sanik~~
6. ~~Mr. Khurana~~
7. EISK-Files China

The lack of anything CONCRETE on petroleum reflects, I assume, the absence of discussions between SPC and MOPI to date. Is this correct?

DATE July 6, 1986

TO Files

FROM David Pearce (AEFCH) & Kabir Ahmed (AEACH)

EXTENSION

SUBJECT FY87 & FY88 Operations and Lending Programs

1. In accordance with understandings reached during Mr. Kaji's visit to Beijing, June 24-30, 1986 (cf. Aide-Memoire dated June 30, 1986, para. 4), Bank headquarters and resident staff met with officials of the Ministry of Finance (MOF) and State Planning Commission (SPC) on July 4, 1986: to review the status of the FY87 and FY88 operations and lending programs; to identify and agree on actions required to confirm the size, scope and content of planned lending in both years and in FY88 in particular; and, in this connection, to explore the prospects for increasing Bank/IDA commitments up to $2 billion in FY87 and over $2 billion in FY88.

2. Messrs. B. Merghoub & K. Ahmed (AEACH) and Messrs. E. Lim and D. Pearce (AEFCH) represented the Bank and Messrs. Wang Liansheng (MOF) and Wang Yiping (SPC) represented the government. The outcome of the discussions with respect to individual projects (FY87) and proposed projects/project ideas (FY88) is noted in Attachments I and II of this memorandum, which thus update Attachment I of the Aide-Memoire dated June 30, 1986. This memorandum itself records the main points of a more general nature that emerged during these project- or sector-specific discussions.

(2.) EPS (?)

3. Semi-annual Review of Lending Operations. Mr. Merghoub said that, as background for the next formal review of planned lending operations (currently planned for February, 1987), Bank staff would prepare project briefs (2 or 3 pages in length) for each operation included in the FY87, FY88 and, to the extent feasible, FY89 operations and lending programs. In addition to the project description (objectives and components), estimated total project cost and proposed loan and/or credit amount (including prospective co-financing, where appropriate), each project brief would: indicate the current status of preparation; identify the issues, if any, that needed to be resolved and the government agency or ministry responsible for agreed follow up action; and, list the next steps, including a timetable, to be taken to advance further or complete loan and/or credit processing. The latter would reflect the administrative procedures and requirements of both the government and the Bank which should proceed concurrently and, to the extent possible, be fully synchronized. In this connection, it was agreed that the Resident Mission would be responsible, in consultation with MOF and SPC, for ascertaining the government's principal processing requirements (in general and with reference to each project) from project identification through to loan and/or credit negotiations, approval, signing and effectiveness; and, that this data would be conveyed to Bank headquarters as soon as practicable to ensure readiness of the project briefs for the next (February, 1987) lending program review. Once agreed upon, these project briefs would provide the basis for both the government and the Bank to monitor the progress of project preparation and loan

and/or credit processing on a continuing basis. They would be updated at least semi-annually, i.e. following each lending program review mission, and more frequently, if circumstances required.

4. FY87 & FY88 Lending Amounts. During the discussions of the FY87 lending program, Mr. Wang Yiping confirmed that it was the government's intention to borrow up to $2 billion from the Bank/IDA in FY87. To this end, SPC was proposing two additional operations - a fourth railway project and a sixth electric power project (cf. para. 7 below) - in addition to the special (Technical Assistance) credit proposed by the Bank. These are listed in Attachment I. [Based on currently proposed loan/credit amounts, total FY87 lending, including the three additional operations noted above, could reach about $1.8 billion, an increase of almost 60% over FY86.]

5. Regarding planned lending in FY88, Bank staff noted that about twenty projects and/or project ideas had been identified, of which the twelve operations already now considered as reasonably firm could result in loans/credits totalling about $1.9 billion. However, it was agreed that the proposed loan/credit amounts, where indicated in Attachment II, should be considered highly tentative and subject to further project preparation, in which connection the follow up work to be undertaken by both the Bank and the government during the next 12 months would be critical to the goal of increasing Bank/IDA lending to over $2 billion in FY88. [Bank staff pointed out that, although it would not be possible to accommodate more than fifteen operations in any one year, project identification and preparation should nevertheless proceed without delay, not only to confirm the FY88 lending program as soon as possible but also to strengthen the FY89 pipeline.]

6. Policy-Based Lending. Mr. Wang Yiping confirmed that Bank staff should discuss the possibility of a policy-based operation directly with the State Commission for Restructuring the Economic Systems and advise SPC when progress had been made in defining further a proposal, including the objectives and content of such a loan. Mr. Lim replied that, as agreed during the discussions with Mr. Kaji, the Resident Mission would follow up this matter during the next few weeks and develop a basis for further consideration of possible policy-based lending to China (in support of its system reform program) within the Bank and subsequently with the government. He also emphasized, and it was agreed, that the government's intention to increase substantially its borrowing from the Bank/IDA during the years immediately ahead and its interest in possible policy-based loans should at this stage be pursued independently. It was particularly important that neither the Bank nor the government should allow attention to be diverted from the agreed immediate priority, which was to develop a strong medium- and longer-term project pipeline.

7. Sectoral Priorities. Mr. Wang Yiping indicated that, given the high priority accorded to railways in the 7th Five Year Plan and the government's intention to increase borrowing from the Bank/IDA as quickly as possible, SPC would like the Bank to help finance the railway projects it had proposed commencing, if possible, in FY87. Following the discussions on this subsector during Mr. Kaji's visit, SPC was also interested in possible Bank financing of "time-slice" operations in railways and also coal as soon as possible. Turning to the proposed Power VI (Yanshi thermal) project, Mr. Wang Yiping noted that this was a scheme already under initial implementation and that Bank financing PETROLEUM.

was being sought for the first two generating units in FY87. He considered this proposal to be a testcase for future Bank financing of projects in the electric power sector. Bank staff said that the power mission proposed for August would be requested to review the project's economic viability and other aspects of existing and proposed implementation with a view to assessing the scope, if any, for Bank assistance already in FY87.

8. Regarding industry, Mr. Wang Yiping said that SPC was interested also in Bank assistance for petro-chemicals, especially for capacity expansion and for downstream processing of plastics and synthetic fibres. Mr. Merghoub replied that the Bank planned to review the scope and priorities for its assistance to industry in China later this summer and this latest request would be taken into consideration. He suggested that, in the meantime, SPC should consult further with the line agencies and ministries concerned to determine the specific priorities for Bank assistance; the Bank and SPC could then jointly review the shape and size of future collaboration in the industry sector in October or November, 1986. In this context, Mr. Wang Yiping said that SPC's priorities for industry were, first, iron and steel and, second, petrochemicals; he personally accorded higher priority to petrochemicals than to fertilizers. Since there were several petrochemical projects already under implementation, the Bank might even consider a possible project in FY88 if it were seriously interested in this subsector.

9. Mr. Wang Yiping then enquired about the Bank's views concerning the proposed Nanjing Caprolactam and Henan Pharmaceuticals projects (FY89-90). Bank staff replied that possible financing of these two projects would need to be reviewed in the light of overall Bank involvement in China's industrial sector. However, for a variety of reasons (efficiency and developmental impact, among others), the Bank was not normally interested in single, one-time operations but rather in a broader, more continuous sectoral participation which, particularly in industry, implied an involvement in upstream and downstream aspects. Thus, unless the Caprolactam and Pharmaceuticals projects offered prospects for the latter kind of involvement, the Bank was unlikely to be very interested in them. Mr. Wang Yiping said that he agreed with this view and added that the government could and should finance single, one-time investments from other sources.

Attachments: 1 - FY87 Lending Program
2 - FY88 Operations & Lending Program

cc: Messrs. Kaji, Merghoub (AEA); Husain (PHN); McCarthy (EGY);
Golan, Haug, Goldberg, Rowat, Stern (IND);
Turnham, Burmester, Sud, Colaco, Nayyar, Sabeti, Smith (AEP);
AEACH staff.
Messrs. Lim, Pearce, Goering, Khanna and Veniard (AEFCH).

DPearce/KAhmed:lbb/fy87 & 88 lending programs

FY87 Lending Program

Project	Proposed Loan/Credit Amounts* (US$ million)	Comments & Action Required
1. Red Soils	40	Negotiations 7/21 confirmed
2. Power V (Shuikou I)	178	Negotiations 9/2 confirmed
3. Shanghai Machine Tools	100	Negotiations 9/8 to be confirmed by end July
4. CIB IV	250	Appraisal commencing 7/4 (underway)
5. Xinjiang Development	70	Bank to confirm outcome of apprais (6/86) and to propose further processing timetable to Government
6. Coal II (Jincheng)	110	Appraisal commencing 7/7 (underway)
7. Gansu: Agriculture	130	Bank expects to propose negotiation of one loan/credit for all three components for 2/87.
Education	20	Bank to propose appraisal commencin mid-9/86
Industry	20	Preparation commencing 7/15 confirmed
8. Fertilizer II	140 (?)	Bank to propose appraisal commencing 9/86; loan amount to be determined at appraisal and, if foreign exchange component low, SPC prepared to consider Bank financing 50% of total cost.
9. Beijing-Tanggu Expressway	150 (?)	Bank to propose "formal appraisal" commencing 11/86; loan amount to be determined at appraisal; SPC now considers this project firm
10. Huangpu Port	108	SPC now considers this project firm although internal issues (foreign exchange repayment and port authority's ability to service debt) still need to be resolved. Bank to confirm outcome of appraisal (3/86) and propose further processing timetable.
11. Shanghai Environment	145	Appraisal commencing 9/86 confirmed.

Additional FY87 Projects

Project	Proposed Loan/Credit Amounts* (US$ million)	Comments & Action Required
12. Power VI (Yanshi Thermal)	100	Ongoing project; SPC requested Bank financing of first two generating units. Bank has meanwhile proposed identification/preparation mission commencing 8/86.
13. Railway IV (Zhejiang-Jiangxi)	200	SPC requested Bank to send preparation mission (e.g. 9/86), which should also review prospects for timeslice operations in FY88 and subsequent years.
14. Special Credit (Technical Assistance)	30	Bank proposed special additional credit to finance (1) feasibility studies; (2) sector investment studies, e.g. iron and steel; (3) preparation of 8th Five Year Plan (1991-95); and (4) training.
Total	1,791	

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* Current estimates, subject to appraisal and/or negotiations.

PROPOSED FY88 LENDING PROGRAM

	Project	Amount	Comments/Agreed Next Steps
1.	Coal III	350	Scope for possible time-slice operation, including Kailuan, to be discussed with Coal II APR mission (7/86); proposed loan amount acceptable for planning purposes at this stage.
2.	South China Offshore	200	SPC to prepare agenda of next steps required, following recent EGY mission, and convey to Bank; RMC to follow up; project objectives, cost and justification under internal review; loan amount tentative.
3.	Rural Credit III	250	Bank to propose preparation timetable; project to focus on Southwest China and on cash crops/agro-processing; loan/credit amount acceptable for planning purposes; an early FY88 prospect.
4.	Nei Monggol (He Tao) Irrigation	50	Bank to propose preparation timetable; loan/credit amount to be determined but SPC currently planning on \$50m; combining Nei Monggol with Ningxia impossible, owing different implementation schedules.
5.	Teacher Education	50	SEdC accords teacher education first priority, owing 9 year compulsory education law; credit amount to be determined but SPC currently planning on \$50m; could be combined with Educational Materials; Bank to advise status of sector work already undertaken and propose next steps.

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6.	Educational Materials/Textbooks	50	Bank to propose preparation timetable, after completion and review of sector study initiated recently; could be combined with Teacher Education.
7.	Provincial Highways (Sichuan or Shandong)	150	Bank to propose identification/preparation timetable; two projects proposed, one in FY88 and one in FY89.
8.	Dalian Port	130	Bank to confirm timetable for further preparation and appraisal.
9.	Cement	100	Project scope, loan amount & timing to be determined in light of preparation currently underway; SPC to consider Bank loan up to 50% of total project cost (if foreign exchange cost low).
10.	Phosphate Mining	250	SPC confirmed that project is included in 7th Five Year Plan; loan amount indicative and to be determined following completion of sector/project preparation.
11.	Daqing II	130	Bank management to review project concept discussed with recent EGY mission (7/86); if approved, Bank to confirm preparation commencing 9/86.
12.	Power VII (Wujin Thermal)	200	Bank project identification/preparation mission proposed for 8-9/86.

POSSIBLE PROJECTS/PROJECT IDEAS (FY88)

13.	Policy-Based Loan	*	RMC to follow up with SCREC directly.

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14.	Livestock	*	Subject to review of recent livestock sector mission's report and recommendations, SPC agreed to include possible project in FY88.
15.	Agroprocessing	*	While supportive of project idea, SPC would like Bank to clarify proposed financing and institutional modalities; SPC envisages a credit project to finance priority activities based on an agreed strategy that should be developed by means of a comprehensive sector/subsector study. Bank to review project concept and propose next steps; SPC to propose principal counterpart agency for project development and RMC to follow up.
16.	Fertilizer III	*	SPC agreed that Fertilizer III be designed as sub-sector loan; Bank to propose identif-ication/preparation timetable.
17.	Cement Machinery	*	SPC agreed to inclusion of project in FY88 (tentatively), subject to outcome of recent subsector mission (6/86); Bank to propose next steps.
18.	Railway V	300	SPC proposed time-slice loan, with $300m as indicative order of magnitude; Bank Rail-way IV preparation mission (9/86) to review 7th Five Year Plan railway investment program and identify possible scope of timeslice.
19.	Inland Water Transportation (Jiangxi Province)	*	SPC agreed to inclusion of project in FY88 (tentatively), subject to outcome of sector study now underway; project could be designed as provinc-al intermodal operation; SPC to consider Bank financing up

			to 50% of total project cost; Bank to propose next steps.
20.	Power VIII (Hainan Hydro/Irrigation)	*	While SPC agreed to retain Hainan Hydro/Irrigation as project idea, availability of local counterpart resources not yet confirmed; Bank Power VI identification/preparation mission (8/86) to review project status and prospects for Bank financing.
21.	Three Gorges Engineering	*	Next steps to be determined in light of outcome of studies now underway.

LENDING Program

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 14, 1986

TO: IND Lead Advisors

FROM: Harinder S. Kohli

EXTENSION: 74633

SUBJECT: Summary of Board Discussions on Sector Adjustment Lending

I recommend that you read the attached summary of recent Board Discussions on Sector Adjustment Lending.

cc. Messrs. Dherse, Golan, Bourcier, Haug, Hume, Weissman, Ludvik
IND Managers

Record Removal Notice

File Title	Barcode No.
Lending Programme - General Correspondence - 1983 to 1986	30442073

Document Date	Document Type
March 31, 1986	Board Record

Correspondents / Participants
From: Vice President and Secretary

Subject / Title
Summary of Discussions at the Meeting of the Executive Directors of the Bank and IDA, March 4, 1986

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	July 26, 2023

Blue

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

LENDING PROGRAMME-gen

DATE February 14, 1986

TO Jean-Loup Dherse, Vice President, Energy and Industry

FROM Robert Saunders, Acting Assistant Director, EGY

EXTENSION 72083

SUBJECT <u>Selective Liberalization of IBRD Repayment Term
OVP Meeting, February 19, 1986</u>

1. The draft memorandum to Executive Directors understates the impact of the increased debt service burden which the FY76 decisions shortening grace periods and maturities and adopting level principal repayments placed on the Bank's borrowers. The standardization of shorter grace periods on a country basis often results in the need to initiate repayments of principal during project construction before the loan is fully disbursed and when no benefits accrue to the project. Furthermore, since loan repayments are based on the face amount of the loan, the repayments may be large relative to disbursements, and in some cases there may be a net outflow in favor of the Bank. Also, the level amortization of principal results in the highest debt service payments being made early in the project life when benefits are typically the lowest. The adoption of the tightening measures was taken to maximize lending with a given capital base. With the debt service difficulties faced by many of the Bank's borrowers, the existing grace periods and amortization schedules are not in their best interest. Accordingly, the proposals contained in the memorandum to lengthen grace periods and place principal repayments on an annuity basis may be strongly supported.

2. There is, in fact, scope for giving consideration to greater liberalization than is proposed. Specifically the Bank could:

(a) Reconsider its "firm policy" against rescheduling;

(b) Extend the proposed liberalization to all borrowers;

(c) Provide both longer grace periods and annuity principal repayment schedules for qualifying middle income countries without the limitation of an "equivalent claim on Bank credit";

(d) Increase the average loan life for low-income countries to more than the ten years now proposed;

(e) Make principal repayments prior to project completion on only the portion of the loan drawn down; and

(f) Place a cap on the floating interest rate so that any interest over the cap rate would be capitalized and repaid in the year(s) after the original principal is repaid, thereby guaranteeing a fixed annual debt service payment.

3. The memorandum correctly notes the effect of repayment liberalization on the Bank's capital and borrowing requirements and portfolio risk. Within the limits of the assumptions made the impact appears manageable. The assumption underlying these projections seems to be that all countries given the opportunity for liberalized repayment terms will accept . It may be that the foreign exchange position and debt service level of a few countries (e.g. China) does not justify the relaxation. If this is the case, the Bank could adopt some qualifying criteria for both middle and low income countries to enable whatever overall level of capital is to be committed to be allocated only to the countries with a genuine need.

AHERON:ma
cc: Rovani, Hume

F.O. Blue

Lending Program

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 25, 1985

TO Mr. Ian Hume, Acting Director, EGY

FROM Eugene D. McCarthy, Acting Assistant Director, EGY

EXTENSION 74081

SUBJECT Status of FY86 - 87S Lending Program in Energy Department

1. The planned EIS FY86 lending program shows a total of 32 lending operations which comprises a planned 13 (+ 1 suppl.) project operations for EGY. Of the planned EGY target, only three currently have regional recognition (i.e. agreed FY86 timetables) and a further 10 - 11 have an FY87S status.

2. Both operating divisions met with Steve Weissman today to review the status of this lending program. The situation is as follows:

EGYD1

Two FY 86 Projects (Thailand and YAR) with good prospects to materialize.

Five 87S projects of which three have a good chance (China, Indonesia and Bangladesh) this fiscal year, one is 50/50 (Syria) and one has recently slipped to FY87 (Korea).

Reserve Projects In this category there are, at best, two with a chance of emerging: Turkey Gas Engineering and Oil India; both are less than 50%.

Overall, on the basis of reasonable assumption, five projects look reasonably solid, with the possibility of a further two emerging.

EGYD2

FY86: Two projects with good prospects (Kenya and Zaire). Two are likely to be dropped (Ethiopia and Somalia); however, one project (Tanzania) may substitute for one of these dropped projects and there is some chance of a lending operation in Ghana too. In Latin America, there are possibilities in Bolivia (it currently does not have a timetable) and Colombia but there are question marks whether these will materialize (in FY88).

In FY87S the best (and only) prospect is Uruguay.

Overall, a good chance of four projects increasing to six if one project in Africa and another in Latin America materialize.

P-1866

3. In summary, therefore, a conservative estimate for the department would give 9 - 10 projects on a reasonably solid footing, and the possibility of 12 - 13 only if a number of stand-bys and reserves were to materialize. In terms of dollars, somewhere between US$350 - 450 million seems achievable on the basis of 10 projects. As is evident from the foregoing, a major task in consolidation lies ahead if the planned FY86 target is to be achieved.

cc: Messrs. P. Bourcier (o/r); W. Schaefer; E. Daffern; S. Weissman

EDMcCarthy:pm:eo

LENDING Program

~~MR Rewat~~

~~Bog~~

~~Nguyen~~

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE July 5, 1985

TO Mr. S. S. Kirmani

FROM Izzet Zincir IZ

EXTENSION 72427

SUBJECT Status of Closing Dates in FY85

1. Attached tables contain information on the status of closing dates as of June 30, 1985 which indicate the following:

(a) 49 projects were closed in FY85 (Table 1)
(b) 41 more projects were supposed to be closed in FY85 but extended beyond (Table 2)
(c) In FY85, closing dates of 54 projects were extended (Table 3)
(d) 49 project carried over to FY86 with their closing dates already extended at least once (Table 4)
(e) 77 projects are scheduled to be closed in FY86 (Table 5)
(f) Out of these 77 projects, 32 would currently require time extension beyond FY86.

2. As the Table 1 below shows, there has been some progress in FY85 in the number of projects closed: we closed 49 projects which is the highest number so far in a single fiscal year. Another noteworthy feature is that 21 projects were closed at their original closing dates which is also a record so far. On the other hand, portfolio included more projects with extended closing dates (82 against 77 last year) and we are carrying over to FY86 more projects with extended closing dates than last year: (49 against 45 last year).

Table 1: COMPARISON OF CLOSING DATES
(FY83 - 85)

	FY83	% of Portfolio	FY84	% of Portfolio	FY85	% of Portfolio/a
1. No. of projects closed	32	11	42	15	49	
2. No. of projects closed on original dates	5	1.7	5	1.3	21	
3. No. of projects in portfolio with extended closing dates	69	25	77	26	82	
4. No. of projects extended 1-2 years	26	9	64	22	68	
5. No. of projects extended more than 2 years	43	15	13	5	14	
6. No. of projects carried over to next fiscal year with extended closing dates	53	19	45	15	49	

/a Portfolio for FY86 will be determined when final disbursement figures are issued in late July 1985.

(There are three more projects which we expected to close on June 30, 1985 but their status is still unknown. Although no formal action has been taken to grant them time extension, the Divisions concerned believe that we will receive request from governments and agree to extending their closing dates. These three projects are):

Table 2: PROJECTS WITH 06/85 CLOSING DATE BUT LIKELY TO BE EXTENDED BEYOND

		------ Closing Dates -----			
		Original	Current	Proposed	Delay
Malaysia	National Extension (Ln1493)	12/83**	06/85	12/85	24
Philippines	Urban Engineering (Ln2067)	06/85	06/85	06/86	12
Sol. Islands	DFC (Cr.1115)	06/85	06/85	06/86	12

3. Country and sector distributions of the projects closed in FY85 are as follows:

Table 3: PROJECTS CLOSED IN FY85 BY COUNTRY AND SECTOR

Country

Country	Agr.	Educ.	Trans.	Energy	IDF	Urban/ WS	COPD OPS/TA	Total
Indonesia	5	2	---	2	1	---	2	12
Korea	7	1	1	1	3	---	1	14
Malaysia	1	1	1	---	---	1	1	5
PNG	3	---	1	---	---	---	---	4
Philippines	2	---	1	---	---	1	2	6
iland	1	1	---	2	1	---	3	8
Total	19	5	4	5	5	2	9	49

4. The majority of the closures in FY85 were in Korea, Indonesia and Thailand and in terms of sectors, in agriculture.

Outlook for 86

5. The information supplied from the divisions indicates that out of the 77 projects which are scheduled for closure in FY86, 32 are likely to require time extension, which would leave us with 45 closures in FY86, lower than the number in FY85.

The projects requiring time extension are concentrated in Indonesia, Philippines and Thailand. The details are in Table 6. However based on past experiences, one can easily assume that this 32 number will increase during the course of FY86. Unless prospects for these projects change in the coming months, our FY86 performance on reducing closing dates extension will not be as good as in FY85. Please note that of the 77 projects scheduled for closure in FY86, one third (26) are in the Philippines which is a consequence of frequent and numerous time extensions in that country. If all these projects are closed in FY86, the portfolio in the Philippines will be cut almost by half since the number of new commitments has been declining.

Attachments

cc: Messrs. Karaosmanoglu, Kaji, Calderisi, Blaxall, Davar,
Turnham, AEN, EIS/PHN2 Division Chiefs, D.C. Rao
Q. Hermans
Ms. Gooi

IZincir/sbc

EAST ASIA AND PACIFIC

PROJECTS CLOSED DURING FY85
(as of June 30, 1985)

Country/Project		Original Closing Date	Date Closed	Difference (month)
INDONESIA	Irrigation VIII (Ln. 1434)	03/83*	03/85	24
	Irrigation IX (Ln. 1435)	12/81*	12/84	36
	Irrig. (Cimanuk)(Ln. 1691)	03/84*	03/85	12
	Irrigation XI (Ln. 1579)	12/83*	12/84	12
	Rural Credit I (Cr. 827)	03/85	03/85	--
	Fifth T.A. (Cr. 898)	03/84*	03/85	12
	Power VI (Ln. 1365)	12/82***	12/84	24
	Power VII (Ln. 1513)	12/83*	12/84	12
	SEDP I (Cr. 785)	12/81*	12/84	36
	Population III (Ln. 1869)	03/85	03/85	--
	Polytechnic I (Cr. 869)	06/85	06/85	--
	Ag. Training I (Ln. 1692)	06/85	06/85	--
	Indonesia Total: 12 Projects			
KOREA	Ogseo Area Dev. (Ln. 1503)	06/83**	06/85	24
	Ag. Marketing (Ln. 2111)	06/85	06/85	--
	High Tech. Educ. (Ln. 1800)	06/84*	06/85	12
	KDB IV (Ln. 1933)	06/85	06/85	--
	KLB VIII (Ln. 1932)	06/85	06/85	--
	Gwangji Reg. Pro. (Ln. 1758)	06/84*	06/85	12
	SAL II (Ln. 2354)	12/84	12/84	--
	Railways VII (Ln. 1836)	12/83*	12/84	12
	Ag.Prod.Proc II (Ln. 1851)	09/84*	02/85	5
	Power I (Ln. 1778)	12/84	12/84	--
	Yongsang Gang (Ln. 1364)	12/84	12/84	--
	Miho Watershed (Ln. 1319)	12/83	12/84	12
	Ag. Credit III (Ln. 1974)	12/85	06/84/a	(16)
	CNB I (Ln. 1829)	12/84	12/84	--
	Korea Total: 14 Projects			

* = Closing date was extended once.
** = Closing date was extended twice.
*** = Closing date was extended three times.
/a Closed earlier than expected due to faster utilization of project funds.

IZincir:mi(Closng85-1)

Country/Project		Original Closing Date	Date Closed	Difference (month)
MALAYSIA	Sewerage (Ln. 1213)	12/81*	06/84	30
	Population II (Ln. 1608)	12/83*	12/84	12
	Sm. Scale Irrig. (Ln. 1444)	03/83**	03/85	24
	Education V (Ln. 1657)	06/85	06/85	--
	Highways III (Ln. 1376)	06/82**	06/85	36
	Malaysia Total: 5 Projects			
PNG	Ag. Credit II (Cn. 1149)	12/84	12/84	--
	Sm.Oil Palm Dev.IV (Ln. 1333)	12/84	12/84	--
	Highways III (Ln. 1856)	12/84	12/84	--
	Rural Deve. I (Cr. 841)	06/84*	06/85	12
	PNG Total: 4 Projects			
PHILIPPINES	SAL II (Ln. 2266)	12/84	12/84	--
	Small Farmer Dev. (Ln. 1646)	06/83**	06/85	24
	National Extension (Ln. 1626)	06/83*	06/85	24
	Highways III (Ln. 1353)	06/81***	06/85	48
	Urbanization II (Ln. 1647)	06/84*	06/85	12
	SAL I (Ln. 1903)	06/85	06/85	--
	Philippines Total: 6 Projects			
THAILAND	Education V (Cr. 913)	06/85	06/85	--
	Bang Pakong Thermal (Ln. 1690)	06/84*	06/85	12
	Ag. Credit I (Ln. 1816)	12/84	12/84	--
	Telecom. III (Ln. 1620)	09/83*	09/84	12
	Population I (C. 767)	12/81***	12/84	36
	DFC (IFCT IV) (Ln. 1956)	12/84	12/84	--
	Khao Laem Power (Ln. 177)	02/85	02/85	--
	Potash Eng'g (Ln. 1947)	03/83**	03/85	24
	Thailand Total: 8 Projects			

Region's Total: 49 Projects

* = Closing date was extended once.
** = Closing date was extended twice.
*** = Closing date was extended three times.
/a Closed earlier than expected due to faster utilization of project funds.

