Enhancing the Fund's Structural Adjustment Facility

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In its April 1987 meeting, the Fund's Interim Committee highlighted the plight of the low-income countries, and outlined a strategy for their recovery. It emphasized that it is crucial for these countries to implement reforms which, to be fully effective, will need to be accompanied by the timely provision of additional financing on appropriate concessional terms to support these reforms. The Committee also called upon creditor governments to grant exceptional relief with respect to official credits in highly indebted low-income countries including, in particular, Sub-Saharan Africa, where such relief is necessary to support and encourage far-reaching economic reforms.

In calling for more finance from bilateral and multilateral donors, the Committee emphasized the catalytic role of the Fund's new Structural Adjustment Facility (SAF), under which a number of arrangements with SAF-eligible countries have now been put in place to support growth-oriented adjustment efforts.

The Managing Director of the Fund, Michel Camdessus, has proposed a tripling in SAF resources for the three years 1988-90 to a total of SDR 9 billion (about $11.5 billion at current exchange rates). In their economic summit meeting in Venice, the heads of state or government of the seven major industrial countries and the representative of the European Community recognized that the "uniquely difficult" problems of some of the poorest countries, primarily in Sub-Saharan Africa, need special treatment. In this connection, they welcomed the proposal for a significant increase in the resources of the SAF and urged the completion of related discussions before the end of 1987. While encouraged by the support of the participants in the Venice meeting, Mr. Camdessus has emphasized his hope that all countries in a position to do so would add to SAF resources, and thus "show their solidarity with countries poorer than themselves."

Establishment of the SAF

The SAF was established by the Fund's Executive Board in March 1986 to provide financial assistance on concessional terms in support of the balance of payments adjustment efforts of eligible countries. SAF loans are provided at an interest rate of 1/2 of 1 percent annually, and have a repayment period of 5 1/2-10 years. Financing under the Fund's other facilities has market-related interest rates and repayment periods ranging from 3-5 years up to 4-10 years. The first arrangement under the SAF (for Burundi) was approved in August 1986. As of end-June 1987, SAF arrangements involving commitments of some SDR 777 million had been concluded with 15 countries. Discussions are under way, and in some cases quite advanced, with many of the remaining 47 eligible countries.

Eligibility for the SAF is confined to low-income countries. SAF loans are provided to countries facing protracted balance of payments problems in support of their medium-term programs of macroeconomic and structural adjustment aimed at fostering growth and strengthening the balance of payments position. The initial financing for the SAF was provided by repayments of Trust Fund loans, which are scheduled to continue to be received by the Fund through April 1991. The original Trust Fund loans, made in 1976-81 to 55 low-income developing countries, had been financed from part of the proceeds of the sale of some of the Fund's gold holdings and by contributions from a number of donor countries.

Loans under the SAF are made in proportion to a member's quota in the Fund. For the benefit of other eligible countries with lower quotas, the two eligible countries with the largest quotas, China and India, have indicated that they do not intend to avail themselves of the facility. As a result, the Executive Board was able at the time the SAF was established to authorize SAF loans equivalent to 47 percent of a country's quota. The loans would be made over the three-year period of a SAF arrangement, with 20 percent of quota to be disbursed in the first year and 13.5 percent in each of the second and third years. Recently, the Board reviewed the first year's experience with the SAF, and decided to enlarge the three-year total access to 63.5 percent of quota and to raise the amount available to a member during the second year of the three-year arrangement to 30 percent of quota. These increases were based on expected Trust Fund repayments and interest earned and do not take into account the increase in SAF resources that has been proposed by Mr. Camdessus.

Innovative features

The SAF was conceived with at least three major innovative features. First, SAF arrangements require a comprehensive three-year policy framework which incorporates more explicitly than in most previous Fund facilities the structural policy elements of a member's reform program. Second, the process of collaboration with the World Bank was formalized through the requirement of joint assistance to a member country in the formulation of the policy framework paper (PFP) and of common negotiation of the final arrangement, as well as through involvement of the World Bank Executive Board in its review. Third, there was an expectation that the PFP and SAF process would be a catalyst for additional financial resources including, possibly, matching resources from the World Bank and associated resources from other multilateral and bilateral sources, over and above what would have been available in the absence of SAF-supported programs.