IZincir:mi(Closng85-1)

Projects Scheduled for Closure in FY85 but Extended Beyond

Country/No. Project	Original Closing Date	Official Current Closing Date	Difference (month)
Indonesia			
Irrigation X (Ln1578)	12/84*	12/85	12
Irrigation XV (Cr.995)	03/84**	03/86	24
Highways V (Ln1696)	12/84	12/85	12
Power VIII (Ln1708)	12/84*	12/85	12
SEDP II (ln2011)	12/84*	12/85	12
Urban Dev. III (Ln1653)	12/84*	12/85	12
Water Supply II (Ln1709)	12/84*	12/85	12
Pulp 2 Paper Eng. (Ln2199)	09/84*	09/85	12
(8 Projects)			
Korea			
Nat. Urban Land Dev. (Ln1980)	12/84*	12/85	12
Electronics R2 Dev. (Ln1676)	02/83**	08/85	20
Population In (Ln1774)	06/84**	06/86	24
Chungju Multipur. (Ln1660)	06/85*	12/85	
(4 Projects)			
Laos			
Ag. Rehab and Dev. (Cr760)	09/83**	12/85	24
Ag. Rehab II (Cr924)	12/84*	12/85	12
(2 Projects)			
Malaysia			
Krian/Sungei (Ln1632)	12/84*	12/85	12
MUDA Irrig. (Ln1717)	12/84*	12/85	12
FELDA VI (Ln1550)	06/85*	06/86	12
National Ext. (Ln 1493)	12/83**	12/85 a/	25
(4 projects)			
Philippines			
Samar Isl. Rural (Ln1772)	06/85*	06/86	12
Rural Dev. II (Ln1421)	12/82**	12/85	36
Rural Infra. (Cr790)	12/83*	12/85	24
Chico Irrig. (Ln1227)	06/81**	12/85	52
NISIP II (Ln1526)	12/84*	12/85	12
Minila Water S. (Ln1615)	12/83**	12/85	24
Ind. Finance Apex (Ln1984)	06/85*	06/87	24
Highways IV (Ln1661)	12/84**	06/86	30
Rural Roads (Ln1860)	06/85*	06/86	12
Magat Irrig. (Ln1567)	12/83**	12/85	24
Population II (Cr923)	06/85*	12/86	18
Education VI (Ln1786)	06/85*	06/86	12

Country/No. Project	Original Closing Date	Official Current Closing Date	Differenc (month)
Philippines (con't)			
Ports II (Ln1855)	06/85*	06/86	12
Urban Eng. (Ln2067)	06/85*	06/86 a/	12
Power VII (Ln1460)	06/82***	12/85	42
(15 Projects)			
Thailand			
Bangkok Sattahip (Ln1947)	12/84*	12/86	24
Inland Waterways (Ln1918)	06/84**	12/85	18
National Site II (Ln1870)	12/84*	12/85	12
Mae Moh Lignite I (Ln1852)	12/84*	12/85	12
Irrigation VI (Ln1149)	06/83**	12/85	30
Power Subsector (ln2000)	06/85	12/87	36
(6 Projects)			
Vietnam			
Irrigation (Cr845)	12/84*	12/85	12
(1 Project)			
Solomon Island			
DFC (Cr1115)	06/85	06/86 a/	12
(1 Project)			

Total extended in FY85	=	41 projects
Extended Once	=	30 projects
Extended Twice	=	10 projects
Extended three times	=	1 project
Total	=	41

a/ Not yet formally extended

* Extended Once
** Extended Twice
*** Extended three times

EAST ASIA AND PACIFIC

CLOSING DATES EXTENSION GRANTED DURING FY85
(as of June 30, 1985)

Country/Project		Original Closing Date	Official Current Closing Date	Months Extended Todate	Current Status
INS	Irrigation X (Ln. 1578)	12/84*	12/85	12	
INS	Irrigation XII (Ln. 1645)	03/84**	03/86	24	
INS	Irrigation XV (Cr. 995)	01/85*	01/86	12	
INS	Highways V (Ln. 1696)	12/84*	12/85	12	
INS	Power VIII (Ln. 1708)	12/84*	12/85	12	
INS	SEDP II (Ln. 2011)	12/84*	12/85	12	
INS	Urban Develop. III (Ln. 1653)	12/84*	12/85	12	
INS	Water Supply II (Ln. 1709)	12/84*	12/85	12	
INS	NES II (Ln. 1604)	12/83**	12/85	24	
INS	C. Java Pulp & Paper (Ln. 2199)	09/84*	09/85	12	
KOR	Ogseo Area Development (Ln. 1503)	06/83**	06/85	24	Closed
KOR	Ag. Prod. Process. II (Ln. 1851)	09/84*	02/85	5	Closed
KOR	Higher Tech. Education (Ln. 1800)	06/84*	06/85	12	Closed
KOR	Nat. Urban Land Dev.II (Ln. 1980)	12/84*	12/85	12	
KOR	Gwangju Regional Dev. (Ln. 1758)	06/84*	06/85	12	Closed
KOR	Electronics R & D (Ln. 1676)	12/83**	08/85	20	
KOR	Population I (Ln. 1774)	06/84**	12/85	18	
KOR	Chungju Multipurpose (Ln. 1666)	06/85*	12/85	6	
LAO	Ag. Rehab. and Dev. (Cr. 760)	09/83**	09/85	24	
LAO	Ag. Rehab. II (Cr. 924)	12/84*	12/85	12	
MAY	Krian/Sungei Mfg. (Ln. 1632)	12/84*	12/85	12	
MAY	MUDA Irrigation II (Ln. 1717)	12/84*	12/85	12	
MAY	Highways III (Ln. 1376)	06/82**	06/85	36	Closed
MAY	Felda VI (Ln. 1590)	06/85*	06/86	12	
MAY	Nat. Extension (Ln. 1493)	06/85**	12/85/a	24	
PAP	Rural Development (Cr. 841)	06/84*	06/85	12	Closed

* = Closing date was extended once.
** = Closing date was extended twice.
*** = Closing date was extended three times.
/a Not yet formally extended.

IZincri:mi(Closng85-2)

Country/Project		Original Closing Date	Official Current Closing Date	Months Extended Todate	Current Status
PHL	Samar Island Rur. Dev. (Ln. 1772)	06/85*	06/86	12	
PHL	Small Farmer Dev. (Ln. 1646)	06/83**	06/85	24	Closed
PHL	Rural Development II (Ln. 1421)	12/82**	12/85	36	
PHL	Rural Infrastructure (Cr. 790)	12/83**	12/85	24	
PHL	Chico Irrigation (Ln. 1227)	06/81**	12/85	52	
PHL	NISIP II (Ln. 1526)	12/84*	12/85	12	
PHL	Highways III (Ln. 1353)	06/81***	06/85	48	Closed
PHL	Manila Water Supply (Ln. 1615)	12/83**	12/85	24	
PHL	Ind. Finance (Apex) (Ln. 1984)	06/85*	06/87	24	
PHL	Highways IV (Ln. 1661)	12/83**	06/86	30	
PHL	Rural Roads (Ln. 1860)	06/85*	06/85	12	
PHL	Power VII (Ln. 1460)	06/82***	12/85	42	
PHL	Magat Irrig. II (Ln. 1567)	12/83**	12/85	24	
PHL	DBP Livestock (Ln. 1894)	06/84**	06/86	24	
PHL	Population II (Cr. 923)	06/85*	12/85	18	
PHL	Education VI-Fish. (Ln. 1786)	06/85*	06/85	12	
PHL	Ports III (Ln. 1855)	06/85*	06/86	12	
PHL	Urban Engineering (Ln. 2067)	06/85*	06/86/a	12	
SLI	DFC (Cr. 1115)	06/85	06/86/a	12	
THL	Power Subsector (Ln. 2000)	06/85*	12/87	30	
THL	Potash Engineering (Ln. 1947)	03/83**	03/85	24	Closed
THL	Bangkok Sattahip (Ln. 1918)	12/84*	12/86	24	
THL	Inland Waterways (Ln. 1889)	06/84**	12/85	18	
THL	Bang Pakong Thermal (Ln. 1690)	06/84*	06/85	12	Closed
THL	National Site II (Ln. 1870)	12/84*	12/85	12	
THL	Mae Moh Lignite I (Ln. 1852)	12/84*	12/85	12	
THL	Irrigation VI (Ln. 1149)	06/83**	12/85	30	
VTM	Irrigation (Cr. 845)	12/84*	12/85	12	

Total: 54 Projects

* = Closing date was extended once.
** = Closing date was extended twice.
*** = Closing date was extended three times.
/a Not yet formally extended.

IZincri:mi(Closng85-2)

EAST ASIA AND PACIFIC

PROJECTS WITH EXTENDED CLOSING DATE CARRIED OVER TO FY86
(as of June 30, 1985)

Country/Project		Closing Date Original	Closing Date Current	Month Delay
INS	Irrigation X (Ln. 1578)	12/84*	12/85	12
INS	Irrigation XII (Ln. 1645)	03/84**	03/86	24
INS	Irrigation XV (Cr. 995)	01/85*	01/86	12
INS	Highways V (Ln. 1696)	12/84*	12/85	12
INS	Power VIII (Ln. 1708)	12/84*	12/85	12
INS	SEDP II (Ln. 2011)	12/84*	12/85	12
INS	Urban Develop. III (Ln. 1653)	12/84*	12/85	12
INS	Water Supply II (Ln. 1709)	12/84*	12/85	12
INS	NES II (Ln. 1604)	12/83**	12/85	24
INS	C. Java Pulp & Paper (Ln. 2199)	09/84*	09/85	12
	Indonesia Total: 10 projects			
KOR	Nat. Urban Land Dev.II (Ln. 1980)	12/84*	12/85	12
KOR	Electronics R & D (Ln. 1676)	12/83**	08/85	20
KOR	Population I (Ln. 1774)	06/84**	12/85	18
KOR	Chungju Multipurpose (Ln. 1666)	06/85*	12/85	6
	Korea Total: 4 projects			
LAO	Ag. Rehab. and Dev. (Cr. 760)	09/83**	09/85	24
LAO	Ag. Rehab. II (Cr. 924)	12/84*	12/85	12
	Laos Total: 2 projects			
MAY	Krian/Sungei Mfg. (Ln. 1632)	12/84*	12/85	12
MAY	MUDA Irrigation II (Ln. 1717)	12/84*	12/85	12
MAY	Felda VI (Ln. 1590)	06/85*	06/86	12
MAY	Nat. Extension (Ln. 1493)	06/85**	12/85/a	24
	Malaysia Total: 4 projects			

* = Closing date was extended once.
** = Closing date was extended twice.
*** = Closing date was extended three times.
/a Not yet formally extended.

IZincri:mi(Closng85-4)

Country/Project		Closing Date Original	Closing Date Current	Month Delay
PHL	Samar Island Rur. Dev. (Ln. 1772)	06/85*	06/86	12
PHL	Rural Development II (Ln. 1421)	12/82**	12/85	36
PHL	Rural Infrastructure (Cr. 790)	12/83**	12/85	24
PHL	Chico Irrigation (Ln. 1227)	06/81**	12/85	52
PHL	NISIP II (Ln. 1526)	12/84*	12/85	12
PHL	Manila Water Supply (Ln. 1615)	12/83**	12/85	24
PHL	Ind. Finance (Apex) (Ln. 1984)	06/85*	06/87	24
PHL	Highways IV (Ln. 1661)	12/83**	06/86	30
PHL	Rural Roads (Ln. 1860)	06/85*	06/85	12
PHL	Power VII (Ln. 1460)	06/82***	12/85	42
PHL	Magat Irrig. II (Ln. 1567)	12/83**	12/85	24
PHL	DBP Livestock (Ln. 1894)	06/84**	06/86	24
PHL	Population II (Cr. 923)	06/85*	12/85	18
PHL	Education VI-Fish. (Ln. 1786)	06/85*	06/85	12
PHL	Ports III (Ln. 1855)	06/85*	06/86	12
PHL	Urban Engineering (Ln. 2067)	06/85*	06/86/a	12
PHL	Irrigation V (Ln. 1414)	12/82*	12/85	36
PHL	Magat River Irrig. (Ln. 1639)	12/83*	12/85	24
PHL	Smallholder Tree (Ln. 1506)	12/83*	12/85	24
PHL	Urban I (Lns. 1272/1282)	09/81*	12/85	51
	Philippines Total: 20 projects			
SLI	DFC (Cr. 1115)	06/85	06/86/a	12
	Solomon Islands Total: 1 project			
THL	Power Subsector (Ln. 2000)	06/85*	12/87	30
THL	Bangkok Sattahip (Ln. 1918)	12/84*	12/86	24
THL	Inland Waterways (Ln. 1889)	06/84**	12/85	18
THL	National Site II (Ln. 1870)	12/84*	12/85	12
THL	Mae Moh Lignite I (Ln. 1852)	12/84*	12/85	12
THL	Irrigation VI (Ln. 1149)	06/83**	12/85	30
THL	Bangkok Traffic (Ln. 1638)	09/82*	09/85	36
	Thailand Total: 7			
VTM	Irrigation (Cr. 845)	12/84*	12/85	12
	Vietnam Total: 1 project			

Total: 49 Projects

* = Closing date was extended once.
** = Closing date was extended twice.
*** = Closing date was extended three times.
/a Not yet formally extended.

IZincri:mi(Closng85-4)

EAST ASIA AND PACIFIC

PROJECTS SCHEDULED FOR CLOSURE DURING FY86
(as of June 30, 1985)

Country/Project		Original Closing Date	Official Current Closing Date	Current Delay (month)	Further Delay/ Extension Needed (month)
CHINA	Petroleum (Ln. 2231)	06/86	06/86	--	Yes (n.a.)
	China Total: 1 project				
INDONESIA	Transmigration II (Ln. 1707)	12/85	12/85	--	Yes (n.a.)
	Irrigation X (Ln. 1578)	12/84*	12/85	12	Yes (24)
	Irrigation XII (Ln. 1645)	03/84**	03/86	24	--
	Irrigation XIV (Ln. 1811)	01/86	01/86	--	Yes (12)
	Irrigation XV (Cr. 995)	01/85*	01/86	12	--
	Smallholder Coconut (Ln. 1898)	06/86	06/85	--	Yes (n.a.)
	NES II (Ln. 1604)	12/83**	12/85	24	Yes (n.a.)
	Smallholder Rubber (Cr. 984)	03/86	03/86	--	--
	Ag. Extension II (Cr. 996)	03/86	03/86	--	Yes (n.a.)
	Highway V (Ln. 1696)	12/84*	12/85	12	--
	Nat. Fertilizer (Ln. 2120)	06/86	06/86	--	Yes (n.a.)
	Power VIII (Ln. 1708)	12/84*	12/85	12	Yes (n.a.)
	Power IX (Ln. 1872)	09/85	09/85	--	Yes (12)
	Power XI (Ln. 2056)	06/86	06/86	--	Yes (12)
	Sm. Enterprise Dev. (Ln. 2011)	12/84*	12/85	12	--
	Urban Dev. III (Ln. 1653)	12/84*	12/85	12	Yes (24)
	Water Supply II (Ln. 1709)	12/84*	12/85	12	Yes (24)
	C. Java Pulp Paper (Ln. 2199)	09/84*	09/85	12	Yes (24)
	Univ. Dev. I (Cr.1167/Ln.2021)	06/86	06/86	--	--
	Indonesia Total: 19 projects				
KOREA	Population I (Ln. 1774)	06/84**	12/85	18	--
	SMIB IV (Ln. 2004)	12/85	12/85	--	--
	Water Supply I (Ln. 2072)	06/86	06/86	--	--
	Electronics R&D (Ln. 1676)	12/83**	08/85	20	Yes (12)
	Nat. Urban Dev. II (Ln. 1980)	12/84*	12/85	12	--
	Chungju Multipurpose (Ln. 1666)	06/85*	12/85	6	--
	Korea Total: 6 projects				
PHILIPPINES	Ag. Inputs (Ln. 2469)	12/85	12/85	--	Yes (12)
	Rural Dev. II (Ln. 1421)	12/82**	12/85	36	--
	Rural Infrast. (Cr. 790)	12/83**	12/85	24	Yes (12)
	Irrigation V (Ln. 1414)	12/82*	12/85	36	--
	Chico Irrigation (Ln. 1227)	12/81**	12/85	48	--
	NISIP II (Ln. 1526)	12/84*	12/85	12	Yes (12)
	Magat Irrig. II (Ln. 1567)	12/83**	12/85	24	--
	Magat River Irrig. (Ln. 1639)	12/83*	12/85	24	--
	Irrig. Supplement (Ln. 1639)	12/85	12/85	--	--
	Smalholder Tree (Ln. 1506)	12/83*	12/85	24	--
	Samar Rural Dev. (Ln. 1772)	06/85*	06/86	12	--
	Urbanization I (Lns.1272/1282)	09/81**	12/85	51	--
	Urbanization Supl. (Ln. 1282)	12/85	12/85	--	--
	Urbanization III (Ln. 1821)	12/84*	12/85	12	Yes (12)
	Manila Sewerage (Ln. 1814)	12/85	12/85	--	Yes (12)
	Prov. W.S. II (Cr.920/Ln.1710)	12/85	12/85	--	Yes (12)
	Manila W.S. (Ln. 1615)	12/83**	12/85	24	--
	Coal Exploration (Ln. 2181)	06/86	06/86	--	--
	Highways IV (Ln. 1661)	12/83**	06/86	--	Yes (30)
	Rural Roads (Ln. 1860)	06/85*	06/85	--	Yes (12)
	DBP Livestock (Ln. 1894)	06/84*	06/86	--	Yes (24)
	Power VII (Ln. 1894)	06/82***	12/85	--	Yes (42)
	Education VI-Fishery (Ln. 1786)	06/85*	06/86	--	Yes (12)
	Ports III (Ln. 1855)	06/85*	06/85	--	Yes (12)
	Urban Engineering (Ln. 2067)	06/85	06/86/a	--	Yes (12)
	Rainfed Iloilo (ln. 1815)	06/86	06/86	--	--
	Philippines Total: 26 projects				

* = Closing date was extended once.
** = Closing date was extended twice.
*** = Closing date was extended three times.
/a Not yet formally extended.

Country/Project		Original Closing Date	Official Current Closing Date	Current Delay (month)	Further Delay/ Extension Needed (month)
LAOS	Ag. Rehab & Dev. (Cr. 760)	09/83**	09/85	24	--
	Ag. Rehab II (Cr. 924)	12/84*	12/85	12	Yes (18)
	Ag. Rehab III (Cr. 1021)	06/86	06/86	--	Yes (12)
	Nam Ngum III (Cr. 1197)	09/85	09/85	--	Yes (18)
	Laos Total: 4 projects				
MALAYSIA	Krian/Sungei (Ln. 1632)	12/84*	12/85	12	--
	Power IX (Ln. 1808)	08/85	08/85	--	--
	Felda VI (Ln. 1590)	06/85*	06/86	12	--
	Nat. Extension (Ln. 1493)	06/85	12/85/a	6	--
	Malaysia Total: 4 projects				
SOLOMON IS.	DFC (Cr.1115)	06/85*	06/86/a	--	Yes (12)
	Solomon Islands Total: 1 project				
THAILAND	Irrigation IV (Ln. 1149)	06/83**	12/85	30	--
	Ag. Credit II (Ln. 2310)	03/86	03/86	--	--
	No. Ag. Dev. (Cr. 929)	12/85	12/85	--	Yes (12)
	N.E. Irrig. II (Ln. 1630)	09/85	09/85	--	Yes (15)
	Irrig. XI (Ln. 1787)	06/86	06/86	--	Yes (15)
	Ag. Extension II (Ln. 1752)	12/85	12/85	--	Yes (16)
	Provincial Roads (Ln. 2035)	12/85	12/85	--	--
	ARE II (Rur. Elec.)(Ln. 1871)	06/86	06/86	--	--
	Bangkok Traffic (Ln. 1638)	09/82*	09/85	36	--
	Nat. Site II (Ln. 1870)	12/84*	12/85	12	--
	Prov. W.S. (Ln. 1863)	04/86	04/86	--	Yes (24)
	Telecom. B-Loan (Ln. B001)	03/86	03/86	--	--
	Mae Moh Lignite (Ln. 1852)	12/84*	12/85	12	Yes (24)
	Inland Waterways (Ln. 1889)	06/84**	12/85	18	--
	Thailand Total: 14 projects				
VIETNAM	Irrigation I (Cr. 845)	12/84*	12/85	12	Yes (24)
	Vietnam Total: 1 project				
W. SAMOA	Ag. Dev. (Cr. 951)	06/86	06/86	--	--
	W. Samoa Total: 1 project				

TOTAL: 77 Projects to be closed by June 30, 1986

* = Closing date was extended once.
** = Closing date was extended twice.
*** = Closing date was extended three times.
/a Not yet formally extended.

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PROJECTS LIKELY TO BE EXTENDED BEYOND FY86 CLOSING DATE

	Original	Current	Proposed	(Month) Delay
China				
Petroleum I (Daqing)(Ln2231)	06/86	06/86	NA	--
(1 Project)				
Indonesia				
Transmigration II (Ln1707)	12/85	12/85	NA	--
Irrigation X (Ln1578)	12/84*	12/85	12/86	24
Irrigation XIV (Ln1811)	01/86	01/86	01/87	12
Smallholder Coconut (Ln1898)	06/86	06/86	NA	--
NES II (Ln1604)	12/83**	12/85	NA	--
Agri. Ext. II (Cr996)	03/86	03/86	NA	--
Nat. Fertilizer (Ln2120)	06/86	06/86	NA	--
Power VIII (Ln1708)	12/84*	12/85	NA	
Power IX (Ln1872)	09/85	9/85	09/86	12
Power XI (Ln2056)	06/86	06/86	06/87	12
Urban Dev. III (Ln1653)	12/84*	12/85	12/86	24
Water Supply II (Ln1709)	12/84*	12/85	12/86	24
C. Java Pulp & Paper (Ln2199)	09/84*	09/85	9/86	24
(13 Projects)				
Korea				
Electronics R&D (Ln1676)	12/83**	08/85	08/86	32
(1 Project)				
Philippines				
Rainfed Iloilo (Ln1815)	06/86	06/86	06/87	24
Agriculture Inputs(Ln2469)	12/85	12/85	12/86	12
Rural Infrastucture(Cr790)	12/83*	12/85	12/86	36
NISIP II (Ln1526)	12/84*	12/85	12/86	24
Urbanization III (Ln1821)	12/84*	12/85	12/86	24
Prov. Water Supply II (Cr920/Ln1710)	12/85	12/85	12/87	24
Manila Sewerage (Ln1814)	12/85	12/85	12/86	12
(7 Projects)				

	Original	Current	Proposed	Delay
Laos				
Agri. Rehab. II (Cr924)	12/84*	12/85	06/86	18
Agri. Rehab. III (Cr1021)	06/86	06/86	06/87	12
Nam Nyum III (Cr1197)	09/85	09/85	12/86	15
(3 Projects)				
Thailand				
Prov. Water Supply (Ln1863)	04/86	04/86	04/88	24
Mae Moh Lignite (Ln1852)	12/84*	12/85	12/86	24
No. Agri. Dev. (cr929)	12/85	12/85	12/86	12
NE Irrigation II (Ln1630)	09/85	09/85	12/86	15
Irrigation XI (Ln1787)	06/86	06/86	09/87	15
Agri. Extension II (Ln1752)	12/85	12/85	09/86	6
(6 Projects)				
Vietnam				
Irrigation I (Cr845)	12/84*	12/85	12/86	24
(1 Project)				

Total: 32 projects likely to be extended (as of June 30, 1985) beyond FY86.

* Extended Once
** Extended Twice
*** Extended three times

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

blue
Lending Program.

DATE: July 26, 1985

TO: Madgi R. Iskander, Division Chief (EDGY2)

FROM: Wolfgang Bertelsmeier, (EDGY2) WB

EXTENSION: 73657

SUBJECT: Project Leads

In the countries that I am following, I see the following project leads that are not included in the Lending Program as far as I know. Some of these projects could be processed quickly, possibly for Board presentation in FY86 (Congo, Mozambique, maybe Botswana).

Country	Project	Remarks
Congo	Second Technical Assistance Project	First T.A. expires July 1986
	Coastal Basin Development	
Zaire	Coastal Basin Development	
Burundi	No immediate new project lead	
Uganda	Pipeline Extension/Supply-Distribution	
Kenya	Gas Development	If early 1986 well successful
Madagascar	Geothermal Exploration	
Tanzania	Geothermal Exploration	
Botswana	Technical Assistance Project	
Mozambique	Technical Assistance Project	Central Bank had requested assistance in -refinery -CNG -gas development
Bolivia	San Roque gas Escondido gas	Depending on IMF cofinancing/joint venture with Brazil, Tesoro

W.Bertelsmeier/kj
cc: Messrs. Khelil, Batzella, Schaefer (EGYD2)

WORLD BANK / INTERNATIONAL FINANCE CORPORATION MKI (fyi)

OFFICE MEMORANDUM

Lending Program

DATE: April 19, 1985

TO: Distribution List

FROM: Chakib Khelil, Deputy Chief (EGYD2)

SUBJECT: Project Preparation Report (PPR)

Could you please provide me with a very brief note (half a page) by May 10, 1985, on the following projects scheduled for FY86 and FY87 giving the project description, main issues to be resolved and timing of main events (Appraisal and Board Presentation).

FY86	Amount US$ million	FY87	Amount US$ million
Colombia B Loan	200	Colombia II	100
Bolivia	26	Peru Gas	20
Peru	60	Costa Rica Pet.	
Ghana Pet. and Supply Distribution	30	Ecuador	60
Ghana Petroleum	15	Chad	
Sudan Suakin	5 + 40	Equatorial Guinea	
Somalia	15	Guinea Bissau	
		Sudan	
		Ethiopia Gas	
		Madagascar	

Distribution List: Messrs. Barbu, Bertelsmeier, Fostvedt, Krishnamurthy, Lowe, Nayyar, Nickel, Schaefer, Tin, Toktar, Trabucco, Vabre

cc: Messrs. Iskander and Batzella

:ok

LENDING PROGRAM. General

Mr. Iskander

~~OSIC~~

~~Mr Batjello~~

~~Mr Klee~~

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

531

DATE: April 9, 1985

TO: WAP and COPD Division Chiefs

FROM: Hans Fuchs

EXTENSION: 76388

SUBJECT: Processing Schedule for FY1986 Lending Operations and Appraisal Mission Departure Dates for FY1987

1. It is time for another review of the processing schedule for our FY1986 Lending Operations and Appraisal Mission Departures for FY1987. To this end, I suggest that we get together with our colleagues in Country Programs I this coming Monday, April 15 in Conference Room E-324 at 3:30 p.m.. I expect the meeting to last at most two hours and I hope that we can get through with the agenda in less time, as shown below. We will take the most recent Timetables as base and unless we discuss any particular Timetable changes specifically, we agree to let them stand as the best and most realistic estimate of yourselves and Programs. With the intention of concentrating the meeting on exceptions from the timetables and possible improvements of the processing times, I have attached a few project and country--specific questions. I would also appreciate it, if you could come to the meeting prepared to give specific calendar dates for each processing step over the next 2-1/2 months (i.e., the end of June) where this has not yet been done in the Timetables. We would also wish to discuss any reserve project that you would consider worthwhile spending effort on, through the end of FY1986.

2. We will discuss the lending operations in the following country sequence:

		Appr. Time
Nigeria	)	3:30-4:10
Liberia	)	
Ghana	)	4:10-4:30
Sierra Leone	)	
Mali	)	4:30-5:00
Niger	)	
Burkina	)	

...2/

3. I have prepared as my own working paper, a schedule of processing steps along the lines of the one shown in my memorandum to you of February 20, 1985. If you wish to have a set, you are of course welcome to it and can obtain it from my secretary, Mrs. Audifferen, (Ext. 7-6388).

4. Thank you and I look forward to seeing you in the meeting.

Attachment

cc: Mr. Alisbah
WAP Assistant Directors
Mr. Knotter
Mr. Faiz

HFuchs:ia

Attachment

Nigeria

General	: Size and composition of the FY86 and FY87 Lending Programs.
Highway VI	: Can L/C date be advanced somewhat in attempt to get to negotiations before summer vacation time?
Techn. Teacher Training	: Any chance to advance negotiations?
Forestry	: If this is a good project, let us try to do it more quickly.
Ibadan Urban Infrastr.	: Why such a long interval between YC and L/C? Any possibility to compress it?
Power VII	: Why such a long delay between Appraisal and YC? If appraisal mission can go out in September '85, can we not shoot for YC in February 1986? The intention then would be to make this a FY87 1st Quarter Project.

Liberia

Health	: On the basis of the schedule shown this is not a FY86 project to count on. Let's discuss.

Ghana

Port	: Can YC be advanced?

Sierra Leone

Power Rehabilitation	: Update on status.

Mali

Forestry	: Can Board date be advanced?
Office du Niger	: Is it possible to advance the processing in view of the substantial work that has already been done on the Project?

Power II	: Any chance to advance appraisal? On basis of shown scheduled June Board date, and thus FY86 project, unlikely.
Urban II	: Any possibility to shorten the gap between L/C and Negotiations?
Livestock Services	: Can we adjust schedule to make this a firm FY86 Project?
Niger	
Health	: What accounts for the long delay between Negotiations and Board? Can planning for the Board date be advanced?
Highway V	: Let's discuss whether it is realistic to go for a late March rather than May Board date.
Primary Education	: Can the schedule between appraisal and YC be accelerated?
Burkina	: General weak pipeline. Let's discuss whether appraisals of the Livestock and Urban projects can be advanced, or whether there are any other projects on the platter.

WAPDR
April 9, 1985

LENDING PROGRAMME · Gen.

~~Mr Long~~

~~Rajan~~

Stern Jr

EISIC

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 14, 1985

TO Operational Division Chiefs

FROM V. Rajagopalan, Director, PPD VR

EXTENSION 73592

SUBJECT Public Sector Management Reviews

B/R

Mr. Stern has suggested that three papers prepared by this department which review the Bank's experience in relatively new areas of Bank activity in public sector management be circulated to operational staff. These papers are: "A Review of Bank Lending for Reform of State-Owned Enterprises," "Bank Interventions in Support of Administrative Reform," and "Institutional Reform: Some Lessons from Structural Adjustment Lending." The papers are the background for the chapter on Bank assistance in public sector management included in the Tenth Annual Report on Project Implementation and Supervision, which will be discussed by the Board on March 19. Additional copies of the paper could be obtained from D. Aaby, Ext. 76805.

AIsrael:da

Attach.

cc: Operational Directors (w/o attach.)

LENDING PROGRAMME (Lending Operations)
Mr. Long

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: February 8, 1985

TO: Regional Project Directors

FROM: Aklilu Habte, Director, EDT Aklilu Habte

EXTENSION: 61956

SUBJECT: Review of Training Components in Projects FY84 Retrospective

1. I attach for your consideration an analysis of training financed in Bank projects during FY84. Training components of projects tend to be relatively small. But their size understates the magnitude of their potential impact on project success and sustainability. Hence, the quality of the training components is vitally important to the projects and sectors in which they are placed.

2. This review raises a number of issues about the way the Regions handled training in their projects. Based on a detailed examination of operations in agriculture, transportation, water, urban and PHN, the report concludes that the weaknesses identified by OED in the Bank's support for training before FY82 remained, for the most part, in FY84 operations. These weaknesses include:

- insufficient assessment of human resource needs in country economic and sector work;

- late identification and inadequate preparation of training components; and

- haphazard supervision of the investments in training.

3. The review acknowledges the important steps taken since FY82 by four of the six regions to strengthen their in-house training capabilities. These actions should begin to show results shortly. But the review also asserts that these measures do not go far enough. The job is not yet finished. Regional managements should take additional steps to improve the quality of Bank-financed investments in training. The regions should further build up their capacity to assist borrowers in the design and implementation of project training components by:

- reaching a minimum number of in-house training specialists; and

- giving non-specialist project officers the incentive, time and orientation they need to design and supervise better training components.

4. We would be glad to discuss these matters further with you and your colleagues. Additional copies of the review are available from extension 61632.

Cleared with and cc: Mr. Husain, OPS

cc: Regional Vice Presidents
OPS Directors
Regional Assistant Directors
Project Division Chiefs
Education Projects Divisions (3)

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

LENDING PROGRAMME - General
Industry Lending Ope

DATE September 7, 1984

TO Mr. Amnon Golan, Director, IND

FROM Harinder S. Kohli, ~~Assistant~~ Director, IND HKohli

EXTENSION 74633

SUBJECT Paper on Ownership Issues in Bank's Industry Lending Operations

I enclose the paper on Ownership Issues in Bank's Industry Lending Operations prepared by Messrs. Sood and Ayub at your request. An earlier draft of the paper was reviewed by the Department's management team. The attached paper incorporates comments received so far.

Attachment

cc: IND Managers
Messrs. Ayub, Sood, Duvigneau, Marsden

HSKohli:bsk

P-1866

OWNERSHIP ISSUES IN BANK'S INDUSTRY LENDING OPERATIONS

Introduction

1. The Bank's primary objective is to help facilitate efficient economic and social development in developing countries. It has remained ideologically neutral on the issue of ownership of economic assets (private versus public; or domestic versus foreign). The diverse political and economic systems of its member countries have necessitated such neutrality. The choices with regard to ownership, where required in the Bank's work, have been based on considerations of efficiency of resource mobilization, allocation and utilization.

2. The majority of the Bank Group's industrial lending (through IFC, IDF and a limited number of IND operations) has been to the private sector. Ownership has not been an issue in small-scale industry lending which has been directed exclusively to the private sector. Most of the medium scale projects financed mainly through IFC, are also privately owned. In the case of large projects, generally supported by IND lending, public sector ownership has been dominant for a number of reasons. These include, significantly, the size and nature of the projects (and the associated lack of adequate private capital), governments' ownership preference and the natural role of IND since its split-off from IFC in view of the requirement of a government guarantee. The IND lending mix has strongly reflected the pattern of growth of the key industries in the developing countries, where a vast proportion of the new capacity has emerged in the public sector in view of the issues of capital intensity, lack of private capital and the government's strong preference for the domestic public sector, particularly when the alternative was foreign private ownership.

3. In the past, the Bank has encouraged specific policies that lead to the establishment of a more efficient public sector. In a number of countries, the Bank has called into question the efficiency of public enterprises, commented on questionable large public industrial investments undertaken without sufficient economic analysis, and has even, in some cases, recommended gradual denationalization of public enterprises. There have been, or will be, sectoral or SAL operations aimed at making private sector the "engine of growth" (as in Jamaica and Panama) or to encourage rationalization of public enterprises (as in Peru, Portugal, Turkey, Pakistan and Senegal).

4. While there are specific examples to the contrary, the experience of the last two decades seems to indicate, however, that the public sector has, judged on the basis of financial criteria, performed less efficiently than private enterprise. This appears to be true in countries with widely different economic structures and income levels. The reasons for the relatively poor performance are well-known and largely explain the differences

in the relative performances of the private and public sectors. Public sector managers are typically at the mercy of political pressures and of relatively cumbersome government budgeting and management practices. They have to contend with multifarious, sometimes conflicting, objectives. The signalling systems for better performance are generally weak and occasionally non-existent. Policies on employment and remuneration are fairly rigid. By contrast, it is argued that private companies have greater financial discipline imposed on them by the absence of a ready government "safety net". They generally undertake a better evaluation of, and protection against, market and financial risks. There is a greater sensitivity to costs. Management is generally more autonomous and more responsive to markets.

5. The increasingly tight fiscal and balance of payments constraints in many countries have resulted in increased attention to the ownership issue and particularly to the size and efficiency of the public sector. More than ever before, governments feel the need to reduce public sector's dependence on the treasury, both as shareholder of equity and as financier of burgeoning deficits and debts. This has led to attempts in a number of countries both to privatize where feasible, and to allow sufficient autonomy and flexibility to public enterprises for more efficient performance. Even in some countries with a traditionally strong role for the public sector, there has been a realization that governments may have relied excessively on the public sector and not taken sufficient advantage of private initiative. The examples of Madagascar and Benin are illustrative: the governments in these countries, which nationalized admittedly small industries on ideological grounds about ten years ago, are now cautiously seeking more liberalization, decontrol and more private entrepreneurship. Similar trends are discernible, to varying degrees, in countries such as India, Jamaica, Pakistan, Portugal, Somalia and Turkey. There are also cases where governments have been concerned with the performance of public enterprises in monopolistic situations, and efforts are being made to encourage private enterprise entry into those industries. However, despite this shift at the margin, the policy in a number of developing countries continues to favor public sector ownership.

6. All this has implications for the Bank's industry lending and policy dialogue. To what extent is the private/public distinction relevant to our work? What conditions should exist for a greater private sector participation in the Bank's operations? Can we formulate any guiding criteria that can help determine the Bank's support of industrial operations in the public and private sectors? What are some of the issues that are likely to arise? Underlying these questions is a fundamental strategic choice: should our primary strategy continue to be to improve the performance and efficiency of existing public enterprises or to insist on a shift in their ownership and future investments from the state economic enterprises to the private sector?

7. This note attempts to address these questions. It has a narrow focus and does not deal with the Bank's future work on trade and industrial policies, nor with specific measures through which the Bank can encourage a larger private sector role in developing economies. Both of these are subjects of other ongoing work within the Bank.

The Bank's Approach to Industrial Lending

8. Basic to all Bank industrial lending is the underlying assumption that only those projects or programs will be financed which have a high priority in the country's development objectives, are economically attractive and which do not saddle the government with a financial burden. But while a project may be justifiable technically, financially and economically (including having a positive impact on the country's fiscal and balance-of-payments situation), that does not necessarily justify Bank support for it. The soundness and attractiveness of a project may justify its execution by the borrower, but, for the Bank to justify its financial participation, it is necessary to demonstrate that the Bank is needed to achieve broader economic and sectoral objectives. Such objectives may include improvements in sectoral policies, institution building and development, management improvements, better design and structuring of the project, effective implementation and marketing arrangements, introduction of new technologies and playing of a catalytic role in securing financing. These considerations transcend the narrower issues of ownership.

9. The distinction between "private" and "public" is somewhat spurious. Some wholly government-owned parastatals (for example, PETROQUISA in Brazil)--and many with mixed membership--are run like private businesses and have substantial autonomy; some private businesses (such as Indian Explosives' fertilizer operation) are so closely regulated that they have relatively little room for discretion. The point is that, with or without ownership, governments can control enterprises, influence their behaviour and determine their profitability through regulatory policies, taxes, and their power to affect the prices of inputs and outputs. Efficiency might well be related to the overall country context regardless of ownership. Unfavorable macro and sectoral policies and excessive regulations may explain to a large extent why, apart from political and ideological constraints, the private sector may not be willing to participate in financing attractive projects, even when they are capable of doing so. It is important to focus on the differences in the treatment of the public and private sectors with regard to macroeconomic and subsector policies; the degree to which the Bank can influence such policies will determine considerably the robustness of the private sector.

10. In its industrial lending, the Bank, as a fully international organization, has attempted to take into account any constraints that may argue for support of the public sector. There are also wide variations between countries in the level of development, the prospects for development, and the social, political and economic circumstances that necessitate the pragmatic application, on a case-by-case basis, of certain guiding principles. All this emphasizes the cogency of resisting simplistic global models for the guidance of private sector involvement. With the above very significant caveats, the following paragraphs discuss possible Bank approach to the onwership issues in two sets of countries: those where government policy assigns a major role in the private sector and those where governments have a strong preference for the public sector to retain the leading role in industrial development.

11. In countries where governments manifest an important commitment to greater private sector involvement in the economy, the challenge for the Bank is how to ensure that statements are translated into action. In such cases, the Bank can play an important catalytic role. Through its macro-economic and sector policy dialogue, the Bank can, and does, encourage countries to adopt a policy framework conducive to private risk-taking, innovation, and economically rational decision making and resource allocation. It encourages, for instance, industrial and financial policies that do not rely on protection or subsidies. It tries to ensure that entry into an industry is relatively unencumbered by licensing and other restrictions. It encourages the delegation of greater autonomy to entrepreneurs in their investment and managerial decisions. Encouraging the establishment of a favorable environment for private enterprise may well be more important than direct financial support to them.

12. Even in situations where the government's commitment to greater private sector participation is strong, there might still be cases where private capital might not be available at all in the amount needed or might be available at a higher cost resulting from the investors' expectation of a higher financial return than would be acceptable. The Bank's role in these instances would need to cover an evaluation of the implicit economic trade-offs. Since most large projects are unlikely to be 100% privately owned, the analysis would also need to address the issue of what percentage of ownership constitutes a meaningful equity stake and if it is offset by front-end gains to the private investor.

13. In situations where the private sector cannot be attracted on acceptable terms to the satisfaction of the government and the Bank, we will face a strategic choice as to whether the Bank necessarily withdraw support or should it rather assist in formulating efficient arrangements within the public sector alternative? If the latter approach is selected, the Bank we believe should still must satisfy itself that (i) the possibilities of private sector equity participation have been fully explored; (ii) the project is structured in a manner to facilitate future potential private sector equity participation; (iii) the financing plan is designed to minimize financial support from the budget; and (iv) management arrangements are fully satisfactory.

14. In countries where government policy assigns continued strong role for the public sector in the manufacturing and mining industry, the Bank may need to adopt a "two-track" approach in continuation of current practice. Through its country economic and sector work, it should highlight the importance of private participation in certain activities, and the dangers of excessive reliance on treasury resources. At the project level, it should ensure that measures are taken to encourage greater efficiency in public sector activities.

15. With regard to management arrangements, the Bank has in the past endeavored to ensure that, regardless of ownership, the relevant issues relating to the internal management of the borrowing entity have been fully addressed. However, we need to, and has begun to, modify our approach to go beyond the borrowing entity. Particularly in the public sector, the Bank must evaluate the overall legal, administrative and managerial

constraints to efficient management performance, and ensure that any required alleviating measures have been agreed as part of the policy conditionality.

16. In addition to taking into account a country's economic and political system, as mentioned above, the Bank's approach to the ownership issue will have to vary according to whether we are considering restructuring of ongoing operations or are anticipating new capacity. This distinction is useful as a framework in which to discuss the underlying issues, a number of which are, admittedly, common for both types of activities but vary in their relative importance.

Ownership Issues in Industrial Restructuring

17. Growing resource constraints, and the prospects for excess capacity world-wide in the short and medium term in a number of industries, have led to a greater priority being placed on restructuring and improving the efficiency of existing facilities than on the installation of substantial new capacity; such restructuring is likely to promise significantly higher economic returns. There is also a greater realization that improvements in the efficiency of public industrial enterprises will not only lead to alleviating budgetary problems but can also facilitate a more active participation by the private sector in publicly-owned companies and industries.

18. The Bank's industry lending can be expected to focus increasingly on restructuring of existing assets. The design of restructuring operations could encompass the industrial sector, selected subsectors or specific enterprises. The operations would need to address the requirements of both the public and private sectors, where both exist, as a means of improving efficiency across the subsector. The Bank's assistance in formulating enterprise-specific organizational, physical and financial restructuring programs should be supported by agreements on policies, including those pertaining to the financial sector, that stimulate efficient development in the private and public sectors. The focus of the Bank's assistance vis-a-vis the ownership pattern is discussed below with regard to the enterprise-specific restructuring element.

19. Where a poorly performing subsector identified as requiring restructuring is dominated by the public sector, Bank assistance for restructuring the public enterprises must be a vital component and, in some instances, the centerpiece of any subsectoral program. The preparatory analysis would need to focus on the causes of poor performance and then the design of a restructuring program directed at improving efficiency and fostering development into financially self-sustaining commercial entities operating within agreed policies and objectives. Institutional and policy constraints external to the enterprises as well as factors within the enterprises' control would need to be assessed. In some instances, e.g., where the poor performance results from market shifts and not from any inherent constraints to efficiency, effective restructuring programs could well be designed without any need for private sector participation and should be supported. In other instances, different forms of private sector participation (domestic and/or foreign), e.g., marketing arrangements,

management contracts,[1] leasing and privatization, would need to be considered as a means of alleviating existing constraints. Privatization in its various forms, e.g., outright sale or joint ownership of the enterprises or selected parts thereof, is thus one of the instruments that should be examined not as an end in itself but as an alternative means of improving efficiency. It is likely to be the most difficult of the different alternatives to design/implement but merits special attention considering the constraints on the financial and managerial resources of the governments.

20. First, privatization could be considered meaningfully only where there are no opposing ideological or national strategic reasons which could well be overriding. If managerial experience is sought as part of the package and judged to be available only from foreign companies, this could be a particularly difficult issue. Second, it is essential that an adequate capital market exists or alternate sources of private capital can be attracted. Related to this is the issue of whether the private sector entity would continue to have access to external debt, without resorting to a government guarantee. Third, privatization raises a number of sensitive issues:

(i) Valuation: What is a "fair" price for the transfer of assets? How should it be determined to avoid windfall profits to the new owners on the one hand and not jeopardize the viability of the transfer on the other?

(ii) Competition: Is the privatization of a dominant enterprise likely to foster or reduce competition? Will the new entity need to be regulated?

(iii) Protection: Should a certain measure of protection be afforded to the new entity to enable a safe transition and for how long? Is this protection economic relative to the expected gains in efficiency?

(iv) Employment: In case an adverse employment impact is expected, what arrangements are needed for lay-off related payments, retraining and redeployment of manpower, and at whose cost?

(v) Income Distribution: Would privatization hinder the government's objectives regarding the distribution of income and wealth?

The satisfactory resolution of these questions is a challenging, politically difficult and time-consuming process which requires a strong commitment by the government as well as the managers of the enterprises, who must carry the responsibility for preparing the enterprises for privatization. Bank assistance in this process can be expected to be highly resource-intensive. Also the Bank's role, vis-a-vis the financing of a privatization operation, needs further examination.

1/ Where foreign managements are invited to participate, training of local staff to ultimately take over the responsibility should be an explicit objective.

21. Bank funds to the private enterprise could need to be channelled through government and/or financial intermediaries, since the government might not wish to guarantee a Bank loan to a private entity. The provision of Bank funds should be based on the infusion of real equity by the private sector. Bank funds could supplement such equity through financing the necessary technical assistance, retraining expenditures, physical restructuring requirements[2] and emergency needs (such as acquisition of spares and building up of working capital). However, if the operation primarily involves financial restructuring, funds would also be required to restructure debt and equity. In these cases, the Bank should aim to play a catalytic role in mobilizing commercial lenders (including existing creditors, where appropriate) through cofinancing.

Ownership Issues in Creation of New Capacities

22. In industry lending operations for establishing new capacities, the choice of action on ownership is somewhat less constrained than in dealing with restructuring. As highlighted earlier, the fundamental decision to consider a project for Bank support must be based on its intrinsic economic and financial merit and its priority within the country's development objectives. The Bank should assess its own role in contributing to broader economic and subsectoral objectives, and should evaluate the downside risks of large industrial projects. Following such a decision, project formulation should focus on all design elements to ensure an attractive economic return based on efficient implementation and operation and to reduce the differences in the economic and financial returns as far as possible both to minimize the burden on the budget and to facilitate private sector participation. The structure of ownership and its impact on management must be viewed as a critical design element.

23. In general, the possibility of private sector ownership should be explored as a means of ensuring that the managerial efficiencies listed in para 4 accrue to the project and the economy, except in cases where other factors addressed earlier (e.g., enhanced competition, income distribution considerations or national strategic issues) favor public sector ownership. In the latter instances, the role of the Bank should be to assist in formulating a project and supporting arrangements to incorporate the above favorable prospects. This would entail a rigorous analysis of market and financial risks, the involvement of a strong project sponsor experienced in implementation and operation under contractual arrangements (possibly with a financial stake in project success), pre-agreed marketing/sales arrangements and the structuring of the project enterprise as an autonomous, financially self-sustaining entity with limited recourse to, and reliance on, the government. The potential for eventual equity participation by the public at large could also, in some cases, be built into the project concept.

24. Another important design element, particularly where capacity is to be built in the public sector, is the scope of the "project". The

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2/ This raises a procurement-related issue which is even more relevant to new projects and is accordingly discussed in the following section.

private sector could be drawn in by limiting the "project" to the core production operations and seeking maximum use of outside contracting for supply of parts/components, maintenance and transportation services, etc. This approach would have clear benefits with regard to budgetary and public sector managerial resources.

25. The Bank's financial support to a private sector operation also raises an important set of issues which would need to be resolved internally. The application of international competitive bidding (ICB) to private sector procurement might not be feasible in any environment where equipment is available domestically and import tariffs exceed the Bank's preference margin of 15%. The selection of an equity partner, where linked to equipment,services and inputs supply, might also go against ICB principles. The issue of the respective roles of the Bank and IFC would also need to be resolved early in the cycle in such cases. The Bank's role, in principle, would be limited to the support of the larger projects (possibly, complementing IFC support) where the Bank could additionally contribute to broader subsectoral objectives. Finally, a decision would need to be taken on how the Bank's policy-based lending would need to be adapted in the case of lending to the private sector.

Conclusions

26. In the past, the Bank has financed only those industrial projects, regardless of ownership, which it believed to be economically, technically and financially viable, and which fulfilled the other sectoral and institution-building objectives already enumerated. The promotion of private sector development has not been an end in itself. It has been considered a valid and important instrument for broader economic development objectives. To the extent that economic policies and ownership patterns had an impact on initiative and economic efficiency, the Bank got involved in issues relating to the roles of private and public sectors in an economy. However, the case was based on efficiency grounds, and in circumstances where there was no basis to believe that there was any significant link between efficiency and ownership structure, the Bank did not push for private sector ownership but rather focused on seeking efficiency improvements within the public sector framework. The question that is now being posed is: should we continue with this approach? Or should we insist on a shift in the ownership and new investments from public sector enterprises to the private sector? The latter approach would clearly have important implications for the Bank's lending strategy and procedures. Management's guidance on this strategic choice would be necessary.

Industry Department
September 8, 1984

(S-33b)

Lending Mr Covani 7/2 File

International Bank for Reconstruction and Development

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SecM84-607

FROM: Vice President and Secretary

July 2, 1984

LENDING RATE APPLICABLE JULY 1, 1984

Attached is a memorandum from the President entitled "Lending Rate Applicable July 1, 1984", dated July 2, 1984.

Questions on this document should be referred to Mr. Hittmair (extension 61051).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

THE WORLD BANK
Washington, D. C. 20433
U.S.A.

A. W. CLAUSEN
President

July 2, 1984

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Lending Rate Applicable July 1, 1984

1. During the period from January 1, 1984 to June 30, 1984, the average cost of qualified borrowings was 9.39 percent per annum. The pool-based lending rate to be in effect from July 1 through December 31, 1984, is therefore 9.89 percent.

2. The table below gives the details of the calculation of the cost of qualified borrowings during the second semester of FY84.

Table: Cost of Qualified Borrowings, January 1 - June 30, 1984

	cost ($ million)	Average Balance ($ million)	Ratio X 2 (%)
Proxy borrowings	431.1	8,040.8	10.72
Medium- and long-term borrowings	652.1	15,222.5	8.57
Short-term borrowings	96.5	1,971.6	9.79
Central Bank Facility	34.8	631.6	11.03
Total	1,214.5	25,866.5	9.39

3. The Bank is notifying all current borrowers of the change in rate that will apply to outstanding balances of eligible loans for interest periods beginning after June 30, 1984.

AWClausen

Lending R: ~~[illegible]~~ 6/11

International Bank for Reconstruction and Development

1) Mr. Rao
2) M.A. File

FOR OFFICIAL USE ONLY

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on August 7, 1984

R84-150

FROM: Vice President and Secretary

June 6, 1984

PROGRESS REPORT ON STRUCTURAL ADJUSTMENT LENDING

The paper entitled "Progress Report on Structural Adjustment Lending" dated May 23, 1984 was distributed under SecM84-461. This same paper is now being distributed for consideration at a meeting to be held on August 7, 1984.

Questions on this paper should be referred to Mr. de Azcarate (X60063).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

STRUCTURAL ADJUSTMENT LENDING

PROGRESS REPORT

I. Introduction

1. Structural adjustment lending was introduced in FY80 as the Bank's 1/ response in helping many developing countries carry out a difficult process of policy and institutional reform in an unfavorable international economic environment. At the time, oil-importing developing countries were experiencing serious balance of payments problems as a result of petroleum price increases in the 1970s, high rates of inflation, and adverse terms of trade. Development programs were threatened. There was a need to reduce balance of payments deficits in relation to national economies, and simultaneously to ensure that domestic policies, programs and institutions were adapted to maintain, or restore, a reasonable pace of economic development. Adverse factors were compounded in the early 1980s, by the international recession which reduced the demand for developing countries' exports and further depressed the terms of trade, and by increases in real interest rates. The need for adjustment became increasingly pressing, but the environment to support this adjustment became more difficult and resource constraints more binding.