SAF programs approved so far have emphasized substantial increases in domestic investment, stressing an improvement in public sector finances and private sector savings. They have generally aimed for a higher rate of growth over the three years of the arrangement than the country had been achieving. On structural reform, all programs have aimed to improve productivity and the financial viability of public investment projects. Typically, SAF programs include tax and public enterprise reform, improvement of the agricultural sector, and strengthening of pricing policies, as well as trade liberalization and tariff reform, and civil service and financial sector reforms.

The effort to improve the integration of macroeconomic and structural policies under SAF programs involves close collaboration between the Fund and the Bank, to assist borrowing countries in formulating their medium-term strategies for achieving improved growth with substantial progress toward a viable balance of payments position over the three-year SAF period. As part of the SAF process, policy framework papers are developed by member countries with the help of the staffs of the Fund and the Bank, and reviewed by the Executive Boards of both the Fund and the Bank before specific lending arrangements are approved. Annual disbursements under the SAF are tied to approval of annual arrangements by the Fund's Executive Board, in light of the longer-term strategy articulated in the PFP and the more detailed objectives of the adjustment program for the year.

The catalytic role of the SAF process and associated activities has been enhanced by recent actions of the Paris Club creditors. Early in 1987, Paris Club creditors decided to tie reschedulings, on an exceptional and case-by-case basis, to SAF arrangements; the reschedulings for Mozambique and Uganda in June 1987 were the first such reschedulings. Also, in both instances, creditors agreed to go beyond the traditional terms by extending the rescheduling period.

Structural Adjustment Facility arrangements, as of June 30, 1987
(In millions of SDRs)

Member	Date of three-year arrangement	Total amount	Amount drawn[1]
Bangladesh	Feb. 6, 1987	182.56	57.50
Bolivia	Dec. 15, 1986	57.59	18.14
Burundi	Aug. 8, 1986	27.11	8.54
Central African Republic	June 3, 1987	19.30	6.08
Dominica	Nov. 26, 1986	2.54	0.80
The Gambia	Sept. 17, 1986	10.86	3.42
Haiti	Dec. 17, 1986	28.00	8.82
Mauritania	Sept. 22, 1986	21.53	6.78
Mozambique, People's Republic of	June 9, 1987	38.73	12.20
Niger	Nov. 17, 1986	21.40	6.74
Senegal	Nov. 10, 1986	54.04	17.02
Sierra Leone	Nov. 14, 1986	36.77	11.58
Somalia	June 30, 1987	28.07	8.84
Uganda	June 17, 1987	63.25	19.92
Zaïre	May 15, 1987	184.78	58.20
Total		**776.53**	**244.58**

Source: IMF.
[1] The amounts drawn are 20 percent of the member's quota, from present total access amounting to 63.5 percent of quota. Access limits will be reviewed again by May 31, 1988.

The Managing Director's initiative

Mr. Camdessus has proposed a tripling of the resources available under the SAF to a total of SDR 9 billion. The resources currently available for lending in support of SAF arrangements, in his view, were insufficient in relation to the need to support with appropriate financing the adoption and pursuit by SAF-eligible member countries of strong growth-oriented adjustment programs. A tripling of SAF resources is estimated to be essential to cover these financing requirements, even after assuming generous Paris Club reschedulings, a continuation of growing bilateral aid flows, and a rapid implementation of the agreed eighth replenishment of the World Bank's International Development Association. A portion of the IDA replenishment of $12.4 billion is intended to be used to support structural adjustment efforts. The Managing Director has emphasized the importance that the resources added to SAF be truly additional to currently available assistance, and that the terms be no less favorable than those on current SAF loans.

Addressing the annual meeting of the UN Economic and Social Council in Geneva in June 1987, Mr. Camdessus outlined the details and rationale of his proposal for the enhancement of the SAF. He observed that since becoming Managing Director in January, he had been struck not only by the efforts that many of the poorest countries have been seeking to make to adjust their economies, but also by the "truly daunting task that they face," given the deeply depressed prices for their exports and slow growth of their external markets, on top of their structural handicaps. The Managing Director warned that such difficulties were "leading governments in some of these countries to doubt the possibility of reversing these negative trends and making them increasingly reluctant to embark on forceful adjustment programs oriented to growth."

The SAF has the potential to be a catalyst for promoting programs of structural reform in the poorest countries, Mr. Camdessus told the ECOSOC session. Such programs are essential, he said, and it is therefore imperative that the international community give renewed hope to these countries by showing its willingness to provide increased aid and exceptional financial help in support of their efforts to strengthen their economies. ■