2. The Bank and the IMF have worked in close cooperation in formulating appropriate adjustment programs, and these have enabled countries to implement significant and often politically difficult reforms. They have become an important element in the growing scope of the Bank's policy-based lending. The Bank has approved 27 structural adjustment loans (SALs) in 16 countries, for a total of over $4 billion. Programs supported by SALs have varied, but they have in common the following principal concerns:

(a) changes in trade regimes so as to improve the competitiveness of, and incentive for, exports;

(b) mobilization of domestic and foreign resources;

(c) improvement in the efficiency of domestic resource use; and

(d) institutional reforms.

1/ Throughout the report, "Bank" refers to both the IBRD and IDA, and references to "Loans" include Credits, unless otherwise noted.

By and large, governments have carried out agreed reforms, although in some areas, implementation of reforms has been inadequate. Nonetheless, it is difficult to isolate the impact on national economies of the structural adjustment programs supported by SALs. SAL recipients have certainly not been immune from the impact of the world recession, but there is reason to believe that they would have been worse off had they not started on their adjustment programs.

3. The SAL program was reviewed in 1981, and was the subject of a Board seminar in 1982. 1/ This Progress Report brings those reviews up to date. Section II presents a brief account of the trends in SAL operations and country coverage; Section III examines the major policy and institutional components that make up the structural adjustment programs being supported by SALs, and other aspects of structural adjustment operations; Section IV assesses country performance in the implementation of structural adjustment measures as well as the impact of those measures; and Section V concludes with some lessons learned in the process.

II. Characteristics and Trends

4. The basic objectives of structural adjustment lending are to:

- support a program of specific policy changes and institutional reforms to achieve an efficient use of resources and thereby to contribute to a sustainable balance of payments in the medium and long term, while maintaining growth;

- assist a country in meeting the transitional costs of needed structural changes in industry, energy and agriculture by augmenting the supply of freely usable foreign exchange; and

- act as a catalyst for the inflow of other external capital to help ease the balance of payments situation.

5. Structural adjustment loans are characterized by their focus on policy and institutional reform, their comprehensive coverage of both macroeconomic and sectoral issues, and their detailed articulation of the policy modifications to be undertaken within specified time periods. The Bank reaches an understanding with the Government on a monitorable action program set out in a Letter of Development Policies which is part of the formal loan

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1/ "Review of Structural Adjustment Lending" (R81-64, April 1, 1981) and "Progress Report on Structural Adjustment Lending" (SecM82-314, April 8, 1982).

documentation. SAL funds are disbursed against imports, with minimal restrictions imposed only in the form of a negative list.

6. A central feature of structural adjustment lending is that the program of policy change supported by SALs can be monitored, and components of the reform programs are made as specific as possible, with identified actions targeted for specific dates. Progress is reviewed regularly with the Government. SALs are usually tranched in two parts, and the review prior to release of the second tranche provides a structured opportunity for the Bank to discuss with the borrower its progress on the reform program, and to inform the Board of that progress.

7. Structural change can take place only over a period of years, and structural adjustment programs therefore need a sustained commitment on the part of governments. If the adjustment process is to have a meaningful impact on the structure of the economy, initial reform measures have to be followed by other complementary policy and institutional changes. Reforms also need to be timebound to ensure that implementation takes place. Thus, programs are typically formulated to accomplish needed reforms over a period of five to seven years, and support might be provided by a series of up to five SALs.

8. From the beginning, it was expected that structural adjustment lending would be applicable only to a limited number of Bank borrowers. In a memorandum to the Board dated May 9, 1980, 1/ two preconditions for such lending were stated:

> "Structural adjustment lending would be considered in those situations where serious deterioration in the balance of payments has occurred or can be anticipated, and where the deterioration is due principally to factors which are not likely to be reversed easily or quickly. . .
>
> "A second precondition . . . is the willingness of the government to formulate a suitable program of structural adjustment. Such a program may involve changes in the balance between import substitution and export promotion. . . it may involve changes in policies or institutions . . . or it may involve changes in the composition of investment. . . The scope and complexity of structural adjustment programs usually will be such that support over a number of years will be required."

9. Since the first SALs to Kenya and Turkey in March 1980, 27 operations have been approved by the Board in support of adjustment programs in 16 countries (Annex 1). Of these, 6 are in Sub-Saharan Africa, 3 in East Asia, 4 in Latin America, 2 in southern Europe and 1 in South Asia. So far, two SALs have been approved for each of eight countries, and four have been approved

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1/ "Structural Adjustment Lending" (R80-122, May 9, 1980).

for Turkey. The fifth and final SAL for Turkey has been negotiated, and will be presented to the Executive Directors in FY84. Average time elapsed between successive operations in a country has ranged from 12 months (Thailand and Turkey) to 31 months (Philippines and Mauritius). As of April 30, 1984, $4,083.3 million had been committed. The SAL component of individual country lending programs has averaged 37 percent.

Table 1

Structural Adjustment Lending, FY80-84

	FY80	FY81	FY82	FY83	FY84 (projected)
No. of Operations	3	7	5	7	6
Commitments					
$ million	305.0	867.0	920.7	1284.7	1000.0
As % of Total Bank/IDA	2.7	7.1	7.1	8.9	7.0
Disbursements					
$ million	17.0	478.3	887.8	992.0	1375.0
As % of Total Bank/IDA	0.2	6.9	10.5	10.4	12.4

10. The countries for which SALs have been approved represent all groups, and there is little to distinguish them from other Bank borrowers. The diversity in per capita incomes is illustrated in Table 2.

Table 2

Distribution of SAL Recipients

Income Groups (1982 per capita data)	(1) Bank/IDA Borrowing Countries (Number)	(2) SAL Recipients (Number)	(3) (2) as Percent of (1)
Group I ($410 or less)	39	4	10
Group II ($411-$805)	22	4	18
Group III ($806-$1410)	23	5	22
Group IV ($1411-$2440)	15	2	13
Group V (over $2440)	10	1	10
TOTAL	109	16	15

11. Of the four countries where SAL lending has been discontinued -- Pakistan, Bolivia, Guyana and Senegal -- only Pakistan has achieved a substantial turnaround in its balance of payments. Both the Bank and the country consider that reforms begun under the SAL, particularly in energy, industry and agriculture, can be supported more appropriately by other types of Bank operations. In the three other countries, key objectives of the governments' structural adjustment programs were not achieved. In the case of Senegal, the second tranche of the SAL was cancelled.

12. There are now active SAL programs in 12 countries, although it is evident that a far greater number of countries continue to face the kinds of problems that structural adjustment operations were designed to address. However, participation remains limited by the quality and credibility of the programs with which Governments propose to address their structural adjustment problems, despite support from the Bank through analytical work and technical advice. In this respect, the Bank continues to provide technical assistance loans to help countries (notably in Sub-Saharan Africa) implement SALs. The limited country coverage of SALs does not mean that the Bank has not addressed structural adjustment issues in non-SAL countries. Policy-based sector adjustment loans are an example of the Bank's support for the adjustment process with less comprehensive instruments than SALs: there has been support for industrial restructuring and tariff reform in Morocco, and for agriculture sector restructuring (including interest rate reform and export promotion) in Brazil; export development fund loans to Mexico and Brazil; and an import reconstruction credit and an export rehabilitation project to Ghana.

III. Design of Structural Adjustment Operations

13. The four major features of structural adjustment operations relate to:

-- the design of the structural adjustment program;

-- the operational linkages with other components of the Bank's assistance strategy and with IMF-supported operations in each country;

-- the administrative aspects, such as disbursement and supervision; and

-- the distributional and social aspects.

A. The Adjustment Program

14. To achieve the objectives of structural adjustment lending -- reducing the current account deficit to a sustainable level, and maintaining or restoring growth momentum -- improvements have been sought in four interrelated areas: trade policy; mobilization of domestic and foreign resources; efficiency of domestic resource use; and institutional reform. The precise blend of these reforms, the specific measures chosen to implement them, their timing, and the particular sector focus depend on several features, in particular a country's initial economic conditions, and the strengths and weaknesses of its institutions. There are no general solutions; adjustment programs have to be carefully tailored to meet specific needs and policy objectives of individual borrowers.

Patterns of Policy and Institutional Adjustment

15. The areas of policy reform covered by SALs are summarized in Table 3. Since policy changes have to be implemented over a number of years, the same issues feature in successive SALs, although the specific measures change as achievements in earlier SALs are consolidated. Thus, the second Ivory Coast SAL has included public enterprise and industrial sector reforms based on studies begun under SAL I, and in Turkey, many energy and agricultural sector reforms were included in SALs II-IV, on the basis of studies begun during SAL I.

Trade Policy Reform

16. In many developing countries, the development process itself and the balance of payments are adversely affected by inappropriate trade policies. Protective regimes favor production for domestic markets, and have often created an anti-export bias. The restricted competition inherent in such regimes has been exacerbated by regulations which impede the entry of new firms, and which favor established producers in the allocation of foreign exchange and other scarce resources. Such policies have often led to high investment and production costs, inadequate absorption of labor, sluggish expansion of exports, and may have simply generated rents for protected industries. These policies have had an unfavorable effect on the growth of exports, and in turn, a negative impact on country creditworthiness and debt servicing capacity. Although trade policy reform, by encouraging export growth and efficient import substitution, is crucial for improvements in balance of payments and creditworthiness, it has frequently proven difficult because it impinges on established interests. Conversely, the domestic

TABLE 3: KEY COMPONENTS OF STRUCTURAL ADJUSTMENT OPERATIONS

	Bolivia	Guyana	Ivory Coast		Jamaica		Kenya		Korea		Malawi		Mauritius		Pakistan	Panama	Philippines		Senegal	Thailand		Togo	Turkey				Yugoslavia
			I	II	I	II	I	II	I	II	I	II	I	II			I	II		I	II		I	II	III	IV	
I. TRADE POLICY																											
Tariff reform and import liberalization					X	X	X	X	X	X				X		X	X	X	X	X	X		X	X	X	X	X
Export incentives and improved institutional support		X	X	X	X	X	X	X			X		X	X	X	X	X	X	X	X	X		X	X	X	X	X
II. RESOURCE MOBILIZATION																											
Budget policy		X			X	X	X	X	X	X	X	X		X	X				X	X	X	X	X	X	X	X	X
Interest rate policy		X					X	X			X	X											X	X	X	X	X
Strengthening of institutional capacity to manage external borrowing	X	X	X				X	X			X	X	X	X					X		X	X	X		X	X	X
Public enterprise financial performance	X	X		X	X	X			X	X	X	X			X	X			X	X	X	X	X	X	X	X	X
III. EFFICIENT USE OF RESOURCES																											
Public investment program revision and review of structural priorities	X	X	X	X	X	X	X		X	X	X	X	X	X	X	X			X			X	X	X	X	X	X
Pricing Policy:																											
- Agriculture	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X			X	X	X	X		X	X	X	X
- Energy	X	X			X			X	X	X	X		X		X			X		X	X	X	X	X	X	X	X
Incentive System:																											
- Industry				X	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X			X
Energy conservation measures		X						X	X	X								X		X	X	X		X	X	X	X
Energy - Development of indigenous sources		X						X	X	X			X		X						X	X		X	X	X	
IV. INSTITUTIONAL REFORMS																											
Strengthening of institutional capacity to formulate and implement public investment program		X	X	X		X	X	X	X	X	X	X		X	X				X	X	X	X	X	X	X	X	
Institutional efficiency of public sector enterprises	X		X	X	X	X					X	X	X	X	X	X			X		X	X		X	X	X	
Improved institutional support in agriculture (marketing, etc.)		X	X	X	X	X		X			X	X	X		X	X			X		X	X		X	X	X	
Institutional improvements in industry and sub-sector programs				X	X	X					X	X	X		X	X	X	X			X						

constituency for trade reform is often weak as potential beneficiaries -- prospective entrepreneurs, workers, and consumers -- cannot clearly perceive the potential benefits. Yet, efficient resource use for development and balance of payments improvement can only be achieved within a generally open and competitive environment with reasonable incentives for exports.

17. SAL programs in 14 of the 16 countries have included trade policy reforms as part of the adjustment package. The relative emphasis placed on initiatives such as quantitative restrictions, tariffs, investment licensing and specific measures to facilitate exports have depended on country circumstances. Phased elimination of quantitative restrictions is part of the SAL programs for Jamaica, Korea, Ivory Coast, Turkey, and the Philippines. Tariff reforms, comprising increasing uniformity and decreasing average levels of tariffs, are part of the SAL programs for Kenya, Thailand, Turkey, Philippines, and Ivory Coast.

18. SAL programs also include other measures to promote exports, notably export subsidies 1/ (Senegal, Ivory Coast), duty-free regimes for export industry, as well as export processing zones, export guarantee and credit insurance schemes (Philippines, Mauritius), streamlining of administrative procedures to reimburse exporters for taxes on imported inputs, reform of foreign exchange allocation systems (Turkey, Kenya), investment incentives for exporters (Turkey), and tax reforms to reduce the bias against exports (Thailand, Philippines). Where misalignment of the exchange rate is seen to be an issue, the Bank relied on the government to take appropriate measures under an IMF-supported adjustment program, as in Turkey and Jamaica.

Resource Mobilization

19. All SAL programs include appropriate measures to improve resource mobilization. In Mauritius, the objective was to remove interest rate ceilings to stimulate private savings. In Korea, steps were agreed to increase taxes, and to achieve improvements in government savings as a proportion to GNP. In Thailand, a tax package was agreed to increase government revenues as a proportion of GDP. The program for Turkey sought to liberalize interest rates on deposits as part of a new Capital Market Law, with measures to simplify banking regulations and otherwise improve the performance of capital markets.

20. For obvious reasons, debt management has come to be regarded as a key instrument for resource management. About two-thirds of all SALs have included measures to improve external debt management, ranging from improving central bank or treasury control over borrowing, to reforms of the mechanisms for debt planning and budgeting, data collection, and monitoring (Thailand,

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1/ These are appropriate only for countries which belong to a monetary union which prevents a single country from varying its exchange rate. In this case, export subsidies are designed as temporary second-best measures which apply to broad categories of exports.

Turkey, Senegal, Malawi). Firmer controls over the foreign borrowing of public enterprises have been an important feature of SALs (notably in Ivory Coast, Malawi, and Kenya), since such borrowing has been a frequent source of excessive indebtedness.

21. Public enterprises have become an increasingly important aspect of the financial operations of governments in developing countries. They cover such diverse fields as electric power, transportation, industry, and agriculture. They depend on public resources to help meet their investment needs, and too often generate operating deficits which then have to be covered by the budget or by public borrowing. Realistic investment programs and efficient operations are therefore crucial to the financial health of the public sector. These issues have been addressed through reforms in public enterprise pricing systems, salaries, and management. To reduce claims on the government budget and on the domestic credit system, and to improve public sector finances in the longer term also requires managerial and technological assistance to these enterprises so they can compete effectively in a market-oriented society. More realistic prices for public utilities in power and transport are essential to limit growth in demand, to reduce or eliminate operating deficits, and to assure that these enterprises contribute an appropriate share of their future investments. For other enterprises, price autonomy is important but must be matched by increased competition to avoid simply passing high costs on to consumers. SALs for Turkey, Ivory Coast, Togo, Malawi, and Thailand have included components to address these issues.

Efficient Use of Resources

22. A central theme of all SALs is improved efficiency in resource use in the public and private sectors (a concern which is also addressed in trade regime reforms). Particular emphasis has been placed on the size and quality of public investment programs.

23. Resource constraints in many countries have required a scaling-down of investment programs, and reallocation of available resources among projects. The need is to avoid across-the-board cuts, and to protect implementation of projects which support required changes in the structure of production, which are quick-yielding, and which will help limit the current account deficit. The review of a large public investment program is a major task for a government (e.g., in Turkey about 9,000 projects were involved), and shifts in priorities can only be effected gradually. For some countries the Bank has used the considerable expertise of its staff in sector- and project-related activities to help review public investment programs; these reviews have been useful in initial identification of high-priority projects which should be continued, and in helping governments to decide on the redesign, postponement or elimination of lower-priority operations.

24. The important long-term point is the need to institutionalize better programming of public resources by having governments agree on strengthened, more explicit project selection criteria, and to allocate staff capable of applying these criteria to the analysis of new projects and to the review of ongoing ones. This would often involve intensive staff training, modification

of administrative arrangements (in particular, strengthening links between public finance and planning agencies), and most importantly, acceptance by managers of the potential benefits of these, and other, modern management tools.

25. Another important and often neglected aspect of improving the productivity of capital is operation and maintenance. Returns from expenditures on adequate operation and maintenance activities are frequently high, and actual allocations low, compared to investments in new capacity. SAL programs have emphasized (particularly in African countries) the need to allocate sufficient funds for operation and maintenance, and to generate adequate resources from identified project beneficiaries to provide an increasing share of these funds.

26. One additional issue of major concern in many countries is the efficiency of resource use in public sector enterprises. There are often major inefficiencies resulting from poor management, inappropriate government intervention and the absence of adequate market and financial discipline. Many of the ongoing SAL programs address these issues. For example, the program for the Ivory Coast aims to improve management of parastatal enterprises through setting up of an effective monitoring system, rationalization of their relationships with Government, and implementation of reorganization plans for major enterprises. In Pakistan, a system of incentives to promote efficiency was devised which allows managers to identify appropriate production targets, and which establishes criteria to evaluate results.

27. There is strong evidence, as illustrated in the World Development Report, 1983, that distortions in productive sector incentives have lowered GDP growth rates for many countries. Complex and cumbersome systems of price controls and input subsidies have developed. Some countries may have succeeded for a while in stimulating production in particular sectors, and in insulating particular groups from increases in the prices of commodities. Over the longer run, as these become financially untenable, the tendency in a number of developing countries is to hold down output prices, to the detriment of production increases. This is particularly true of agricultural production despite long and ample evidence of its sensitivity to output prices. Remunerative producer prices help to increase production and the export base while allowing governments to reduce or eliminate subsidies on inputs. The key elements of most adjustment programs are the improvement of the policy environment for productive sectors, and the promotion of mechanisms and institutions to determine appropriate pricing policies. Examples of SAL countries with substantial reforms in these areas are Senegal, Malawi, the Ivory Coast, Jamaica, and Togo.

Institutional Reform

28. Institutional reforms feature in all SAL programs as illustrated in Table 4, and are always closely associated with reforms in other areas. Indeed, institutional change is intended to ensure the durability of policy reform.

TABLE 4: INSTITUTIONAL REFORM COMPONENTS OF STRUCTURAL ADJUSTMENT LENDING

COUNTRY	ECONOMIC AND FINANCIAL MANAGEMENT							PUBLIC ADMINISTRATION		STATE ECONOMIC ENTERPRISE PERFORMANCE		NON-FINANCIAL SECTOR INSTITUTIONS OR MINISTRIES			TRADE ADMIN. REFORMS
	Economic Policy-making Bodies (inc. SAL Monitoring)	Planning Process Mechanisms, Institutions	Public Sector Investment Program Management	Budget Process Institutions	Tax Administration	Accounting and Auditing Systems	Debt Management Systems Institutions	Government Employment, Pay and Incentives	Civil Service Management and/or Reorganization	Government Enterprise Framework	Enterprise Level Reforms	Agriculture	Energy	Industry	e.g. Tariff/Import Licensing Procedures Administration of Export Incentives
Bolivia							0			0		0			
Guyana			•				0							•	
Ivory Coast I	•		•	•			•				•	•		0	
II	•		•							•	•	•		•	
Jamaica I			0					•			0	0		0	
II			•	•				•	•	•	•	0		0	•
Kenya I			•				•			0					
II		•	•	•			0					•			0
Korea I			•												
II			•							•			•		
Malawi I		•	•				•	0		•	•	•	0	•	
II	•	•	•	•			•			•	•	•	•	•	
Mauritius I	•		0				•	0			•	•		0	0
II	•		•		•		•				•	•			
Pakistan		•								•	•	•	0	•	
Panama			•		•		•				•	•			•
Philippines I														•	•
II	•			0		0							0	•	•
Senegal			•				•	•		0	•	•			
Thailand I	•	•		•	•	•			0						0
II	•	•	•	•	•	•	•	0	•	0	•				0
Togo I	•	0	•	0		0	•			•	•	•			
Turkey I	•		•		0		0			•					0
II			•		0					•	•	•	•		•
III		•	•		•		•			•	•	•	•		•
IV			•		•		•			•	•	•	•		
Yugoslavia							•					0			•

• Identified as important aspect of program; specific reform, action plan or assistance program.

0 Minor aspect of program; statement of intent without specific action; preparatory studies, etc. (in some cases leading to stronger measures in subsequent SALs).

29. Intended institutional changes are heavily concentrated on macro-economic and financial management (all 27 SALs to date); state enterprise reform (20); sectoral institutional reform -- for industry (11), agriculture (18), and energy (8) -- and trade policy and administrative institutions (12). More general improvements in public administration are also included in 8 SALs.

30. The first objective in institutional reform programs was generally to improve key economic management instruments, particularly those regarding debt, and to assure coordination between public investment and the budget. Second, reforms have been designed to strengthen government's capacity to implement policy changes. For example, measures have been taken to strengthen government agencies responsible for overseeing state enterprises (e.g., Pakistan, Turkey, Korea), so as to buttress policy adjustments in pricing, investment or subsidies towards the public enterprise sector; and, as in the case of Senegal, to design and implement new contractual arrangements ("contrats-plans") between government and parapublic enterprises. In addition, reforms in sector institutions have ranged from improvements in energy planning capacity (e.g., Turkey, Pakistan, Korea, Philippines) and liberalized price and incentive administration in industry and agriculture (e.g., Thailand, Jamaica, Guyana, Philippines, etc.), to major sector reorganizations (e.g., agricultural institutions in Senegal and Turkey). In trade, institutional change focussed on the simplification of administrative procedures.

31. Also, SAL programs begin to deal with systemic constraints to effective public sector management in the areas of policy-making, budgetary and financial systems, and the organization and efficiency of public administration. These long-term reforms are initiated under SAL auspices, with the recognition that program development and implementation would be pursued in the context of sector and project lending. For instance, in Jamaica and Thailand, they involve the introduction of program budgeting closely linked to planning, public investment management, and public sector accounting, and important reform initiatives in civil service structure, employment and incentives.

32. Institutional programs have tended to branch out from macro-economic management of expenditure and borrowing towards more detailed sectoral and state enterprise programs, and to a lesser extent to in-depth reforms in public sector management.

B. Operational Linkages

Links with Country Assistance Strategy

33. As a component of the Bank's country assistance strategy, SAL operations support reform which is also assisted by other Bank activities. Country economic and sector work (CESW) is designed to link with efforts by governments to provide the basis for reforms supported by the SAL. For

example, following initiation of the SAL program in Turkey in 1980, studies were undertaken of the public sector investment program (1980-81), of industrial and trade strategy (1981), of the energy sector (1983), and of the agricultural sector (1982) to pave the way for policy changes. Generally, the content and the impact of CESW have been influenced by requirements implicit in preparation of a structural adjustment program. In turn, preparation of a SAL requires large inputs of CESW. These work programs are focussed on selected areas to ensure that proposed reforms are based on adequate analytic foundations, that the measures are sufficiently detailed to be actionable, and that the pace of proposed changes is realistic.

34. Since nearly two-thirds of total lending to SAL countries consists of project and sector lending, close links between SAL and other Bank lending in the country are essential. On one hand, comprehensive policy reforms supported through the SAL have often addressed issues (e.g., prices, subsidies and interest rates) being dealt with through project loans, albeit in a more piecemeal and less effective manner. A SAL allows improvements in the overall policy framework which enhance the quality, implementation and productivity of individual projects, and in some cases, is a prerequisite for expanded project or sector lending. Conversely, projects being designed for Bank financing promote adjustment and efficiency in important sectors and the resulting policy and institutional improvements impact on macro-economic issues. Specific improvements started under a SAL program are also pursued and developed through project or sector operations which may be formulated during the SAL process. For example, in Turkey, initial steps taken under SALs to improve the efficiency of state economic enterprises are being developed through a technical assistance loan and a project-specific operation.

Bank/IMF Collaboration

35. Bank/IMF collaboration is important because of the broad nature of both the SAL and IMF-supported adjustment programs, and the consequent need to ensure complementarity between them. The balance of payments adjustment programs supported by the IMF help to create the macroeconomic conditions in which longer-term structural adjustment can begin to take place effectively. The Bank's work, drawing substantially on its continuing analysis of general developmental and sector issues, views financial questions in relation to the policy and institutional changes necessary for sustained development.

36. The key objective of an IMF-supported adjustment program is to maintain or restore a sustainable relationship between the demand for resources and the available supply, in order to eliminate the need for exceptional balance of payments assistance. This is generally achieved through a combination of macroeconomic demand management measures to increase domestic savings, corrections in exchange rates, interest rates and administered prices, and the liberalization of the exchange and trade system. While this approach can often bring about a durable improvement in the balance of payments, in some cases the institutional weaknesses that led to the initial problems tend over time to erode the progress made. In these cases if imbalances are not to re-emerge, public sector management needs to be improved and better institutional mechanisms established, such as improved

project selection criteria resulting in a more rational public sector investment program and systems for reviewing and revising administered prices.

37. Effective Bank/IMF collaboration, especially in SAL countries, is critically important. The expertise and purview of each institution remains distinct, yet it is increasingly a distinction regarding emphasis and balance of the respective programs, and this transcends any formal characterizations of perspective (long-term vs. short-term), orientation (supply vs. demand), or analysis ("real" vs. monetary). Each institution, from its own perspective, has views about the appropriateness of key elements of a country's economic policy, but each respects its particular institutional concerns in discussions with governments. For example, while Bank staff views on the exchange rate may incorporate the immediate implications for the balance of payments, they are more geared to the longer-term impact of exchange rates on the structure of production. Extensive discussions on this issue between Bank and IMF staff normally occur, but policy advice to the national authorities on specific exchange rate adjustments is the responsibility of the IMF. On the other hand, the IMF has relied on Bank staff for analysis and judgement on the content of the public sector investment program, and subject to macroeconomic policy constraints, the size of that program. However, there are large areas of economic policy, e.g., issues regarding financial sector reform, and fiscal and price policy, where there is overlapping involvement by the Bank and IMF. Also, food and energy prices are areas of concern to both institutions and require close consultation. Interest rate reform is another such area, and in Yugoslavia, the IMF-supported adjustment program included agreements to increase the deposit rates; for its part, the Bank focussed on raising the floor lending rates, and reducing the degree of subsidies on lending rates to specific sectors to improve resource allocation.

38. One illustration of interaction between the Bank and the IMF in specific policy areas is in state enterprise reform. IMF-supported adjustment programs often include measures to increase prices of some state enterprise products with the objective, among other things, of reducing their claims on the government budget, and thus increasing public savings. The Bank's complementary focus is generally on measures to improve the efficiency of state enterprises by strengthening management procedures, improving incentives and wage payment systems, and encouraging use of appropriate production techniques. For example, in Turkey, the IMF Standby in 1983 included measures limiting domestic commercial bank financing and external borrowing requirements of the public sector, and budget transfers to state enterprises. The Bank's SAL IV complemented these requirements by emphasizing the further rationalization of public investment, limiting its growth, and ensuring that priority projects receive the bulk of a restricted allocation. More generally, while IMF-supported adjustment programs seek to establish the macroeconomic conditions for balance of payments improvement, the Bank seeks to supplement these measures and to introduce institutional changes -- such as investment selection criteria and improved management practices -- to ensure that excessive spending and the misallocation of resources do not systematically recur in time.

39. It is crucial that the Bank and IMF harmonize their policy advice to any given country, and efforts to ensure such harmonization have continued at both staff and management levels. Instruments for effective collaboration include: briefings by staff of each institution, before and after missions; exchange of draft and final reports; consultation and discussions in areas of mutual concern in balance of payments and structural adjustment programs; consultation on technical assistance; and participation by Bank and IMF staff in missions of the other institution. Periodic seminars reviewing the experience of collaboration in specific countries have also contributed to a better appreciation by staff of the respective concerns of the two institutions. An informal system has also emerged for resolving any remaining differences at the staff level through intervention at the management level, but this is infrequently required.

40. The general conclusion on this subject is that while there have from time to time been differences of opinion between the Bank and IMF -- on such issues as pricing, subsidies, size of public investment programs -- those differences have been resolved through intensive discussion. Long-term development programs cannot be implemented effectively by a country that is disrupted by an immediate financial crisis, and the longer-term balance of payments objectives of SAL programs cannot be achieved, since the macro-economic policy measures included in IMF-supported adjustment programs are critical to the overall adjustment package. Experience during recent years has shown that the Bank's SALs and the IMF-supported adjustment programs are in practice both complementary and mutually reinforcing. Development objectives and balance of payments adjustment objectives ultimately converge.

C. Administrative Aspects of SALs

Disbursements and Counterpart Funds

41. Generally SAL finances imports, subject only to a negative list of prohibited imports. In some cases the SAL funds have been used for more specific purposes, as in the case of Yugoslavia where only imports needed for export production were financed. SALs disburse, on average, in 11 months. Local currency funds generated by imports generally are designated to finance development programs. In special cases, e.g. Senegal and Ivory Coast, the use of counterpart funds was earmarked for financial restructuring of selected public enterprises on the basis of agreed criteria.

Size and Frequency of SALs

42. The objective of a SAL is to support a program for policy reform designed to reduce current account deficits in relation to GNP, while minimizing the adverse short-term impact on development. However, the quick-disbursing funds provided by SALs are an important component of the package required to finance a country's external resource needs. The size of the gap is always far larger than can be provided by the Bank (frequently 5-10 times

larger), and a SAL's financial contribution frequently makes sense only as part of a larger financing package in which the IMF, other multilateral and bilateral donors, and commercial lenders participate. The size of a SAL is therefore determined partly by reference to guidelines of resource allocation by which the Bank ensures that development needs of all Bank/IDA eligible countries are met as equitably as possible, and partly by the need for a minimum loan size required to indicate the Bank's support for the structural adjustment program.

43. Within the program of lending to a country, it was agreed that SALs would comprise about one-third of the Bank's lending over a period of time; however, in the context of the Special Action Program, it was agreed that SALs might comprise a higher proportion of lending to a country in a given year. The programs supported by SALs are reviewed regularly to allow decisions on tranche release (para. 45), and importantly, to determine the timing and number of subsequent SALs. The number of SALs for a particular country is limited to five, over a five to seven year time horizon. This limitation is based on the judgment that, with implementation of a sound structural adjustment program over the period, and associated capital inflows from other sources, the Bank's country assistance strategy could effectively support further change through sector and project lending. Within this limitation, the determinant for the appropriate duration of the SAL is progress in the structural adjustment effort. Thus, Turkey has received four SALs and the fifth and final SAL will be submitted to the Executive Directors before the end of FY84. Korea has received two SALs, but with its rapid progress in structural change, it is probable that support for further changes can be through sector and project lending.

Supervision and Tranching

44. Supervision of SALs is particularly important, since adjustment programs typically involve Ministries of Finance, Planning, and sectoral agencies and effective coordination among them is essential for success of the SAL program. The policy dialogue -- in its most operational sense -- is therefore necessary for the success of SALs, and is itself enhanced by the SAL process, with great potential benefits for other aspects of Bank assistance to the country.

45. The practice of tranching SALs has proved an effective mechanism to promote timely program implementation. Progress reviews to assess the appropriateness of tranche releases are normally scheduled about six months after loan/credit effectiveness. In about two-thirds of the cases to date, the reviews have indicated satisfactory performance and tranches have been released as foreseen. In four cases, minor delays (about three months) were experienced: Ivory Coast I (progress was needed in developing financial plans for agricultural development agencies and management studies) and Malawi I (budget and external debt processes needed to be improved, agricultural producer prices increased, and studies implemented). At the time of preparing this report, discussions on measures needed for tranche release are continuing, and disbursement has been delayed by two months in Togo (revised investment program to be completed, and agriculture pricing and marketing

policies formulated), and Yugoslavia (energy conservation measures and agreement on project selection criteria needed). In the case of Kenya I, where budgeting systems and debt management needed improvement and interest rate adjustments had to be implemented, there was a delay of about six months. In Guyana, a delay of about one and a half years occurred because a revised investment code was not formulated and an export action program was not developed. Finally, in Senegal, the loan was cancelled about one year after the scheduled date for second tranche release.

Technical Assistance

46. The formulation and implementation of a comprehensive structural adjustment program is a difficult task requiring various kinds of specialized expertise not always available within governments. The Bank has utilized general technical assistance operations to help some governments formulate structural adjustment programs; in other cases, technical assistance loans accompany the first SAL, to help implement the SAL and to prepare subsequent phases of the program. Of the 16 SAL countries, technical assistance loans have been extended to 10 (of which 6 in Africa) for a total of $57.9 million.

D. Distributional and Social Issues

47. A detailed evaluation of the distributional and social impact of SALs is even more difficult than of their impact on production, because of conceptual difficulties and lack of adequate data. General analysis, however, indicates that certainly in the medium and longer term, and perhaps even in the short term, the negative effects of the worsened economic situation on the poor and the unemployed would be higher if there were no appropriate adjustment program. The alleviation of poverty requires growth; and by helping to re-establish the economy on an expansionary path and to increase the supply of external capital available, implementation of a structural adjustment program has a favorable impact in the medium term on employment and poverty amelioration. If adjustment measures had not been undertaken, the resulting disruption in economic growth would most likely have exceeded the short-term costs of stabilization programs and austerity measures that are essential components of structural adjustment policies. Nonetheless, structural adjustment programs must be designed carefully to minimize adverse short-term consequences. For example, fertilizer subsidies should not be removed without first raising producer prices; increases in utility tariffs should be matched by better services; reductions in the budget for social services should be achieved through cutting back on unit costs rather than by withdrawal of certain services. Experience shows that the longer the initiation of the process is delayed, the more painful and disruptive the adjustment program is likely to be.

48. Past policies pursued in some SAL countries have had an unfavorable impact on employment and distribution. In agriculture, producer prices have frequently been held below efficient levels for crops such as foodgrains that

are generally produced by low-income farmers. The same has been true in many African countries for export crops. In industry, inefficient incentive structures have promoted capital intensive production techniques and high capital-labor ratios, and have consequently reduced employment growth. The policy and institutional changes making up structural adjustment programs supported by SALs are expected to have a favorable impact on employment. These programs support improvements in the structure of incentives, increases in the relative prices for agricultural products, reduction in subsidies and increases in cost recovery, elimination of negative interest rates and overvalued exchange rates, encouragement of exports, improvement of efficiency of public enterprises, and rationalization of the public investment programs. The realistic pricing of capital and foreign exchange tends to promote more labor-intensive lines of production. The encouragement of agricultural production through improvement in relative prices increases labor absorption and incomes in agriculture. The encouragement of export activities also generates employment, as these activities typically tend to be more labor-intensive than many domestically-oriented manufacturing industries. In many countries, a large part of the explicit and implicit subsidies reduced under SALs were benefitting middle and upper income groups, and these groups are therefore more affected by the reductions than is the lower-income population.

49. An element in many SAL-supported adjustment programs is the rationalization of over-extended public sector investment programs, which often include low-priority, poorly-designed projects. Inappropriate project selection has generally caused public investment projects to have higher costs and narrower impact than desirable. Many prestige projects (such as over-designed colleges and sophisticated urban hospitals) benefit only a few, while absorbing funds needed for broader-based programs with higher social returns (primary or technical education, and rural health centers). Governments have been forced by macroeconomic constraints to reduce investments in such projects, but actions under SALs are important for continued progress. Appropriate actions are designed to improve project evaluation and selection, lower costs, give more attention to rates of return, and, in general, to widen the impact of investment expenditure.

50. The structural adjustment process supported by SALs has a primary focus on efficient resource utilization and balance of payments adjustment. Nevertheless, SALs are but one part -- albeit a very important one -- of the Bank's country assistance strategy, and should be evaluated in a broader context in which other country objectives and Bank activities are taken into account. An important consideration of such a coherent assistance package is poverty alleviation and the distributional impact inherent in the country assistance strategy, and preparation of a SAL must be seen in this broader context.

51. The distributional impact of SAL programs has to be a consideration through all stages of the process, and more needs to be done to address the transitional costs of adjustment. In many sectors, the short-term costs of SAL and IMF-supported adjustment programs are likely to be more visible than the stream of benefits estimated to be generated in the medium-term. However,

given that the countries concerned are frequently facing unavoidable adjustment decisions, and are unlikely to have access to external capital without some policy changes, the fundamental issue is one of minimizing the short-term costs while carrying out the necessary adjustment policies. To the extent that reforms are delayed, external capital is less likely to be available, and the adjustment process becomes more painful, particularly for lower income groups.

52. Special studies have been initiated in several SAL countries which, although not part of the SAL program, are designed to elicit relevant data on this issue. The Ivory Coast Standards of Living Measurement Study, and a similar study in Thailand, are examples. However, because such studies need to be based on a series of surveys, they will require two to three years to generate results.

IV. Implementation and Evaluation of SALs

53. Given that in all SAL countries the process of policy reform is still underway, and because of the intrinsic difficulties of monitoring the impact of policy change, the evaluations that follow are necessarily tentative. As OED reports become available and analytical work underway in the Bank provide further insights, evaluation of the structural adjustment process will be deepened. In the following paragraphs, SALs are reviewed by country, starting with the four cases where the SAL process was not completed as originally foreseen. The twelve ongoing SALs are then reviewed, with countries grouped by the date of the first SAL. Following a brief reminder of the country circumstance, the accent of the review is on actions undertaken by governments in the main areas of policy reform described earlier. Each review concludes with a brief overall assessment of progress.

A. Single-SAL Countries

54. Lending for structural adjustment has been discontinued in the four countries reviewed in this section for different reasons.

Bolivia

55. The Bolivian economy expanded rapidly in the mid-1970s, fuelled by expectations arising from promising oil and gas deposits. Anticipating substantial increases in public revenues stemming from hydrocarbon sales, the Government launched a large public sector investment program. A substantial part of this investment was undertaken by public enterprises over which the central government exercised little direct supervision, and the investment

itself was financed primarily by loans from foreign commercial banks attracted by Bolivia's then promising economic prospects. As it turned out, confirmation of hydrocarbon reserves and production did not meet expectations, and performance of the public enterprises proved disappointing. In particular, several large capital-intensive investments in smelting and refining, which the Government had undertaken to increase the value added from domestic resources, were overdesigned and operated inefficiently. In addition, the Government kept hydrocarbon prices low and maintained a series of taxes on the mineral industry. Industrial policy provided few incentives to encourage foreign investment or make efficient use of local resources. In agriculture, pricing policies favored urban consumers, resulting in slow growth of domestic production and increased food imports.

56. These developments had a negative impact on the economy. Between 1974 and 1977, public sector savings declined from about 8 percent of GDP to less than 4 percent, while capital expenditures of the consolidated public sector more than tripled in current terms to about 15 percent of GDP. As mineral production stagnated, the current account balance moved from surplus to a deficit equivalent to 7.7 percent of GDP in 1979. Most of this deficit was financed by public sector external borrowing from foreign commercial banks, a situation which increasingly hardened the public debt profile. The level of disbursed public external debt more than doubled from $900 million in 1975 to $1.9 billion by end-1979, with debt service in that year equalling 31 percent of exports. Real GDP growth, which had averaged 5.8 percent annually over 1970-77, declined in 1978 and 1979 to 3.3 percent and 1.8 percent respectively. This decline coincided with intensified pressures on prices, and the rate of domestic inflation accelerated from an average of about 10 percent during 1975-77 to nearly 20 percent in 1979.

57. The Bolivia SAL focussed on strengthening the efficiency of resource utilization, and on improving resource mobilization, measures which could only be effective within an appropriate macro-economic framework, including a realistic exchange rate. This latter was the objective of an IMF-supported adjustment program. The Government undertook to revise its 1980-83 public sector investment program consistent with the objectives of reducing new large-scale capital-intensive projects, increasing investments for mineral and hydrocarbon exploration and production vis-a-vis infrastructure, and expediting execution of ongoing priority projects. In a related activity, and to help rationalize future public investments, the Government asked the Bank to execute a study (financed by the UNDP) which would examine the existing mechanism for identifying, evaluating and supervising public sector investments, and recommend design improvements to provide more control over the approval and implementation of projects.

58. As part of its effort to encourage private sector investment in mining, the main export sector, the Government agreed to reform mining taxation, recognizing that the level of taxes in Bolivia was the highest of the major tin-mining countries, and that the tax structure discouraged investment in medium- and low-grade deposits. The measures included elimination of the export tax, and reducing the remaining tax structure. The Government also agreed to study modifying the tax system so as to base the calculation of revenues on updated presumed costs.

59. The program provided for adjustments in agricultural pricing and marketing policies. Regulated farm-gate prices were considered the major cause for low agricultural production, together with poor institutional support and inadequate marketing. As an initial step, the Government had already raised beef prices by 55 percent, dairy-products by 62 percent, and poultry by 26 percent, and agreed under the program to: increase the farm-gate price for coffee, and gradually introduce different prices according to quality; increase beef prices; and provide support for a study by the Bank on desired improvements in institutional and marketing support to promote agricultural exports.

60. To improve resource mobilization, the Government undertook to increase the tariffs of major public sector entities (power, railways, airlines), and to maintain them at levels sufficient to earn reasonable rates of return. The Government also agreed to continue increasing hydrocarbon prices in order to bring domestic prices closer to international levels.

Assessment

61. A military coup took place in July 1980, soon after the release of the first tranche. However, the new Government of General Garcia Meza pledged its commitment to the undertakings spelled out in the Letter of Development Policies. At that point, the SAL was achieving limited success, although exports measured in current terms were 24 percent higher in the first half of 1980 than the similar period in 1979; the major increases were in agriculture (up 50 percent in value) and in hydrocarbons (56 percent).

62. Government actions under the SAL program failed to meet requirements in two areas: the investment program, and public sector tariff increases. Overall implementation of the 1980 public investment budget lagged seriously, and was only 42 percent of planned expenditure. Tariffs in key sectors had not kept pace with inflation.

63. The Government met its principal commitments under the structural adjustment program, but the economy started to deteriorate again from mid-1980. The Government failed to meet the test for the third tranche of the 1980 IMF Standby, and agreement on a new Standby could not be reached. It was then clear that the Government could not sustain the momentum needed for a successful structural adjustment effort, and was not creditworthy for further IBRD lending because of inadequate macroeconomic management. Thus, the Bank decided not to proceed with a second SAL.

Guyana

64. From the mid-1970s to the present, Guyana's economic situation has deteriorated steadily. The decline is attributable to labor problems, the collapse of sugar prices in the 1970s, weak international demand for bauxite products, and a depletion of technical and managerial capabilities in the public sector. The large-scale public sector intervention in the early 1970s

led to a major decline in output in the key productive sectors, and compounded effects of the sharply deteriorating terms of trade. Between 1975 and 1979, per capita income fell by nearly one-third, public finances deteriorated rapidly, and the deficit in the current account of the balance of payments widened significantly.

65. To address the continuing economic crisis, the Government embarked in 1980 on an economic program aimed at promoting economic growth, generating employment, and strengthening the balance of payments through development and expansion of export-generating and efficient import-substituting activities. The short-term objectives of the program were to: improve utilization of existing productive capacity, especially of exportable goods; assign priority to production-oriented investments in both the public and private sectors; and substantially increase the level of national savings from an estimated 8 percent of GDP in 1979 to about 16 percent by 1983. For the longer term, the program aimed to facilitate structural transformation of the economy through: sustained growth in agricultural production, mining, fishing and forestry products and non-traditional manufactures, while restraining the rate of growth of the government sector; diversification of output of the productive sectors by introduction of new activities, and by increased processing of raw materials such as timber and root crops; and substitution of imports of fossil fuels by hydroelectric power, and by greater reliance on local and imported sources of energy. The Government program was supported by an IMF/EFF three-year arrangement for SDR 100 million (augmented to SDR 150 million in mid-1980), and an IBRD/IDA SAL for US$22 million.

66. These reforms were pursued by a number of measures. To improve trade policy, import licensing procedures were streamlined and accelerated, import licensing requirements for some categories of spare parts and equipment imports were waived, and an Export Development Fund was established.

67. Several initiatives were taken to improve the efficiency of resource utilization. A revised public sector investment program was formulated in line with the Government's new objectives. Producer prices for paddy were increased by 12-15 percent in 1981, and by a further 20 percent in 1982. Wholesale prices for rice were increased by 25-30 percent. Electricity tariffs were increased by 40 percent. A start was made on reforming the Guyana Investment Code. Studies were initiated to identify an appropriate restructuring of the bauxite industry.

68. To improve resource mobilization, new tax measures were introduced which, with improved collection procedures, resulted in a 23 percent increase in government current revenues in 1981. Domestic interest rates were raised by an average of about 1 1/2 percent.

Assessment

69. Macroeconomic performance for the first two years of the program (1981-82) fell far short of the specified target. The original adjustment program included a number of important policy measures that addressed the main economic issues, but it became evident by early 1982 that the program of

reforms needed to be broadened and strengthened in order to cope with the continuing decline of the economy. In May 1982, the Government adopted an Action Program which aimed at improving efficiency in production by: strengthening and rationalizing management of the public sector, and limiting its operations to those it could efficiently manage; encouraging expansion of the private sector; decentralizing public sector functions; and rationalizing controls and the regulatory framework. In spite of implementation of these additional measures, economic performance in 1983, the last year of the SAL program, was disappointing. Production of Guyana's three principal exports -- bauxite, sugar and rice -- fell considerably short of planned targets. As a result, GDP declined by about 6.4% over 1981-83 as compared to an increase of 3.6-5.7% projected under the SAL program. Exports declined by about 7.8%, compared to growth of between 8.7-10.8% envisaged under the SAL. Imports declined by 13.2%, compared to projected growth of 3.9-6.0%. Accordingly, there was a worsening in the current account balance over the three-year period. Also, there was a sharp drop in external inflows in 1982 and 1983 which caused public sector investment to be 50 percent lower than envisaged under the SAL.

70. It is clear that measures perceived as adequate under the SAL proved inadequate to address the continued worsening of Guyana's economic situation, partly because Government did not adhere to the demand-side measures envisaged in the corresponding IMF/EFF arrangement. When the Government was unable to define a broader program adequate for a serious structural adjustment effort, and in the absence of an appropriate stabilization program, the Bank decided not to continue with a second SAL.

Pakistan

71. During the twenty year period 1960-80, Pakistan experienced a very uneven pattern of development. The rapid growth of the 1960s was followed by poor performance and stagnation during the early to mid-1970s. The new Government that came to power in 1977 introduced a program of reforms, and between FY77 and FY81 there was a significant improvement in economic performance. GDP grew at over 6% per annum, with agricultural growth exceeding 4% per annum and industrial growth exceeding 9%. The current account deficit fell from 6.8% to 3.3% of GNP over the period. Despite these favorable developments, it was felt that Pakistan's recovery was not strongly based. With imports nearly double exports, and with little prospect for significant improvement in the external terms of trade, continued rapid economic growth would quickly have led to large current account deficits and unsustainable capital requirements.

72. The SAL program reflected the Government's recognition of the need for an integrated package of reforms covering several important sectors. The program was directed to carrying forward a number of critical actions initiated in the fields of development planning, agriculture and water, energy and industry. In some cases, these actions were supported by studies and other activities under a proposed IDA Technical Assistance Credit which accompanied the SAL.

73. In development planning, the FY82-84 Public Sector Development Program was "rolled over" to cover FY83-85, and to form a bridge with the first two years of the Sixth Plan. The FY83-85 program was broadly consistent with available resources (but somewhat ambitious in FY85, largely in terms of unspecified projects), but it maintained the momentum of a shift in Government resources toward high-priority projects in agriculture/irrigation, energy, and the social sectors, and away from outlays for public manufacturing investment and for fertilizer subsidies. The Sixth Five-Year Plan (begun in June 1983) retains these priorities: it projects a major real increase in public sector development outlays requiring a substantial mobilization of domestic resources as well as an additional international assistance effort, and at the same time, calls for a greatly expanded role for the private sector based on an improved investment climate and better incentives for efficient production. The Government is also taking steps to improve project preparation, implementation and monitoring.

74. As agreed under the SAL, investments in the agriculture and irrigation sectors continue to be re-oriented towards faster-yielding projects designed to rehabilitate the irrigation system, to raise the efficiency of water usage, and to increase the availability of other inputs. Decisions on agricultural input and output prices are being taken in an increasingly coordinated and timely manner prior to each cropping season, based on recommendations from the Agricultural Prices Commission which, although still not fully staffed, has begun to play a valuable role in policy formulation. Crop prices have been increased in line with the Government's commitment to align the prices of major agricultural inputs and outputs with international prices in a carefully phased manner.

75. In energy, continuing shortages in power and gas have increased the Government's recognition of the need for a considerably expanded and coordinated investment effort. In August 1982, the Government adopted a comprehensive gas development strategy based on a review of supply prospects which had been financed with Bank assistance. A three-year investment program has been drawn up to increase production from known fields by around 25%, with a large proportion of field development costs being met from private sources. With respect to investments for generating additional gas supplies from other sources, the Government adopted a new pricing policy which represented a substantial improvement on its traditional cost-plus or fixed ratio-of-return aproach. In addition, areas which are presently under licence to the public Oil and Gas Development Corporation have been offered to private oil companies on a joint venture basis, and the Corporation's management and operational efficiency have been strengthened. Two sizeable increases raised natural gas consumer prices during FY83 to 50% of fuel oil parity (as compared with 25% at the start of the SAL program). Increases in international oil prices (as well as changes stemming from the fluctuating value of the rupee) have continued to be passed on to final consumers.

76. In industry, the Government has reaffirmed its intention to give the private investors the lead role in the industrial sector, while consolidating and improving existing public sector operations. This policy is reflected by the sharply lower allocations for industry in the FY83-85 Public Sector

Development Program and in the Sixth Five-Year Plan. As part of a program to improve the efficiency of existing public sector enterprises, the Public Enterprises Signalling System is being implemented on schedule by the Experts Advisory Unit in the Ministry of Production. Performance criteria for FY84 for the 43 largest public industrial enterprises have been agreed between the Ministry of Production and the management of these enterprises, and year-end management bonuses will be based on actual performance relative to these objectives.

Assessment

77. Growth and balance of payments performance were excellent during the SAL period. The growth rate of GDP increased from 4 percent in 1982 to almost 7 percent in 1983, and the current account deficit declined from 6 percent of GDP in 1982 to less than 2 percent in 1983. Thus, the Government decided not to proceed with a second SAL and the explicit commitments to further policy changes this would involve, though its program continued the structural changes initiated. It is still too early to point to major changes in economic structure or in economic performance resulting from the SAL. Nonetheless, it is clear that the SAL had a major impact on the Bank's dialogue with Government; it fostered intensive examination of macroeconomic issues at a level that could not have been attained by other means, and it allowed coordinated discussions of sectoral issues that might otherwise been handled only 'piecemeal' through project lending. It is also clear that during the SAL, substantial progress was made along the lines originally envisioned. In part, however, progress was slower than desirable. In agriculture, for example, the proposed rapid reduction in the fertilizer subsidy bill has, despite reduced unit subsidies, been slowed by increased import volumes, by ready availability of concessional finance, and by the Government's desire to maintain high stock levels.

78. Considerable improvements in Government policy have been made since 1977, and particularly during the SAL period, but acceleration of the progress in structural adjustment will be essential to sustained economic growth. The Sixth Plan represents a realistic response to the challenges that Pakistan faces during the remainder of the 1980s, but its success will depend crucially on the Government's ability to mobilize additional private and public resources, to formulate action programs and timetables for the required policy changes (e.g. for rationalization of the tariff/trade incentives system, and for improvements in agricultural extension and research), and to improve absorptive capacity of key public sector institutions. The Bank is continuing to work closely with Government in these key areas.

Senegal

79. In the two decades since Senegal's independence, per capita income has hardly increased. Growth of exports in real terms has been negligible, although commodities became more diversified with the emergence of phosphates, fish and some manufactured goods, in addition to traditional groundnut

products. On the other hand, dependence on imports increased sharply, making the economy more vulnerable to external shocks and to the periodic droughts characteristic of the Sahel region. Because of this unsatisfactory economic performance, the much needed improvement in human resource development became an unattainable objective. The underlying causes for these problems were essentially inadequate pricing policies, and poor resource use in the public sector (particularly agriculture and public enterprises), which seriously lowered public savings and reduced efficiency in almost all areas of public intervention. For a long time, the stagnation was associated with an external balance based on large official capital inflows and transfers from France. However, starting in 1978 and thereafter, the current account deficit widened to 15-20 percent of GNP as a result of poor export volume performance, the effects of a severe drought, deteriorating terms of trade, and continued high levels of imports, including food supplies. In 1980 GDP declined by 1.5 percent.

80. Recognizing the urgent need to address these problems, the Government at end-1979 formulated a structural adjustment program, which was supported by the IMF and by a SAL approved at end-1980. Since Senegal is part of a monetary union and cannot unilaterally devalue (vis-a-vis the French Franc), trade policy reforms were focussed on export subsidies and import tariff adjustments. Under the SAL program, an increase from 5 to 15 percent in the uniform import duty was put into effect, and 10 percent export subsidy was introduced in 1981 for five non-traditional export categories. Rice, a large import item, was a key commodity subjected to the import duty. However, because at the time of SAL negotiations, world rice prices happened to be low (leaving a 15 percent profit in the State's stabilization fund), the Government saw no immediate need for price increases in this socially sensitive consumer product. When world prices started to increase rapidly shortly thereafter, the Government was eventually forced to increase consumer prices by over 30% in February 1982, and again by a similar amount in August 1983.

81. The SAL focussed heavily on improving the efficiency of resource utilization through reforms in the para-public sector, and in agricultural and investment policies. With Bank assistance, the Government had begun in 1978 to tackle the problems of the para-public sector with a comprehensive program of analysis, audits, training and strategy formulation. Under the structural reform plan, the system of direct controls on state enterprises was to be gradually replaced by a contractual relationship between the enterprise and state that would give management clear performance objectives and the freedom to achieve them; the Government was to give the necessary assurance in subsidizing well-defined activities that it wished to maintain, but which could not be made self-supporting. This promoted clarity in objectives, diminished dependence of the para-public sector on the state treasury, and increased the self-financing capacity of enterprises.

82. In agriculture, besides the dissolution in 1980 of the bankrupt and inefficient monopoly state marketing and credit agency, the Government's rehabilitation program consisted of decentralization and financial reorganization of support agencies, increases in producer prices, and a new research

program to promote more profitable farming systems. The main objective of the program was to create the conditions under which agricultural growth would have a better chance of taking place. Although the reform and rehabilitation of some of the agricultural development agencies required financing (partly provided out of SAL counterpart funds), the overall intention was to promote greater efficiency of these agencies, and ultimately reduce the budgetary burden on Government. Reforms in this area were initiated, but they fell short of fully replacing state marketing and input delivery systems by less costly arrangements permitting private participation, and the official cooperative marketing organization remained in place.

83. The new investment program presented at a donors' conference in October 1981 was realistic in size, and re-directed towards commodity-producing sectors. With the Bank's assistance, a unit was created in the Ministry of Planning to improve the economic evaluation of projects. The Government also decided to increase the role of the private sector in the economy by limiting the share of public investments. Public savings were to finance 15 percent of a reduced public investment envelope, a ratio that would increase to 25 percent at the end of the adjustment period. If the economic returns from investment were substantially increased as intended, this investment program (averaging 16-17% of GDP) was expected to lead to GDP growth of approximately 4 percent per year.

Assessment

84. The required economic stabilization to be attained from reductions in public and private spending levels (for which targets were specified in the IMF-supported adjustment program) was not achieved, nor were key reforms in the agricultural sector as described in para. 82. By contrast, important reforms were achieved in the parastatal sector -- where a few unviable enterprises were closed down, some sold to private interests, and others restructured -- and in investment and incentive policies.

85. Senegal's performance under the SAL was reviewed with the new Government which took office in April 1983, and although there was mutual agreement that many important objectives as spelled out in the Letter of Development Policy had been accomplished, the Senegalese authorities acknowledged that because of a combination of external and other circumstances, other essential objectives as noted above had not been achieved. The decision not to extend the Closing Date beyond June 30, 1983, and to cancel the second tranche of the Loan, was therefore shared by the Government. Discussions with the Government have continued since then on unresolved issues, particularly in regard to policies and institutions in the key agricultural sector.

B. SAL Programs Initiated in 1980: Turkey, Kenya, Philippines

Turkey

86. During the 1970s Turkey did not make necessary adjustments to shocks caused by the steep rise in oil prices, and the consequent deterioration in terms of external trade. Turkey maintained high rates of economic growth by raising the share of investment in GDP. This was financed initially by workers' remittances and increasingly by short-term borrowing. The industrial growth was based almost entirely on import substitution behind high protection and government controls on the entry of new firms. The state enterprises sector grew in size, as well as in its financial burden on the public sector. By the second half of the seventies the growth pattern and the balance of payments deficits had become untenable. The rapid growth came to an abrupt halt in 1977 as the massive external debt burden led to a sharp deterioration in creditworthiness, severe shortages of imports, and disruptions in industrial production with a rise in unemployment. By 1980, the high level of domestic inflation had become an issue of critical importance, the current account deficit had risen to 5.6 percent of GDP and GDP was declining. Early in that year, the Government launched an adjustment program which was broadly based on placing increased reliance on market forces and on outward orientation.

87. Trade policy reform has focussed on import liberalization and the competitiveness of exports. A flexible exchange rate policy has been pursued. Exporters were exempted from duties and controls on imports. Further, the import quota list was abolished during 1981, and in 1981-83, over 225 items were shifted from a category requiring an import license to categories which did not. The value of these items is about $400 million (or about 8% of all imports). In 1984 the Government announced major structural changes in the import regime, which identifies selected prohibited and licensed imports, and liberalized imports of all other products. In 1983, the number of imports requiring a license (Liberalized List II) totalled 821 items; in the 1984 regime these have been reduced to 369 items. Total import authorizations for items on the List II amounted to $5.2 billion in 1983; if the 1984 regime had been applied, import authorization would have been needed for only about $1.2 billion worth of these imports. When measured against the total import authorization in 1983, the liberalization of 1984 is estimated to have affected approximately 70 percent of imports. Simultaneously with the removal of quantitative restrictions on a number of items, the Government proceeded with a reduction in tariff rates. Out of about 500 products whose tariffs were changed, more than 80 percent had their tariff rates reduced. Foreign exchange earners are now allowed to open foreign currency accounts up to 5 percent of annual export earnings. Export credit and foreign exchange authority was delegated to the commercial banks, while the tax rebate system for exporters was expanded.

88. Resource mobilization has been promoted in both public and private sectors. Commercial bank interest rates for lending were deregulated under SAL I, and since then nominal rates on deposits have been adjusted to reflect

the real cost of funds. The Capital Market Law, enacted in 1981 under SAL I, established a legal framework for issue and trading of shares and bonds, and for regulating financial intermediaries dealing in stocks and bonds. Supplemental steps taken under subsequent SALs to strengthen the capital market encompassed improvements in auditing, accounting, and steps to encourage bond issuance by development banks. To reduce the cost of intermediation, and to improve efficiency in the financial sector, the highly differentiated bank cash reserve requirements were replaced by a single rate covering public sector resource mobilization. The collection to assessment tax ratio has improved. As a result of this and other measures, the budget deficit decreased from 4.6 percent of GNP to 0.5 percent from 1980 to 1983. Along with efforts to raise resources, there has also been a continued emphasis on increasing tax equity. Finally, structural reforms in the public enterprise sector, including liberalization of price policy as discussed below, have also been important in mobilizing resources and reducing the drain on the budget.

89. Efficiency in the utilization of resources has improved in several respects. Restraining the high rate of growth in public investment is a major objective of the structural adjustment program. The share of agriculture, energy, and transport in the total public sector investment program has increased from 49 percent in 1980 to 60 percent in 1983 in line with government priorities, while the share of manufacturing (in which there is some excess capacity and in which the objective is to encourage the private sector) declined. Public enterprises pricing was freed from government controls, and total transfers from the budget to the enterprises have declined from 4.8% of GNP in 1980 to 2.5% in 1983. For credit administered by Government, the range of interest rates has been narrowed to improve efficiency.

90. Institutional reforms have been aimed at strengthening the public enterprise sector. Improvements in the State Economic Enterprises (SEE) sector are directly related to the Government's efforts to expose the SEEs to more competition, to streamline their organizational structure as well as their links to supervisory government agencies, to encourage operational efficiency through strengthening of managerial autonomy, and finally to bring about better management of human and financial resources. The Government continues to aim at increasing profitability and decreasing dependence of the SEEs investment programs on budgetary support. Strengthening the project evaluation process for the public sector investment program has also required institutional improvements, and a new office created in the State Planning Organization is now operational. Finally, Government has reorganized the Ministry of Agriculture to promote development of a coordinated sector strategy.

Assessment

91. As a result of the stabilization and structural adjustment program, Turkey has achieved substantial improvements in several areas. Merchandise exports have risen from $2.9 billion in 1980 to $5.7 billion in 1983, with export growth being led by the manufacturing sector and involving a significant diversification of markets. Substantial progress has been made in

import liberalization, through the abolition of quotas, the freeing of a large number of items from licensing, rationalization of tariffs and a simplification of administrative procedures. At the same time, the current account deficit has fallen by 44 percent since 1980 to about $1.8 billion (3.5 percent of GNP) in 1983. There has been a marked retrenchment of the public sector. Government Consolidated Budget expenditures, which stood at 24.0 percent of GNP in 1980, fell to 19.4 percent in 1983. The budget deficit to GNP ratio, which stood at 4.6 percent in 1980, decreased steadily to 1.4 percent in 1981, 1.2 percent in 1982, and 0.5 percent in 1983. The rate of inflation, as measured by the wholesale price index, has dropped from an annual rate of about 107 percent in 1980 to 31 percent in 1983.

92. The financial performance of SEEs also registered substantial improvement, as a situation of chronic deficits changed to one of growing profits. Successful efforts have been made to constrain the level of public investment in line with available resources, to limit the number of projects to a manageable level, and to ensure that priority projects receive larger allocations in order to speed up their completion. Also as indicated, allocations for the energy, agriculture and transport sectors have been increased, and the share of manufacturing reduced. Public sector investment in real terms increased by only 2.2 percent in 1982 and decreased by 1.3 percent in 1983, while private investment rose by 5.4 percent and 5.7 percent during those two years. As a result, there has been a significant improvement in the share of private fixed investment in total investment. In the energy and agriculture sectors, actions have been taken to increase institutional efficiency, to adjust prices closer to economic levels, and to reduce input subsidies in a phased manner. Finally, measures have been initiated to simplify the regulations surrounding banking operations, and to improve the performance of money and capital markets.

93. This list of accomplishments shows how far the Turkish economy has moved in the last four years, and demonstrates the existence of a strong and sustained government commitment without which no structural adjustment program can succeed. Admittedly, there was a weakening of the adjustment process in some respects during the election processes of 1983. It is also not unusual for governments to postpone important decisions when elections are imminent. The point to note is that such events can and do happen in all countries, and that some ups and downs must be allowed for in evaluating overall progress.

94. The pace of implementation of reforms is clearly a matter of judgement for each country. It is encouraging that the new Government has acted swiftly to deal with the slippage in the reform program which started in 1983, and to push the structural adjustment program firmly forward. The principal challenge for the Government is now to get the restructuring fully back on track, and to carry out sectoral reforms to complement those already implemented at the macro level. Some difficult problems remain to be tackled, including, in particular, depressed private investment and high unemployment, both concomitants of a prolonged period of stabilization which are likely to be mitigated only if inflation is brought fully under control and growth recovers.

Kenya

95. During the 1970s, Kenya promoted growth based on import-substituting industrialization. Balance of payments problems emerged following the petroleum price increases, and the ratio of the current account deficit to GDP reached 14.3 percent in 1980. GDP growth was high (still 5.8 percent in 1980), but it was financed by unsustainable capital inflows. The increase in revenues resulting from the coffee boom led to an increasing misallocation of resources. The basis for Kenya's structural adjustment program was contained in the Government's Fourth Five-Year Development Plan (1979-83) which identified a need for reform in five areas. In the areas of trade policy reform and industry, past industrial growth had been fostered by excessive protection, resulting in a sector which was uncompetitive, overly capital-intensive, and a heavy net consumer of foreign exchange. In the area of resource mobilization, over expansion and an inadequate definition of the role of the public sector relative to the private sector, was fully recognized as a structural issue in 1982 with submission of the Report of the Working Party on Government Expenditures. In agriculture, growth had decelerated, due partly to the tapering off of specific positive factors which had sustained the sector in the decade after Independence, and partly to inefficient Government intervention in pricing and marketing. In energy, the oil price increases had intensified the need for increased domestic energy production and more efficient energy utilization. Underlying many of the problems of the Kenyan economy is the extremely rapid population growth. The Bank's structural adjustment operations have supported measures in all these areas. The most significant components -- in terms of Government staff time, Bank staff time, and intended impact on the economy -- have been trade policy reform, industry, the efficiency of resource utilization, and agriculture. Unusual in this type of operation, population policy was also included in the SAL program.

96. Trade policy reform has consisted of rationalization (through import liberalization) of excessive protection for the industrial sector, and export promotion. The announced new import policy has consisted of staged replacement of quantitative import restrictions by equivalent tariffs (implying initially raising some tariffs), and subsequent tariff rationalization with the objective of a more uniform and moderate structure of tariff protection. In June 1983, higher tariffs were reduced across the board by 15 percent of the amount by which they exceeded 30 percent. Studies are underway to develop policies to ameliorate the effects of reform on inefficient industrial subgroups, and to formulate programs for restructuring them. The Government intended to develop an export promotion program which might, for example, have included: simplifying the administration of export compensation to enhance its reliability; export finance; more reliable access to imported inputs; duty drawbacks; or manufacturing in bond.

97. In addition to trade policy reform, industrial policy is being further defined through a rationalization of the Government's role on the basis of a thorough review of financial investments in industry, hitherto a substantial drain on Treasury resources. A Government Task Force on Divestiture has been constituted, and will recommend specific action to reduce

Government involvement, especially in manufacturing. Meanwhile, there has been a sharp reduction in budgetary transfers to the private sector and to parastatals.

98. Despite this reduced budgetary drain, improving the efficiency of resource utilization remains a central goal. The Government intended to strengthen public expenditure planning by amplifying its Forward Budget with a better-defined multi-year public investment program, and by reviewing parastatal financial plans during the annual and forward budget process. Preparation of the Public Investment Program was delayed due to repeated downward revisions in the medium-term expenditure ceilings, arising from revenue shortfalls; furthermore, agency submissions were generally deficient. Eventually, a Public Investment Program was prepared and circulated to the Consultative Group meeting, where it was endorsed. Progress in reviewing parastatal financial plans has been disappointing, which the Government has attributed partly to an inadequate legal framework. A State Corporation Bill which would strengthen the authority of the Minister of Finance with respect to parastatal expenditures has been drafted, but not yet enacted.

99. In agriculture, the most significant reforms initiated have been in pricing and grain marketing. In the area of pricing, the Government has generally observed principles that producer prices should provide adequate incentives for farmers and should be within the limits of import and export parity, and that consumer subsidies would be avoided. Regarding grain marketing reform, the Government informed the Bank in December 1983 that it had decided that the role of the National Cereals and Produce Board (a parastatal with a legal monopoly) would be redefined to be a market stabilization and food security function, and that grain marketing would be opened to private traders. These decisions effectively reaffirmed policy intentions which had been announced earlier in the Plan. However, no plan of action to implement these decisions has been developed yet.

100. The increasing import bill caused by greater energy imports required immediate attention. An energy assessment study has been completed by the Bank and its recommendations generally accepted by Government, but a well-defined investment program with an adequate analytical underpinning is still to be formulated. Although pricing policies in the sector are generally adequate, the structure for petroleum products also needs revision to reduce the differential between gasoline and diesel prices.

101. The Kenya SAL has also comprised a special component on population. Growth of population is one of the highest in the world, exerting pressures on labor markets and on scarce agricultural resources, and affecting the ability of the country to provide for basic needs. A National Council on Population and Development has been established, funded and staffed, but specific targets for family planning acceptors, average family size, and population growth have not yet been developed, nor has a well-defined fertility reduction program been devised.

Assessment

102. Implementation of the program has been relatively weak, with most measures either well behind schedule or still being prepared for future implementation. Trade reform provides a good example. The schedule for phasing out of quantitative restrictions (QRs), toward an objective of no more than 12 percent of import items subject to QR by June 1985, was disrupted in 1982 by foreign exchange problems. In response, the Government devalued the shilling by 15 percent in late 1982 and reduced the fiscal deficit. However, at the present time 71 percent of import items are subject to restricted availability of foreign exchange. The industrial studies intended to provide the basis for the new tariff structure are far behind schedule. In the area of export promotion, some proposals have been conceptualized, and intentions were announced in the June 1983 budget speech regarding export finance and manufacturing in bond, but no measures have been implemented so far.

103. The following factors appear to have contributed to weak program implementation. First, divided or inadequate Government commitment on some issues, particularly import liberalization and grain marketing reform. Secondly, weak inter-unit communication and coordination in Government. Thirdly, diversion of the attention of key government officials to the difficult short-term situation arising from an unsuccessful coup attempt in August 1982, suspension of the 1982 IMF-supported adjustment program, and related continuing adjustments in the foreign exchange and budgetary situation.

104. Because of delays in the implementation of measures, the second tranches of both the first and second operations were released significantly later than originally planned. The timing of a possible third operation will depend on progress with measures which were agreed upon earlier, but which remain to be implemented.

105. Actual developments in the Kenyan economy have differed considerably from earlier Bank staff expectations. The differences are greatest in the external sector. Whereas it had been expected that both export receipts and import payments would increase steadily, export receipts have in fact stagnated and import payments have fallen sharply. This is due partly to the external environment, and partly to the inadequate implementation of planned structural adjustment measures for export promotion and import liberalization. The current account deficit has come down sharply, from 14.3 percent of GDP in 1980 to 3.4 percent in 1983, because of demand management measures and the intensification of import restrictions during 1982/83. In sum, the Government has been more successful at stabilizing the economy than at bringing about the structural adjustments necessary for restoration of sustained growth of per capita incomes.

Philippines

106. During the 1970s, the Philippines followed a more dynamic growth-oriented development strategy than in the past. The growth rate of GDP increased from 5 percent in the 1960s to almost 7 percent in the late 1970s, the ratio of fixed investment to GNP rose from 15 percent to nearly 25 percent, and export growth accelerated.

107. However, the structural weaknesses of the Philippines were reflected in the chronic shortage of foreign exchange during most of the decade, and an inefficient industrial sector which favored capital-intensive import-substitution type investments. The 1979 oil price increase and international recession significantly tightened the balance of payments constraint. The current account deficits reached 6.1 percent of GDP in 1980, while GDP growth, sustained by the growing current account deficit, was 4.9 percent. Hence, an accelerated structural adjustment effort was necessary for the country to continue to make reasonable progress towards its development objectives. Among the factors identified as critical to success of the adjustment process and development efforts were: an increase in the efficiency of investment, reduced dependence on imported oil, and improved performance of the manufacturing sector and its export performance.

108. A major tariff reform program was legislated in August 1980 as part of trade policy reform under the first SAL. This program introduced a phased reduction in tariffs over five years, with the maximum tariffs being lowered from 100 percent to 50 percent. Despite mounting balance of payments problems, the Government has implemented the tariff reform program as agreed, and the final phase is expected to be put into effect on January 1, 1985. A complementary program of indirect tax realignment has also been adopted. However, because of the need to generate additional revenues quickly to overcome budgetary constraints, a temporary 3 percent import surcharge was imposed in December 1982. Subsequently, in November 1983, the import surcharge was increased to 5 percent, and further to 8 percent in April 1984. The Government has, however, indicated that it will eliminate the surcharge by the end of 1984 and replace it with domestic taxes. While the surcharge contradicts, temporarily, the agreement to reduce tariffs to a maximum of 50 percent, it does not produce a major distortion in terms of effective protection.

109. A five-year plan for removal of the majority of import restrictions was adopted in August 1980. The three initial phases of the import liberalization program, covering elimination of import restrictions on 960 consumer items (about 4 percent of total imports) were completed during 1981-83. A plan was approved in April 1983 for reducing import restrictions on an additional 36 items in 1984 and 201 items in 1985, but the 1984 component has not been put into effect. Likewise, the agreed program to reduce the number of restricted items requiring "prior approval" by various government agencies has not been implemented. The lack of progress on liberalization of imports reflects the country's deteriorating balance of payments position during 1983. Declining terms of trade, lower export volume and mounting debt service, as well as a severe capital flight due to political uncertainties,

forced the Government to impose new controls and to suspend the liberalization program. The imposition of these restrictions appears justified as a temporary measure, and the Government has indicated that it remains committed to continued implementation of the import liberalization plan once the balance of payments situation improves.

110. To improve the efficiency of resource utilization, considerable progress has been achieved in implementation of the new industrial promotion policies, which are aimed at improving efficiency of industrial investment, simplifying administration of industrial incentives, and strengthening of related institutions. The objective of the reform was to reduce the pro-capital and anti-export bias of the industrial incentive system, and to institute automatic rules rather than case-by-case judgements. A new industrial incentives system became effective on April 28, 1983. By August 1983, 129 applications had been received for projects under the new system, with 70 percent of them being export-oriented projects. In that month, new guidelines for investment priority determination were approved, which use the economic rate of return as the primary criterion for selecting activities to be included in the Investment Priorities Plan.

111. Progress has been made in preparation of development programs for the key industrial sectors which are important for investment priority determination, tariff reform and incentives system design. Modernization and restructuring programs for the cement and textile industries are currently under implementation. However, out of the seven sectoral studies planned for 1983, only two have been completed (electronics and food processing industries), and one (metal-working industry) is in its final phases of preparation.

112. Implementation of the energy program has been excellent. The Government's energy reform program, supported under SAL II, focuses on the development of domestic energy resources to reduce dependence on imported oil, generation of funds for energy investment, appropriate energy pricing, and energy conservation. The Government has made impressive progress in all these areas, after scaling down previous over-ambitious plans. Power generation from geothermal steam increased by about 18 percent, and coal consumption has almost doubled since 1982. Over half of the planned energy investments are to be made in the power sector. As part of the Government's resource mobilization effort, the main objective in the power sector is to increase wholesale power tariffs 1/ (which have been significantly below the marginal cost of supplying power), to raise internal funds for the National Power Corporation, and to phase out government equity contributions to that agency. Substantial progress has been made in this regard. Tariff rates, including both base rates and cost adjustments, have increased 80 percent between July 1982 and January 1984, a real increase of over 40 percent.

1/ Wholesale tariff increases are automatically reflected in retail rates.

Assessment

113. It is difficult at this stage to measure the full impact of the program, largely because of the current economic and financial crisis. A study undertaken by the Tariff Commission shows that effective protection rates have decreased across industries, although substantial differences persist among different economic activities. The study also shows that customs revenues, although decreasing the first year, went up by 14 percent in 1982. There has been no significant increase in imports (which fell in 1982) following the trade liberalization program, although this could be a reflection of world recession and depressed demand. It is still too early to judge whether the import restrictions recently imposed will be relaxed in the future, and the liberalization program completed as originally planned.

C. SAL Programs Initiated in 1981: Ivory Coast, Korea, Malawi, Mauritius

Ivory Coast

114. GDP grew rapidly during the 1960s and 1970s with growth averaging 7 percent per annum. However, problems emerged in the 1970s when exceptionally high international prices for coffee and cocoa generated high government revenues, which, in turn, enabled government to borrow heavily to support an over-ambitious and poorly designed public investment program. By 1980, as a result, the current account balance of payments deficit amounted to 17 percent of GDP, and the public sector financial gap to 12.2 percent of GDP, and a serious debt problem had developed. GDP growth declined to only 1.4 percent in 1981. Government prepared a stabilization and structural adjustment program which focussed at first on short-term financial problems, while preparing studies to lay the basis for further structural reforms. The Bank supported this program with a first SAL in 1981 that focussed on public investment reforms, and which set the stage for reforms being implemented in key sectors under SAL II. The IMF supported the Government programs with an EFF.

115. Trade policy reforms comprise a major part of the structural adjustment program. Studies defining a number of important changes needed to support structural adjustment have been completed. A revised customs tariff schedule is being prepared in order to rationalize effective tariff protection rates among the different branches of industry. A new investment code is being designed to encourage private investment without discriminating against local suppliers of raw materials and intermediate products, and to provide meaningful incentives for employment creation, regional growth, and small- and medium-scale enterprise development. A subsidy scheme is being prepared based

on value added for exports to non-CEAO 1/ countries aiming at eliminating the bias against these exports inherent in the present system. It will be introduced for selected sectors representing about 50 percent of industrial local value added, and subsequently expanded to all industry. A program to abolish quantitative import restrictions for a list of products representing 40 percent of local value added is being prepared. For those products, where necessary, temporary import surcharges would replace the quantitative reduction, but this would be phased out over a five-year period. Acceptance of this technical work by Government is a condition of second tranche release of SAL II.

116. Improving the efficiency of resource utilization is closely interrelated with institutional reform in the case of the Ivory Coast. A Financial Coordination and Investment Control committee has been set up to monitor the public sector financial situation and improve economic management. Oil sector receipts have been integrated into the budget and consolidated accounts were introduced for the Central Government and 31 public enterprises. Public and/or private enterprise access to Government loan guarantees was tightened and new investments were limited. The public investment programming and monitoring system has been reinforced and now covers all investment projects including those implemented by major public enterprises. Reductions in public investment have been accompanied by a significant shift to directly productive sectors. Financial, economic and technical appraisals are done more systematically, and most projects with low rates of return have been postponed or are included in a secondary list which will be implemented only if external borrowing with very soft conditions can be secured. Program implementation has also improved, and departures from the budget, which were to a large extent the cause of earlier excessive expenditure, have been sharply reduced, indicating that the monitoring system introduced by the Ministry of Finance is working efficiently.

117. A recent Cabinet reshuffle introduced a far-reaching reorganization of agricultural sector management which should lead to an improvement in policy-making in the long term, but which is currently causing delays in the restructuring of some institutions, in particular the extension service agencies. However, the rehabilitation of the two major public agricultural enterprises is being implemented as scheduled. The most important one is SODESUCRE, the sugar company, where Government recently decided to close the two least efficient complexes of the six under operation after the on-going harvesting season, and is now finalizing a comprehensive recovery program which aims at eliminating losses over an 8 year-period. The financial recovery program of PALMINDUSTRIE, the company in charge of oil palm development, has been successfully implemented. In other sectors, pending the completion of comprehensive rehabilitation plans, the Government introduced substantial rate increases to improve the finances of agencies in charge of

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1/ The CEAO is the Western Africa Economic Community comprising seven French-speaking countries.

railways, water supply, electricity, refined petroleum products and mass transit.

118. Agricultural pricing policy was implemented in accordance with the Government's Letters of Development Policy, with the exception of the increase in copra prices which was no longer considered economically justified. Government raised consumer prices of rice by 18 percent in 1981 and by a further 23 percent in 1984, thereby eliminating subsidies on imported rice and encouraging production of local foodcrops. In 1982 rice millings were denationalized, and studies were initiated to prepare a comprehensive program for improvement in marketing, storage, and transportation facilities for other foodcrops and to develop a national seed policy. Last October, producer prices were raised by 17 percent for both coffee and cocoa, by 25 percent for cotton, and by 33 percent for paddy.

Assessment

119. The current account deficit has been reduced from 17 percent of GDP in 1980 to 10 percent in 1983, GDP growth in the last two years has been negative, as a result of a sharp reduction in public investment, deterioration in the terms of trade, high interest rates on external debt, and the effects of the prolonged drought. Against this difficult economic background, the Ivory Coast has begun a significant reform, and has vigorously pursued stabilization under IMF-supported adjustment programs. It is difficult at this time, however, to assess the impact of the structural adjustment program, the timing and magnitude of which will mainly depend on supply responses to changes being introduced in the incentive system. Past experience clearly indicates that the capacity of the private sector, both in agriculture and industry, to react to economic signals introduced under the program should be substantial. Three factors may be mentioned which illustrate progress toward structural transformation. First, Government's recognition since the beginning of the program of the structural character of present economic and financial difficulties, is now shared more broadly by the administration and economic circles. This point is illustrated by the determined application of pricing measures designed to restore incentives for agricultural production, and the far-reaching rehabilitation programs for inefficient agencies. It is also reflected in improved economic management which produces and uses planning and programming tools, and in improved project preparation and evaluation units. Second, the shift accomplished in urban-rural terms of trade by the increases in producer prices, together with the wage freeze in the modern sector since January 1982, has improved farmers' relative incomes and thereby limited the impact of the drought and the adjustment process on the bulk of the lower-income population in rural areas. Third, two substantial increases in the consumer price of rice implemented under the program resulted in a smaller than anticipated impact of the drought on foodcrop production and a stabilization in the volume of imported corn and rice, thus bringing about a positive shift of demand and supply of local foodstuffs versus imported food.

Korea

120. The Korean economy grew by 10 percent per year in 1973-78. However, rapid growth generated serious structural problems, including accelerating inflation, rapidly increasing real wages, exchange rate overvaluation, and loss of export competitiveness, coupled with excessive investment in the heavy and chemical industries for which expected demand later failed to materialize. When the oil price increase of 1979 created an incremental oil import bill equal to 6 percent of GDP, the balance of payments deficit increased to 9.2 percent of GNP, by 1980. Furthermore, in 1980 also, a harvest failure cost the equivalent to 4 percent of GDP while investment decreased by 20 percent, and GDP declined by 6.2 percent. In response to these difficulties, Government pursued a stabilization and structural adjustment program which gave special emphasis to restoring competitiveness and increasing efficiency of resource use.

121. Trade policy reform was one of the central themes of the adjustment program. As part of an IMF-supported adjustment program, a managed float was used to reduce the effective exchange rate by 30 percent in 1980 as an immediate step to improve competitiveness. To sharpen the longer term efficiency of resource allocation, the import regime was also liberalized through a phased program that raised the percentage of items subject to automatic approval from 76 percent in 1980 to 85 percent in 1984, with further increases to 95 percent programmed by 1988. In addition, a number of tariff adjustments, mostly downwards, were made to achieve more even effective protection rates.

122. The need to raise public savings was an important component of the resource mobilization program initiated under SAL I in 1981. Progress at the aggregate level has exceeded targets, which were to increase the ratio of taxes to GNP from 18 percent in 1980 to 22 percent by 1986, and of Government savings from 6 percent to 8 percent. Progress has resulted from tax measures (education surtax, petroleum tax increases), high elasticity of the existing tax system, and from the rapid resumption of GNP growth.

123. To improve efficiency of resource utilization in the public sector, two sets of agreed actions have been implemented. First, as part of its policy to give a larger role to market forces and to decentralize decision-making in the public sector, the Government enacted a Public Enterprise Management Law and prepared implementation guidelines including a public enterprise performance evaluation system. Second, the Project Evaluation Bureau has completed project preparation manuals for all important sectors. Shadow pricing estimates are also prepared. Third, Government has reduced the deficit of the Fertilizer Fund ahead of schedule (from 0.4 percent of GNP in 1981 to 0.2 percent of GNP by 1983). For the Grain Marketing Fund, the deficit was reduced from 0.7 percent of GNP in 1981 to 0.4 percent in 1983. However, recent price trends suggest that the operating deficit will not be eliminated by 1986. A new program to achieve previously agreed targets is being prepared.

124. In the private sector, efficiency is being promoted in both industry and energy sectors. A major thrust of the Bank's SAL program is to support the Government's medium-term plans for reform of industrial incentives and protection policies. In this respect, the trade policy reforms are expected to have a major bearing on greater industrial efficiency. Government had previously promoted some inefficient heavy industries. Under SAL, industry-specific fiscal incentives have been abolished and the extensive system of subsidized and controlled credit is being reduced. The Government has prepared a set of broad policy guidelines for industrial development in the 1980s incorporating this approach and setting out the principles to be applied in designing specific industrial policies. The guidelines cover policies towards: (a) reinforcement of industrial competitiveness through trade liberalization, financial liberalization, industrial incentives reform and removal of institutional restrictions to competition; (b) promotion of research and development activities; (c) restructuring and rationalization of industries facing difficulties due to policy adjustments or changes in the economic environment; (d) infant industry assistance of limited extent and duration for promising industries; and (e) support for development of small- and medium-scale industries.

125. Energy issues were an important component of the action program under the first SAL. The agreements covered energy pricing (petroleum, coal and electric power); energy conservation in industry and buildings; and investments in energy-intensive industries. Good progress has been made in implementation of these agreements. The Government has fully passed on increases in petroleum prices to consumers. Wholesale and consumer prices of all petroleum products are at least at the level of world market prices, and the differential between motor fuel prices has been substantially narrowed after legislative action at the end of 1982. The focus in petroleum product pricing has been widened to include refinery pricing and trade deregulation, while further work on petroleum product taxation will continue under the Bank's recent highway sector loan in the context of studies on road user charges and motor fuel taxation. Coal prices were adjusted and are now close to import prices on an energy equivalent basis.

Assessment

126. Korea wisely tackled its stabilization and adjustment problems relatively early on. The country was also fortunate in implementing its program at a time of more favorable external circumstances, especially the beginnings of an economic recovery in the United States. Thus, measures to improve the broad efficiency and competitiveness of the economy coincided with a period of rapidly recovering export demand, falling interest rates, and slack energy prices. In these circumstances, a highly successful outcome was to be expected, and this has in fact materialized. The rate of growth of GNP climbed rapidly from minus 6.2 percent in 1980 to 9.2 percent (preliminary figure) in 1983, the current account deficit fell from \$5.3 billion to \$1.6 billion over the same period, while inflation was lowered from 39 percent to under 4 percent. Demand for industrial exports has played a leading role in this pattern of events.

127. Korea's success in stabilization has not been painless, particularly in 1980-81 when real wages declined, unemployment increased, and investment was substantially lower. The upturn in the economy has enabled these features to be reversed, though other costs have emerged as various measures became effective. In particular, profitability in many industrial sectors has been reduced to a very low level as companies vied for markets, while the heavy reliance on debt financing in earlier years left little financial flexibility. The low profitability of industry has also reduced the profitability of the banking sector at a time when financial liberalization has high priority. Dealing with this problem in a satisfactory way is now one of the major issues arising out of the present adjustment process, and Bank support is proposed through a Second Industrial Finance Sector Loan.

Malawi

128. After 15 years of virtually steady growth, GDP contracted marginally in 1980 and 1981, and the external and government accounts deteriorated badly. The current account deficits reached 17 percent of GDP in 1980. While the Government had successfully steered the economy through balance of payments difficulties in the past, the payments crisis since 1978 was less manageable because of the unprecedented sharp drop of 40 percent in Malawi's terms of trade. In addition, agricultural production suffered from drought, reducing export volumes and necessitating large imports of maize, a commodity in which Malawi had been self-sufficient during most of the 1970s. Finally, disruptions to the transport system through Mozambique forced Malawi to use more costly air, or alternative rail and road routes.

129. While the primary cause of Malawi's economic difficulties were external, the crisis -- as in much of Africa -- also revealed important structural weaknesses in the economy: the heavy concentration of exports in a few estate-produced agricultural commodities; the slow growth of smallholder production for export; the dependence of the modern sector on costly imported oil, and the progressive depletion of domestic fuelwood resources; the deteriorating financial position of public enterprises; the budget deficits; a growing imbalance between government recurrent and capital expenditures; and rigidities in the system of administered prices and wages. Two key institutions required restructuring: Press Holdings, Ltd., 1/ because of managerial and financial weaknesses, and the government's agricultural marketing agency (ADMARC), because of its inefficient use of resources. Under these conditions, the SAL program aimed at a broad range of reforms.

130. Under the first SAL, Government promoted trade policy reforms by increasing prices for agricultural export crops and increasing agro-industrial investment, and the allocation for the Ministry of Agriculture to fund agreed programs aimed at supporting export production. Trade reform continued in SAL

1/ Press Holdings, Ltd. is a major corporation with a variety of operations.

II as further adjustments in prices for export crops were introduced. Energy prices were also adjusted.

131. Under SAL I, Government improved the efficiency of resource utilization through strengthened control and monitoring of expenditure. The public investment program was revised to emphasize the productive sector. Government established a Department of Statutory Bodies to assist public enterprises in planning and financial management. Government also agreed to commit more adequate amounts of recurrent financing for key development ministries.

132. Steps implemented under SAL I to reform institutions include the establishment of an Investment Coordinating Committee to oversee all major investments; technical assistance to strengthen key planning and budgeting ministries; and rehabilitation of key public and private sector conglomerates through studies, improved management, and financial restructuring. Strengthening key institutions continues to be an important part of the Government's action program in SAL II.

Assessment

133. Initially, there were difficulties in implementing the structural adjustment program: inadequate expenditure control; delays in adjusting government charges and prices; continued poor performance and slow restructuring of many corporations (including Press Holdings, Ltd.); lack of public debt management; and Government's inability to make the last two drawings in its two-year IMF Stand-by (because of difficulties in meeting domestic credit ceilings); and an initial adjustment of agricultural prices that overemphasized maize to the detriment of export crops. After some delay, the second tranche was released when the Government agreed to modifications in the methodology for setting agricultural prices, strengthened its ability to monitor and control external debt, began implementing the studies stipulated in the SAL, revised its budget for 1982/83 to provide sufficient resources for the major development sectors, and reached agreement with the IMF on a new Stand-by.

134. Overall, the Government has responded appropriately to difficulties in continuation of the adjustment process. It has taken decisive actions in preparing its medium-term adjustment program; increased the prices of small-holder export crops; developed a program for improving ADMARC; adjusted Government tariffs and charges in a timely fashion; developed a plan for reorganizing Press Holdings, Ltd.; prepared a revised public sector investment program; adjusted its interest rates and devalued its exchange rate; provided adequate budgetary resources to key developmental agencies; and decontrolled prices for a number of important commodities and services. It has also moved quickly to prepare an estate sub-sector program for Bank financing (DFC II).

135. Partly as a result of these actions taken under SAL I and in preparation of SAL II, the Malawi economy is showing signs of improvement. The balance of payments deficit has been reduced sharply over the last two years, the budget has been brought more into balance, and the IMF ceilings have been met. GDP

growth has recovered to 3 percent in 1982 and to an estimated 4.9 percent in 1983. The domestic savings rate has again begun to increase, and the decline in the investment rate appears to have stopped. Debt reschedulings in 1982 and 1983 have allowed the Government to continue to meet its external obligations.

Mauritius

136. Growth of GDP in Mauritius was a respectable 7 percent per annum since independence and until 1976 when sugar prices fell sharply. Since the economy was overly dependent on sugar, this resulted in severe economic difficulties, with GDP and export growth decelerating in the period 1977-79. The slowdown in the growth of exports, compounded by the oil price increase of 1979, led to a rapid deterioration in the balance of payments, which was further aggravated by expansionary fiscal and monetary policies. Total government expenditures reached about 40 percent of GDP in 1978/79. Recurrent outlays rose with the sharply increased wage bill, reflecting both high salary increases and expanding public employment. Food subsidies and expenditures on health, education and social security were also substantially increased, as were capital expenditures. Government's education programs in particular became increasingly inefficient and very costly, and deficiencies in manpower planning and in training programs reduced their value. The overall budget deficit rose to nearly 16 percent of GDP in 1978/79, and in late 1979, the depletion of foreign exchange reserves and growing fiscal imbalances prompted the Government to introduce a stabilization program involving a 30 percent devaluation, restrictions on public expenditures, and ceilings on salary increases. The country's problems were compounded in 1979 and 1980, when a series of cyclones struck. The current account deficit reached 11.5 percent of GDP in 1980, while GDP declined by a full 10.6 percent in that year. While reconstruction needs were addressed in part through project lending, the Government decided to prepare an adjustment program. The need was to diversify agricultural production to reduce dependence on sugar, to restructure the sugar industry, promote industrial exports and tourism, and reduce and reallocate public expenditures.

137. The Mauritius SAL program is primarily designed to promote the development of export-led manufacturing and tourism, which are identified as the key components of an efficient growth strategy. The removal of interest rate ceilings is expected to help mobilize resources for this purpose. However, a more important focus of the SAL is trade policy reform which is needed as a basis for implementation of this export-led industrialization strategy. Quantitative restrictions are being removed and import duties are being rationalized. Government has established the Mauritius Export Development and Investment Authority (MEDIA), and is reviewing recommendations on staffing patterns and operations in keeping with the agreed schedule of making MEDIA operational during 1984. Additional components to promote trade reform include extending the Export Zone incentive package and establishing an equity loan fund. Measures to strengthen the promotion of Mauritius as a destination for tourists and to open up new air access points have been carried out effectively.

138. The SAL program also has important components to increase the efficiency of resource utilization and promote institutional reform. First, the public sector investment program (PSIP) for 1983/84-85/86 is 30 percent below the PSIP submitted in 1982/83, while maintaining implementation of priority projects. Second, a Committee was appointed in February 1981 to monitor implementation of the recommendations of a Plan of Action for Agricultural Diversification. Subsequently, specialized subcommittees were established to study specific issues related primarily to rice; livestock and milk; maize; agricultural marketing; credit; food processing and other facilities; agricultural research; and fisheries. The subcommittees made a serious effort to analyze the technical and institutional problems, but were unable to focus adequately on major policy issues. Therefore, the document prepared did not contribute much to defining appropriate policies to stimulate food crops and facilitate agricultural diversification. Although in late 1982 the consumer prices for rice and wheat were increased significantly with a view eventually to abolish subsidies and promote consumption of locally produced substitutes, there has been only limited progress on agricultural diversification. In fact, expectations on this matter may have been somewhat unrealistic, and this observation only enhances the importance of restructuring the sugar industry.

139. The Sugar Inquiry Commission consisting of an international civil servant and two senior Mauritian economists was not established until after the 1982 elections. Since then, extensive analytical work has been conducted, and public hearings, with the participation of both public and private sector representatives, have been held. The final report (which includes a dissenting report by two members) was issued in December 1983, and is being reviewed by the Government.

140. The main issue in the energy sector is how to develop power generation from bagasse. A pre-feasibility study confirmed that there was significant potential to reduce oil imports by equipping sugar factories with more efficient generating plants that can use bagasse, and several estates have begun to do so. On the demand side, both petroleum and electricity have been priced at appropriate levels to reflect the import cost of energy, and a daylight saving scheme was introduced.

141. Only after the 1982 elections did the authorities complete a strategy paper on education indicating that government expenditures on education should be limited to 14 percent of the recurrent budget, and that the pupil/teacher ratio should be increased to 30:1. The closing of 21 sub-standard private schools was decided at the end of 1982. A Commission of Enquiry to resolve other outstanding sector issues was appointed in late 1982, and its findings are expected shortly.

142. Institutional reforms have been part of the SALs. The Government's Statement of Development Policy identified three major parastatals in which a process of restructuring goals, improving efficiency, and redeploying personnel was underway: the Tea Development Authority (TDA), the Development Works Corporation (DWC) and the Central Housing Authority (CHA). The reform of these parastatals was only partially carried out. A proposal to restructure TDA was discussed with the Bank only in November 1982, and a plan to reduce DWC personnel by 2,000 was completed in February 1983.

143. The Government, conscious of the recent rapid growth of its debt service burden, made a special effort to improve its institutions concerned with debt management capacity with the use of computer facilities and technical assistance from the Bank.

Assessment

144. The evaluation of the impact of SAL I on the economic performance of Mauritius can only be tentative since the observed results cover only the first half of the program period, the national accounts have been revised, and the actual economic outcome was influenced by a number of events outside the program itself. In 1980, owing mainly to the poor sugar year, real GDP declined by a full 10 percent. In the following two years, however, GDP recovered to its 1979 level. In the last two fiscal years the current account deficit of the balance of payments and the fiscal deficit were lower as a share of GDP than had been projected. On the other hand, the debt service ratio at 20 percent in 1982 was higher than the projected level of 15 percent, in part because commercial borrowing in early 1982 was on harder terms than anticipated, and especially, because of depressed sugar prices in 1982.

145. Policy actions have been implemented in all major areas, though they have taken more time than expected. Some difficult issues remain, notably in respect of the sugar industry, education, and the parastatals, all of which are high on the Government's list of priorities. Most of the measures taken will have an impact in the future; it is encouraging, however, to note a sharp increase in tourism in 1984. The authorities' continued commitment to needed reforms will be tested in the months ahead in the context of implementing SAL II.

D. SAL Programs Initiated in 1982: Jamaica, Thailand

Jamaica

146. Jamaica suffered a sustained economic decline during the 1970s, with real GDP per capita decreasing every year from 1973 to 1980. This was the result partly of external shocks -- world recession resulting in decreases in the price of Jamaica's most important exports, sugar and aluminum, and increased energy prices and interest rates. But domestic policies also had a negative impact. The Government's programs to tackle unemployment and redistribute land coincided with the deterioration in the external environment, and eventually led to an overextended public sector and the disruption of production. Private sector confidence deteriorated, contributing to reduced productive investment and outflows of capital and skilled workers. The new Government elected in 1980 was committed to an economic recovery program centered on a revival of confidence, and emphasizing the role of the private sector. In March 1981, a new three-year Extended Fund Facility arrangement was approved by the IMF for a total of SDR 477.7 million. The structural adjustment program supported by the Bank has concentrated on addressing the

following major problems: a current account deficit equal to 13.2 percent of GDP in 1982, fiscal imbalance caused by inadequate public savings and excessive public investment, sluggish performance of both the industrial and agricultural sectors, with GDP growth of 0.2 percent in 1982, and an over-regulated economy. It was recognized at the start of the program that these deep-rooted problems could only be corrected with a three- to five-year policy adjustment effort.

147. As a central aspect of trade policy reform, the exchange rate system was revised during 1983, first to establish a two-tier system, and subsequently, a unified, devalued rate. Flexibility was introduced into the import regime in 1983, when licenses were issued automatically to exporters and importers, although there was a ceiling on the value of licenses that could be issued to a given importer. From early 1984, most raw materials and capital goods are no longer subject to specific licensing, and the only goods which remain subject to such licensing are items on the restricted list and some minor consumer goods.

148. A program was developed to remove the anti-export bias in the Jamaican economy which stemmed from the lack of incentive to export to third country markets, i.e. those outside the CARICOM Regional Market. Under the first SAL, it was agreed that the existing quantitative restrictions on imports would be phased out over a five-year period. There were 360 such QRs at the beginning of the period, and to date 186 of these have been removed, in three tranches. No incremental tariffs have been considered necessary after the removal of the QRs because of the progressive devaluation of the Jamaica dollar over the period, except for those luxury consumer goods which were removed from the list in January 1984 and which are subject to additional consumption duties of 25 percent.

149. Progress in resource mobilization has been mixed. The overall public sector deficit and public sector savings are major concerns. A range of actions was agreed to improve the financial performance of the main public enterprises -- particularly the public utilities and public transport. These programs have involved large tariff increases for water and electricity, the divestment of the public bus company in Kingston to the private sector, and a rationalization program in the railway corporation. Although considerable progress has been made with respect to state enterprises, the public sector deficit remains large because of a deterioration in the finances of Central Government, caused not least by a decline in the bauxite sector in 1983.

150. A major effort to improve resource utilization through an improved Public Sector Investment Program (PSIP) has been made, including the establishment of a monitoring system. A three-year investment program has been prepared. In October 1983 the Government prepared the PSIP to cover the fiscal years 1984/85 to 1986/87. The PSIP has become more balanced, placing greater emphasis on the provision of economic infrastructure to underpin the private sector orientation of the economy while respecting resource constraints. In addition, the PSIP is integrated into the capital budget process, and the core program of each year's PSIP is the base from which the capital budget is now prepared.

151. Two main areas concerning private investment were included in the program. First, two new medium-term credit institutions were established since the non-availability of medium-term credit had been a major factor limiting indigenous private investment. In addition, the Government established a one-stop investment promotion agency which has been very active in encouraging both foreign and domestic private investment.

152. In agriculture, the external marketing organizations (EMOs) had monopsony powers and inhibited development. Agreed reforms for the four main EMOs (coffee, cocoa, citrus and pimento) are being implemented, consisting of divestment of a range of non-marketing functions such as input supply, extension, research and growing activities, leaving them to concentrate solely on marketing functions. In addition, pricing policies are being improved through the development of specific pricing formulae, and through strengthening of the unit in the Ministry of Agriculture which oversees operations of the EMOs.

153. An action program for the sugar industry has resulted in a major reduction of overstaffing in the National Sugar Company, increased prices of sugar offered to farmers and on the domestic market, and important changes in the management structure of the industry. However, no progress has been achieved on selling or leasing the sugar factories and lands to the private sector, and, despite reductions in the work force and price increases, the sugar industry continues to need large subsidies from Central Government. This is a case where Government has carried out an agreed action program on time, and yet the measures have not yielded the benefits originally expected. Further work is continuing on the sugar sector, and the action program will continue to be monitored very carefully by the Bank. By contrast, substantial progress has been made on a major restructuring of the government banana company. Its organization has been rationalized, and its non-marketing functions are being divested to the private sector. The industry has been reorganized into an export producing zone where growing methods are being modernized and yields drastically improved, and an area which is producing solely for the domestic market, largely on smallholder farms. Banana production has already increased under the program, and the previous losses of the banana company have been substantially reduced. This program has been particularly successful.

154. Two components of institutional reform are being implemented in addition to specific organizational reforms mentioned above. Concerning staffing, a policy has been established to eliminate the differential between salaries of senior civil servants and those employed in the public enterprises over a three- to five-year period, and already major progress has been made in this regard in the public sector pay award of July 1983. To improve financial management, a new budgeting system has been designed and will be put in place over the course of the next year which will reorient the budget system away from cash control to performance budgeting, i.e. the allocation of resources to specific programs rather than to line item headings.

Assessment

155. Jamaica has implemented important aspects of the agreed programs. However, the problems of the economy which were described earlier, and which

the structural adjustment program was designed to address, remain. The balance of payments situation has yet not improved, and the shortage of foreign exchange remains critical. Similarly, the overall Central Government deficit is still at an unsustainable level. Certainly, much of this can be attributed to the effects of the international recession of 1982-83, especially with respect to bauxite earnings which fell by over 25 percent in 1983. Nevertheless, the failure of the Government to come to grips with the short-term problems, which is reflected in the breakdown of the IMF's extended fund arrangement in September 1983 and its replacement with a one-year Standby effective from April 1984, has adversely affected the success of the structural adjustment program. In spite of these negative factors, the Jamaican economy is undergoing major structural change. But it is important that the new stabilization program achieve its aims of reversing the large balance of payments deficit and of bringing the fiscal deficit under control. This would help re-establish conditions for future growth.

Thailand

156. Thailand's economy grew rapidly over the past two decades, and developed successfully by most standards of international comparison. Because of its relative openness and its heavy dependence on foreign oil, Thailand was substantially affected by the two oil price shocks during the 1970s and the ensuing international economic disruptions. The Thai economy absorbed the first oil shock with apparent ease, and not anticipating another shock, the Government embarked on an ambitious strategy aimed at regaining fast economic growth and development during the second half of the 1970s. This strategy involved rapid expansion in public consumption and investment in most of the important areas of public expenditure (especially energy, transport and communications), and supported a simultaneous expansion of private investment activity; these measures resulted in high rates of economic growth between 1975 and 1979. At the same time, however, the external balance quickly deteriorated, led by a rapidly growing public savings-investment gap, requiring substantially increased reliance on foreign resources to finance public sector expenditures. In addition, the Government moved to limit domestic price increases and external imbalances through price controls and increases in the average effective rates of protection, and did not adjust its domestic energy and public service prices in line with steeply increased costs. At that juncture, Thailand was hit by the second oil price shock, whose impact was much more severely felt because of the country's continued high dependence on oil imports. The current account deficit reached 7.5 percent of GDP in 1981, while the GDP growth rate was at 6.3 percent. Government decided to address these issues in the context of an adjustment program supported by the Bank in trade, resource mobilization and utilization, and institutional development.

157. Concerning trade policy reform, almost all tariffs are now within a band of 5-60 percent with resulting reduction in effective rates of protection. Under the sub-sectoral approach to industrial reform, studies of the electrical goods and automotive sub-sector have been completed. Steps have

been taken to adjust tariffs and other incentives in the electrical goods sector. Scheduled increases in domestic content requirements for the automotive sub-sector were reversed even before completion of the automotive study.

158. Annual tax packages to improve resource mobilization have led to an increase in the ratio of Central Government revenue to GDP by about one percentage point. Continued progress has been made in tax administration reform. Some desirable changes in the tax structure have also been introduced. Substantial progress has also been made, with Bank assistance, in improving medium-term fiscal planning in respect of revenue projections and expenditure programming. In all these areas, however, further progress is required. With a few exceptions (such as electricity), the Government has not been able to raise user charges and fees of the state enterprises since 1981, and a schedule of rate increases, while approved by Cabinet, has not been implemented. However, Government is actively exploring ways to improve management of state enterprises, and looking towards improved financial viability, including rate increases.

159. The program to increase the efficiency of resource utilization has components in several sectors. In agriculture, the design and implementation of an ambitious nine-year land reclassification program has proceeded as planned and has already benefitted one quarter of a million farmers, while substantial measures have been taken to reduce taxation and regulation of exports of major agricultural commodities. The initiation of a program of water resource management studies has been delayed, but an institutional framework for high-level interagency coordination in this area has already been developed and will provide guidance and supervision for the studies. Government has taken various measures to streamline procedures for administration of industrial investment incentives, and to direct investments into more export-oriented and labor-intensive activities than was previously the case. A study on the impact of the proposed changes in investment incentives has been delayed. In the area of export promotion, progress has been made in implementing tax refund schemes, and selected institutions have been set up to promote and support exports. A study on the feasibility of export credit guarantee schemes is now completed.

160. In energy, the Government has reduced the gap between diesel and gasoline prices. The major study on energy pricing is now nearing completion after initial delays, while the study on energy strategy continues to experience delays because of difficulties in finding suitable consulting arrangements. Progress has been made in identifying priority areas for energy conservation in industry and transport; further progress in institutional development for energy conservation is required. A study funded by the Asian Development Bank is expected to provide complementary inputs in this area.

161. In the institutional area, progress has been made in strengthening public investment planning and in introducing a program budgeting system. Studies designed to improve planning, public sector accounting, and performance auditing of state enterprises have been completed. However, the complexity of these institutional areas had been underestimated: some studies

took longer or were more problematic than anticipated, while other important reforms required negotiation and agreement at the political level or even legislative change. The major elements of the institutional program are proceeding, however, although at a somewhat slower pace than originally anticipated.

Assessment

162. Recent macroeconomic developments in Thailand were characterized by considerable volatility, making the assessment of changes in trends quite difficult. GDP growth in the period 1980-84 was about 6 percent per annum, which is about 1 percentage below the historical trend; on average, the current account deficit as a percentage of GDP has dropped from about 7 percent in the period 1974-81 to about 5.0 percent for the period 1982-84; and the rapid growth in the public sector deficit in relation to GDP appears to have been reversed. In addition, the rate of growth of energy consumption has slowed down significantly, signaling an apparent drop in the GNP elasticity of energy consumption from almost 2 in the 1960s to less than 1 in the early 1980s. Effective rates of protection have been reduced significantly between 1978 and 1982 as a result of tariff reform. Together with the stabilization measures under the IMF-supported adjustment program, continued efforts are required both in fully implementing the program agreed under SAL II, and in taking further steps towards structural policy reform.

E. SAL Programs Initiated in 1983: Togo, Yugoslavia, Panama

Togo

163. Togo had pursued a reasonably successful outward-looking development policy until 1974. In that year, Government nationalized the key phosphate industry. Soon thereafter, phosphate prices rose dramatically, fiscal revenues nearly doubled in 1975, and the Government embarked on an ambitious development program. When phosphate prices fell, the Government resorted to external borrowing to finance its program. Originally, priority was assigned to agriculture and infrastructure, with industry in third place. While it proved difficult to attract funds for agriculture, suppliers' credits and commercial loans for industrial ventures, luxury hotels and other construction were abundant. Agriculture thus remained relatively neglected. The impact on growth of the increase in investments was short-lived: real GDP grew by about 6 percent per year during 1975-78, but declined by an average of 2 percent per year during 1979-83. Most of the industrial and commercial state enterprises that were created proved unviable, and the Government had to assume their debt service. Lax fiscal discipline, large increases in government employment, and the rising debt service burden created severe financial strains. Between 1977 and 1982, a total of about CFAF 60 billion (US$180 million) in external arrears accumulated, of which two-thirds in 1982 alone. By 1980, the current account deficit exceeded 18 percent of GDP.

164. A SAL program was agreed with the Bank in 1983, in parallel with an IMF Stand-by, focussing on mobilization and use of public resources, public enterprises and pricing. Progress has been made on some components of the SAL, but start-up delays have occurred in other areas. Studies have been initiated to pursue reform of a number of public enterprises. As a result, a partial restructuring of the steel-mill operation has been agreed, and negotiations for private operations of the rolling mill have been initiated. To avoid the past practice of extra-budgetary transfers and to promote fiscal discipline, explicit transfers are being included in the budget for the largest government-owned luxury hotel. Finally, the oil refinery has been closed, and the use of some of its facilities for storage by distributors of oil products is under study. Another objective was to limit public sector foodgrain marketing activities which had incurred heavy losses in the past, and allow a larger proportion of trade to be handled by the more efficient private sector. The public agency for foodgrain marketing, Togograin, is keeping its stocks well within agreed ceilings.

165. An investment programming system is being established in the Ministry of Plan, Industry and Administrative Reform under the guidance of a programming expert financed under the second TA project. The first major product of this effort was the completion in late 1983 of a three-year investment program for 1984-86. An investment review mission in early 1984 reached agreement with the Government on the 1984 investment program (despite a few dubious projects), and found the 1985 program as it currently exists to be satisfactory. Overall, the investment program reflects structural adjustment priorities. For example, 30-35 percent of investment funds have been allocated to rural development. The financing of the program is appropriate to the country's economic situation: with 28 percent of financing from internal sources (of which SAL counterpart funds represent a substantial part), and 72 percent from external sources (one-third grants and two-thirds loans, most on concessional terms). Agreement was also reached on further steps to be taken, particularly as regards the estimation of recurrent cost implications of investments, and the economic evaluation of new projects.

166. Agriculture Price Policy. Producer prices for coffee and cocoa for the 1983/84 season were increased by 23 and 17 percent respectively to give farmers a larger share of world market prices. Cotton prices were increased by 15 percent early in 1983. The government's internal review of the agricultural prices study is currently underway, and the Bank expects to receive a statement on medium-term price policy very shortly.

167. The first tranche (SDR 23.1 million out of a total credit of SDR 36.9 million) was fully disbursed within four months of effectiveness, and most of the conditions for release of the second tranche appeared to be substantially met as of mid-May 1984.

Yugoslavia

168. By virtue of an impressive investment effort (with an investment rate in excess of 30% of GDP), Yugoslavia was able to maintain fast rates of output and employment growth through the 1970s, with GDP growing at an average annual rate of 5.8 percent. However, this rapid growth (and the significant shifts in the structure of production and employment that it made possible) was accompanied by deteriorating efficiency and competitiveness over much of the period. This deterioration was manifested in consistently poor merchandise export performance over the decade, particularly to the industrialized market economies, and stagnant productivity in most industrial sectors. Debt was incurred to finance investment that in turn could not expand output because of bottlenecks, and GDP growth fell to an estimated minus 1 percent by 1983. Given past weaknesses, improved resource utilization based on reforms in investment policy, price policy and trade policy were identified as the most important aspects of the adjustment program because of their potential impact on economic efficiency.

169. In the area of trade and payments policy the Government undertook a significant real devaluation over the course of 1983, and is expecting to continue adjustments to maintain its economy's competitiveness in 1984. In addition, the foreign exchange law has been amended to increase the mobility of foreign exchange in the system. The operations of the system will continue to be monitored closely by the Bank in coordination with the IMF. In addition, some action has been taken to reduce export subsidies in the course of 1984, and an interagency export marketing group has been set up. The study of effective protection however is still awaiting funding from the budget.

170. In the area of investment, the agreed policy on floor lending rates of interest was incorporated in documents accompanying the 1984 Annual Plan resolution and came into effect on May 1, 1984. Considerable progress has also been made in defining a core investment program in the energy sector which has received the government's formal endorsement. A system of reporting ongoing investments has been initiated and has been the basis of discussions between the Bank and the government on the implementation of investment policy. In particular, Bank staff reviewed in detail the revised investment program in the transportation sector. Discussions have also been initiated between the Bank and the government on the program of industrial subsector studies. There have been extensive discussions between the Bank and the Government on the scope and content of the proposed social compact on investment evaluation, which is designed to introduce mandatory application of certain investment criteria in project appraisal, including the eventual use of economic rate of return analysis. The Bank is currently reviewing draft legislation, and is anticipating a program of technical cooperation in the elaboration of guidelines.

171. Significant nominal price increases for the major fuels and other key intermediates were introduced over the course of 1983, although the real effects of these were substantially offset by the acceleration in inflation. Some progress had been made toward price liberalization toward the latter part of 1983 before imposition of the price freeze. This freeze has since been

lifted, and the liberalization of prices of industrial products has been resumed.

172. Greater financial discipline by enterprises is critical for both improved resource mobilization and greater responsiveness to price signals, and is an integral part of the program of adjustment formulated by the Stabilization Commission. The policy actions proposed include revisions of basic legislation governing the payment practices of enterprises, and procedures for initiating rehabilitation programs and for initiating bankruptcy proceedings. Included in this revised legislation are strengthened sanctions on credit availability and personal income payments by loss-making enterprises, as well as limitation of the support available from public sources to subsidize such enterprises.

Panama

173. The Panamanian economy was at a crossroads by the early 1980s; the existing policy and institutional framework was no longer adequate to sustain growth; unemployment was at a high level and increasing; the state sector, which provided 80 percent of all new jobs created during the 1970s, had become so burdened with external debt that no further expansion was possible; and the previously dynamic service sector, which accounts for 70 percent of the GDP, was slowing down markedly. Private investment, afflicted by political uncertainties and an unattractive policy environment, was lower in real terms than a decade earlier; much of it was, moreover, directed towards state promoted projects, activities which benefit from heavy subsidies and protection. In view of these problems, the government decided to prepare an adjustment program focussed on trade reform and efficiency of resource utilization.

174. The SAL was approved on November 15, 1983 and became effective a month later. Although very recent, the Government's SAL program has achieved substantial reforms as a number of measures were taken as a condition of Board presentation.

175. Concerning trade reform, the Government has embarked upon a liberalization policy aimed at improving competitiveness. Nearly all quantitative import restrictions have been lifted and replaced with tariffs, within maximum levels of protection for both new and existing industries. Export restrictions have been lifted for both beef and coffee.

176. To improve the efficiency of resource utilization, the new strategy aims to increase productivity and output, reduce the cost of basic foodstuffs, and expand exports. Price controls have been eliminated for 25 product groups and two staple agricultural commodities, while rice support prices have been reduced to discourage surplus production. Subsidies to loss making state-owned enterprises have been reduced by 40 percent since 1982, and the largest and most inefficient of the state-owned sugar mills has been closed. In housing, rent controls have been abolished on residential units rented at $250

per month or more, and the costly promotion of housing construction by the Social Security agency was terminated. The public investment program for 1983-85 is in accordance with Government's new priorities.

177. The major components of the Government's action program for improved public sector efficiency include: a review of public sector enterprises; a coherent investment program for the period 1983-1985; reform of public sector housing policy; reform of the public health and social security systems; more effective management of state-owned assets; reform of the Customs Administration; and improved public sector debt management. A SAL review mission is expected to visit Panama shortly after the new administration assumes office.

V. Conclusion: Some Lessons Learned

178. This report has reviewed structural adjustment lending since its inception in 1980 without seeking to analyze all dimensions of the countries' adjustment process, and without examining overall Bank country assistance in support of that process. The ultimate objectives of SAL are to help in achieving sustainable current account deficits while maintaining, or laying the basis for regaining, future growth momentum. As noted repeatedly in the country reviews, it is not feasible to disentangle in the short term the impact of changes in the domestic policy framework and further changes in the external environment. Moreover, the impact of SALs cannot be isolated from the effects of IMF-suported adjustment programs. It should be borne in mind, in particular, that different countries embarked on the adjustment path at different points of time in this period and that their problems varied in scope and intensity. As a first approximation, it would appear that the trends in economic indicators have been favorable in Turkey, Korea and Thailand; mixed in Kenya, Mauritius, Malawi, Panama, Yugoslavia, Ivory Coast and also Pakistan; and unfavorable in the Philippines, Togo and perhaps Jamaica (see Table 5). These trends reflect many factors and do not define the success or failure of the country's medium-term structural adjustment program. The adjustment problems were compounded by unfavorable external developments in some countries, and eased in others. For example, Ivory Coast, Thailand, Yugoslavia, Mauritius and the Philippines experienced a sharp deterioration in the terms of trade in this period; the African drought affected the Ivory Coast severely; while Malawi and Panama benefitted from significant improvements in the terms of trade. Since the objective of the Bank's structural adjustment lending is to support the introduction of policies and the institutionalization of more realistic and flexible economic management, the effectiveness can only be judged in the medium term. More immediately, one can only judge whether agreed actions have been taken, and whether these policies are moving the economy to more efficient use of resources and a sustainable growth path. Despite the failure in three countries, and some delays in implementation in others, the experience seems satisfactory.

Table 5

Macro-economic Performance in SAL Countries 1/ and All Net Oil Importing Developing Countries: 1980-83

	GDP Growth Rate (%)				Current Account Deficit (as percent of GDP)			
	1980	1981	1982 (prov.)	1983 (est.)	1980	1981	1982 (prov.)	1983 (est.)
Kenya	5.8	4.8	2.3	3.0	14.3	11.9	9.4	3.4
Turkey	-0.7	4.4	4.7	3.1	5.6	3.3	1.6	3.5
Bolivia	1.7	-1.1	-9.2	-5.0	2.7	4.3	1.8	2.9
Philippines	4.9	3.8	3.0	1.3	6.1	6.5	8.8	7.2
Senegal	-1.5	-2.4	9.7	3.2	18.6	24.1	13.0	16.9
Guyana	2.1	1.3	-11.3	-10.0	21.3	29.4	23.7	24.4
Mauritius	-10.6	6.8	5.0	0.7	11.5	13.9	5.5	5.2
Malawi	-0.1	-0.3	3.0	4.9	17.0	12.0	8.9	11.9
Ivory Coast	6.5	1.4	-1.8	-4.0	17.3	14.2	14.3	10.0
Korea	-6.2	7.1	5.3	9.2	9.2	7.3	3.9	2.1
Thailand	5.8	6.3	4.1	6.0	6.6	7.5	3.4	4.6
Jamaica	-5.4	3.3	0.2	1.5	6.6	11.5	13.2	14.1
Pakistan	9.9	7.6	3.8	6.8	4.8	3.6	6.1	1.6
Togo	2.5	1.5	-0.1	-7.8	18.2	15.2	15.7	6.5
Yugoslavia	1.4	1.5	0.8	-1.0	3.3	1.4	0.7	0.6
Panama	13.1	3.8	4.0	0.0	10.4	12.9	12.8	6.0
Net Oil-Importing Developing Countries	4.5	1.9	1.5	2.5	6.3	7.2	6.3	4.2

1/ In order of date of first SAL.

SOURCES: Bank and IMF.

179. But even with the shorter-term perspective, some lessons emerge which can be summarized around four main themes relating to preparation, coverage, timing and durability of structural adjustment programs.

180. Preparation of SALs, especially the first and second operation, requires large amounts of policy focussed economic and sector work. This has therefore a high opportunity cost to the Bank. It requires, also, particularly close cooperation between Programs, Projects and Operational Policy Staff, and continuous exchanges with the government concerned from the earliest stages. This is a condition to ensure mutual understanding, prevent false starts, and avoid exaggerated expectations.

181. It is more important and more effective to design a program focussed on essential and feasible reforms than to seek broad coverage. While the tendency to be comprehensive is perhaps a natural reflection of the extent of the problems faced by many countries, there is clearly a danger in attempting too much relative to a government's political and administrative capabilities. More realistic assessments of those capabilities would have resulted in more successful programs in countries such as Bolivia, Guyana or Senegal, for example.

182. Expectations as to the time needed to effect policy changes, especially institutional reforms, have often been over-optimistic. While in most countries the majority of agreed actions have been initiated, in most cases also there have been start-up delays, and implementation may progress at a slower pace than originally expected. Another aspect is clear regarding timing: while undertaking reforms at the time of crisis may instill a sense of necessity which may have been previously lacking, it is even better to tackle problems before the crisis, as the example of Korea demonstrates.

183. An important dimension -- indeed, one which is in the essence of structural adjustment supported by the Bank -- is in the durability of the changes sought, in other words their institutionalization. Immediate changes in prices or expenditure levels may be needed to pursue short-term stabilization. Ensuring that future price changes can be effected more smoothly, or preventing abrupt cuts in investment or consumption, requires closer monitoring, more realistic programming, and systematic policy analysis -- rather than cyclical spurts of planning activity -- by the central government and parapublic sector agencies. Introducing the necessary changes in organization, in personnel, and in habits, is what institutional reform is about. Such changes are also needed to increase management flexibility and thereby improve the response to exogenous factors not foreseeable at the time of preparing structural adjustment programs.

Annex I

Structural Adjustment Loans Approved As of April 1, 1984

Country		Date of Approval	Amount (US$ millions)	Disbursements (US$ millions)
Kenya	I	03/25/80	55.0	55.0
	II	07/01/82	130.9	130.9
Turkey	I	03/25/80	200.0	200.0
& Supplement		11/18/80	75.0	75.0
	II	05/12/81	300.0	300.0
	III	05/27/82	304.5	304.5
	IV	06/23/83	300.8	299.9
Bolivia *		06/05/80	50.0	50.0
Philippines	I	09/16/80	200.0	199.3
	II	04/26/83	302.3	302.3
Senegal *		12/18/80	60.0	43.7
Guyana *		02/03/81	22.0	22.0
Mauritius	I	06/02/81	15.0	15.0
	II	12/08/83	40.0	13.4
Malawi	I	06/25/81	45.0	45.0
	II	12/20/83	55.0	27.7
Ivory Coast	I	11/24/81	150.0	150.0
	II	07/05/83	250.7	125.7
Korea	I	12/17/81	250.0	250.0
	II	11/08/83	300.0	200.0
Thailand	I	03/02/82	150.0	150.0
	II	03/31/83	175.5	175.5
Jamaica	I	03/23/82	76.2	76.2
	II	06/14/83	60.2	35.2
Pakistan *		06/01/82	140.0	140.0
Togo		05/17/83	40.0	25.0
Yugoslavia		06/28/83	275.0	80.7
Panama		11/15/83	60.2	40.2

* Program discontinued.

lending program 1) [illegible] 2) File

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SecM84-5

FROM: The Deputy Secretary

January 3, 1984

LENDING RATE APPLICABLE JANUARY 1, 1984

Attached is a memorandum from the President entitled "Lending Rate Applicable January 1, 1984", dated January 3, 1984.

Questions on this document should be referred to Mr. Hittmair (extension 61051).

Distribution:

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THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

January 3, 1984

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Lending Rate Applicable January 1, 1984

1. During the period from July 1, 1983 to December 31, 1983, the average cost of qualified borrowings was 9.58 percent per annum. The pool-based lending rate to be in effect from January 1 through June 30, 1984, is therefore 10.08 percent.

2. The table below gives the details of the calculation of the cost of qualified borrowings during the first semester of FY84.

Table: Cost of Qualified Borrowings, July 1 - December 31, 1983

	Cost ($ million)	Average Balance ($ million)	Ratio X 2 (%)
Proxy borrowings	452.1	8,348.9	10.83
Medium- and Long-term borrowings	475.2	10,949.2	8.68
Short-term borrowing	89.2	1,933.9	9.23
Total	1,016.5	21,232.0	9.58

3. The Bank is notifying all current borrowers of the change in rate that will apply to outstanding balances of eligible loans for interest periods beginning after December 31, 1983.

4. Because IBRD borrowers are sent an estimate of loan charges approximately two months prior to the end of the interest period (on the basis of loan balances outstanding at that time), the new rate will first appear in estimates sent to borrowers some four months from now (i.e., in May 1984, for those borrowers whose interest periods begin in January 1984).

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

EISIC
Lending Programme

DATE October 3, 1983

TO OPS Directors

FROM J. C. Peter Richardson, OPSVP

EXTENSION

SUBJECT Items of Interest at the OPS Staff Meeting of September 16

The Debt Problem

Mr. Waide and Mr. Husain gave a preview of the conclusions of the Country Policy Department's study of the debt problem, based on completion of its first phase. The findings and conclusions remained tentative pending completion of the effort. The study, which entails projections for twelve countries through the early 1990s, showed that there would be a serious "hump" in debt service in the period from 1985-1987. To avoid a crisis, at least four conditions were essential. Developed countries had to encourage maximum possible growth of exports from the developing countries. Lending to developing countries by commercial banks had to increase over the next decade by 4 to 5 percent per annum. Official lending had to grow substantially. And the developing countries themselves had to institute substantial policy reforms to improve their economic efficiency.

Trade is the key. The larger debtors needed to expand their exports by from 14 to 15% per year, and this would require good economic growth rates in the OECD countries. The larger debtors are likely to be "net resource exporters" -- i.e. their export surplus would finance at least a part of their payments. Most countries, however, were expected to remain net capital importers. Official aid flows were particularly important to stretch out the maturity structure of developing countries' debts and to support needed policy changes. Among the implications for the Bank were the following. We would have to devote even more attention to necessary macroeconomic measures of structural adjustment. While project lending should not be reduced, there would have to be emphasis on improving the productivity of existing facilities. At all levels, the policy dialogue was especially important, and the policy impact of our project lending would need increasingly to be harmonized with our macroeconomic advice. The Bank would need to remain flexible in the use of its various lending instruments. In summary, there was no question about the gravity of the global problem, both long term and short term, and the need to address it on many levels and through many means. The only question was whether the problem would be actively and cooperatively managed with sufficient measures being taken -- by Banks, assistance agencies and developed and developing countries -- to control and limit its impact.

Urban Development Sector Support Strategy Paper

Mr. Churchill summarized the Urban Development Sector Support Strategy Paper (SSSP). From the start, the low level of Bank resources in this sector relative to urban investment totals had dictated an emphasis on policy and institutional development as a necessary basis for the evolution of local programs of much wider scale. Continuity of dialogue was of fundamental importance since most of the problems in the sector involved deep-seated legal, social, institutional and political aspects requiring, for solution, many discreate actions from many agencies over extended periods. In our lending there was need for concentration of coverage on fewer countries and cities to permit continuity and impact. Aside from the issues of scale and concentration as determinants of continuity, the paper outlined four broad objectives for the sector over the next few years: (1) to consolidate past progress by emphasizing policy and technical solutions to difficulties that have emreged in expanding initial projects into wider programs; (2) to improve the efficiency and productivity of cities; (3) to develop the urban component of country strategies; and (4) to improve the transfer of experience, both within and beyond the Bank. Urban areas, although swamped with problems, were vital centers of economic growth. Greater Bombay, for example, generates 23% of India's GNP. The Bank occupied a unique international leadership role in the urban sector.

One speaker said that from the point of view of policy impact SALs might sometimes be more efficient and effective vehicles than urban projects, especially as the resources transferred through urban projects were a drop in the bucket compared to the needs of the 300 cities whose population would exceed one million by 1990. In reply, it was pointed out that the rates of return on urban projects were usually exceedingly high. Another speaker said that given the impact of most other Bank sectors on the urban sector, it seemed artificial for the paper to have focussed only on urban projects. Should not the inherently eclectic urban department be actively concerned to work with and through staff of other sectors as well as urban staff? Mr. Churchill replied that that was happening to a degree (and obviously so now in the water sector) but the departmental focus was implicit in the SSSP vehicle. It was also true that urban work affected other sectors, given, for example, that the procurement of land was a common cause of delay in all types of projects and that land tenure and cadastral issues were often addressed in urban projects. Summarizing, Mr. Husain said that in Regions where a significant increase in the urban lending program was unlikely, the principal message of the paper was that greater concentration would be desirable.

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Lending Programme

SecM83-421

FROM: Vice President and Secretary

April 29, 1983

TECHNICAL NOTE

IBRD Repayment Terms

At the recent Board seminar on "Bank Lending and Other Sources of Project Lending", an Executive Director requested additional information on the Bank's repayment terms. The attached Technical Note has been prepared in response to this request.

Questions on this Note may be addressed to Mr. Wood (x78342) or Mr. Nayak (x74755).

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Directors and Department Heads, Bank and IFC

April 29, 1983

IBRD REPAYMENT TERMS

Prior to 1975 repayment terms on IBRD loans were set on a loan by loan basis. The first amortization payment was normally fixed to fall at or about the time the project was expected to come into operation and start earning revenues or yielding economic benefits. Final maturities were rarely less than 15 years and could be as long as 25 or 30 years for projects in which an asset with a long useful life was created (such as a hydro-electric plant or a gravity-fed irrigation works) or where benefits would accrue over an extended period (as with some education projects). Generally speaking, final loan maturities were based on the economic life of the assets created under the project or on the expected duration of project benefits.

Under this system the Bank-wide average repayment terms fluctuated from year to year, depending upon the sectoral composition of the lending program. The average grace period was about 4.5 years (with variations in the range of 4.3 to 4.7 years in the first half of the 1970s) and the average final maturity was about 21 years (with variations in the range of 20.2 to 21.7 years over the same period). These averages did vary somewhat by country. In particular, loans to economically stronger borrowers were given somewhat shorter grace and amortization periods than was indicated by project considerations. Similarly loan to economically weaker countries had grace and amortization periods fixed at the limits of what was considered to be justified.

In early 1975 a decision was taken to limit the final maturity of loans to "higher-income" countries (i.e., those with per capita income above $850 in 1972 prices) to 15 years under normal circumstances.[1/] The idea behind this decision was that more rapid repayment of loans would help avoid situations in which the limited authority of the Bank to hold disbursed loans[2/] would be used in part by countries no longer needing financial support from the Bank.

The following year a more fundamental revision of IBRD repayment terms was approved. In March of 1976 the Executive Directors were presented with a choice between a continuation of lending at the FY76 level ($5,000 million) with no change in repayment terms or an increase in lending (to $5,800 million) with a hardening of repayment terms.[3/] After some discussion, it was agreed that "repayment terms for Bank loans should be modified, both in regard to methods of determining the amortization

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1/ Review of IBRD Financial Policies, R74-256, dated December 12, 1974.

2/ The limit is derived from the Bank's Articles (Article III, Section 3): disbursed and outstanding loans (or guarantees) may not be increased beyond the total of the Bank's capital and reserves.

3/ IBRD Selective Capital Increase: Alternative Lending Programs, Lending Rates and IDA Transfers in FY77, R76-65, dated March 19, 1976.

schedule, and to the shortening of grace periods and final maturities, so as to allow a higher sustainable level of future Bank lending than would be possible without these modifications."[4/] The two specific modifications agreed were:

(1) Amortization method. For loans approved after June 30, 1976 principal was to be repaid in equal amounts, rather than in gradually ascending amounts as had been the practice previously under a system of level annuity-type payments of principal and interest taken together.

(2) Repayment method. The Bank was to manage the repayment terms of future loans so that the weighted average grace period and final maturity would not exceed 3.3 years and 19 years, respectively, or the equivalent.

In order that the burden of tighter repayment terms be distributed broadly in line with borrowing countries' repayment capacity, the Executive Directors also agreed to differentiate repayment terms according to the per capita income of the borrowing country.

This system has continued to operate since FY77. The per capita income guidelines have been updated annually. The system has permitted the Bank to manage the average repayment terms within the guidelines approved by the Board. Reflecting operational considerations, the grace period has been lengthened to an average of about 4 years (with variations in the range of 3.8 to 4.2 years) while the average final maturity has been shortened to about 17.5 years (with variations in the range of 17.5 to 17.6 years). Year-to-year changes in actual average repayment terms have had only a minor impact on the calculated sustainable level of lending (e.g., boosting it by $200 million over the past year).

Were the Bank now to revert to the previous system for establishing repayment terms, there could be greater year-to-year changes in the average repayment terms for the Bank, reflecting shifts in the sector distribution of lending. More important than the increased variability, however, is the likelihood that repayment terms would lengthen on average. It is difficult to predict what the new averages would be, since the sectoral and sub-sectoral composition of Bank lending is now substantially different from the pattern that prevailed in the early 1970s. There would be pressures from the side of borrowing countries to adopt more liberal repayment terms to take account of their current financial difficulties and the scarcity of funds from other sources on appropriate terms.

4/ FY77 Budget Memorandum, R76-145, dated June 9, 1976. Paragraph 9.

If the average grace period were to lengthen, this would reduce the sustainable annual level of lending by approximately $1 billion for each six months. Similarly, if the average final maturity were to lengthen, this would reduce the sustainable annual level of lending by approximately $1 billion for each year.[5] Were there to be a return to the previous system it would also be natural to consider whether to revert to the annuity-type amortization pattern. If approved, this would have a major impact on the sustainable annual level--reducing it by approximately $1 billion.

5/ Cf. Review of IBRD Lending Levels and Capital Requirements, Technical Note #2, SecM83-305, dated April 1, 1983.