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September 25, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Approval in Principle of Fund Arrangements

There is attached for consideration by the Executive Directors a paper on the approval in principle of Fund arrangements, which will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Ms. M. R. Kelly (ext. (5)8379) or Mr. Neuhaus (ext. (5)8375).

Att: (1)

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INTERNATIONAL MONETARY FUND

Approval in Principle of Fund Arrangements

Prepared by the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by C. David Finch

September 19, 1984

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September 19, 1984

I. Introduction

On a number of occasions in 1983 and 1984, requests for use of Fund resources under stand-by arrangements have been submitted to the Executive Board for approval "in principle," that is, an approval that was to become effective when certain elements of the program, typically those regarding external financing, were resolved. During the most recent discussion of the work program (EBM/84/77), one of the Executive Directors stated that his chair had some reservations on the extension of such a procedure and indicated that it would be helpful if the staff could draw up firm guidelines setting out the limited circumstances under which the Executive Board would be asked to give its conditional approval to a stand-by or extended arrangement. The Chairman agreed that clearer guidelines, based on past experience, could be formulated and requested the staff to prepare a paper on this issue for the Board's consideration.

This paper examines the experience to date with the approval-in-principle procedure and suggests guidelines on the circumstances where this procedure would be appropriate and procedures to be followed wher it is applied to ensure that the Fund's resources are used to support programs that are viable. The plan of the paper is as follows: Section II surveys the instances in which the approval-in-principle procedure has been used and outlines the issues that have arisen with its use; Section III discusses procedures normally adopted to ensure that the Fund uses its resources to support adjustment programs that are viable; and finally Section IV proposes guidelines for the future use of the approval-in-principle procedure.

II. Approval In Principle

1. Reasons for approval in principle

A total of eight stand-by arrangements have been approved by the Executive Board "in principle," that is, pending resolution of certain elements of the program (Table 1). 1/ The procedure was used for 4 out of 35 arrangements approved in 1983 and for 4 out of 15 arrangements approved in 1984. Resources committed under arrangements approved in principle amounted to 8 percent of total commitments under stand-by and extended arrangements during the period January 1983 through August 31, 1984. In all cases satisfactory arrangements for covering the financing gap in the balance of payments were a necessary condition for the approval of the arrangement to become effective. In the cases of Ivory Coast, Jamaica, and Madagascar there were additional conditions regarding specific policy measures that had to be met before the arrangements could become effective. 2/

In each of these cases the size of the financing gap was large. After taking into account net use of Fund resources under the approved arrangement, the gap ranged from 127 percent of quota in the case of Zaire to 414 percent of quota in the case of Sudan (1983). The most important sources of financing to cover these gaps were the Paris Club, commercial banks, and donor countries. Rescheduling through the Paris Club, generally on exceptional terms, was considered necessary to provide an important part of the financing. In all cases, except Ecuador and Jamaica, satisfactory arrangements for covering the total financing gap were to be made for the program to become effective. The terms requested from the Paris Club by Ecuador and Jamaica were fairly typical and effective approval was contingent only on commercial bank financing for Ecuador, and the refinancing of certain short-term liabilities for Jamaica.

In the case of the Paris Club, the staff's assessment as to whether particular terms were "exceptional" (as opposed to normal) involved judgmental elements that took into account the terms typically agreed with other similar countries, the terms received by the member in question in previous debt reschedulings with the Paris Club, and informal discussions on particular cases with Paris Club members. Exceptional terms generally involved some or all of the following characteristics: the consolidation of short-term debt (Madagascar, Sudan (1983), and Zaire); the rescheduling of previously rescheduled medium- and long-term debt (Madagascar, Sudan (1984), Zaire, and Zambia), or short-term debt (Zaire); and the capitalization of some part of moratorium interest (Sudan (1983 and 1984)). Also, generally in these cases the "effective"

1/ In addition, during the midyear review of the third year of the three-year stand-by arrangement with Yugoslavia (1983), the Board decided that further purchases were conditional upon the availability of certain financing arrangements from commercial banks.

2/ In the case of Jamaica, a revised decision made approval conditional on confirmation that the authorities had complied fully with the terms and understandings of the supplementary letter of intent after it became apparent that a prior action was not in place.

Table 1. Approval in Principle of Fund Arrangements

(As of August 31, 1984)

Country	Type of Arrange-ment	Annual Access as Percent of Quota 1/	Date of Board Approval in Principle	Effect-ive Date of Arrange-ment	Effective Approval on Lapse-of-Time Basis	Deadline for Lapse of Appro-val	Expi-ration Date of Arrange-ment	Conditions (Date of Meetings)	Financing gap million SDRs (As percent of Quota) 1/2/
Sudan	1 year SBA	100	1/28/83	2/23/83	Yes	None	2/23/84 3/	External financing, Consultative Group (1/12-14/83) Paris Club (2/3-4/83)	703 (414)
Ecuador	1 year SBA	105	6/1/83	7/25/83	Yes	None	7/25/84	Commercial bank financing	403 (268)
Zaire	15 months SBA	63 4/	12/16/83	12/27/83	Yes	None	3/27/85	External financing, Paris Club (12/19-20/83) London Club, Consultative Group (12/21-22/83)	368 (127)
Madagas-car	15 months SBA	40	12/21/83	4/10/84	No 5/	None	3/31/85	External financing, Paris Club (3/22-23/84) Donors' Meeting (4/5-6/84) Producer prices for agricultural commodities	136 (205)
Sudan	1 year SBA	53	4/30/84	6/25/84	Yes	5/31/84 6/	6/25/85	External financing Paris Club (5/2-3/84) Other bilateral creditors Official aid	619 (365)
Ivory Coast	1 year SBA	50 7/	5/2/84	8/3/84	Yes	None	5/2/85	External financing, Paris Club (5/3-4/84) Commercial banks Mass transit fares and water charges	448 (271) 619 (364)
Jamaica	1 year SBA	44 (44)	6/8/84	6/22/84	No	6/20/84 8/	6/22/85	Refinancing of certain short-term liabilities 8/	261 (179) 9/
Zambia	21 months SBA	47 (47)	7/18/84	7/26/84	Yes	7/31/84	4/30/86	External financing Paris Club (7/20/84)	486 (180)

1/ Quota after Eighth General Review.
2/ An average exchange rate of US$1.069/SDR for 1983 and US$1.05/SDR in 1984 was applied.
3/ The expiration date was extended to March 9, 1984 to enable Sudan to complete bilateral rescheduling agreements with Paris Club members and to settle arrears with those Paris Club members with whom it had concluded agreements.
4/ A CFF purchase was also available when the stand-by arrangement became effective.
5/ Program implementation regarding producer prices discussed on 3/19/84.
6/ The deadline for which the arrangement is to become effective was extended to June 7, 1984 and subsequently to June 15, 1984. At a Board discussion (6/15/84) it was noted that arrangements to cover the financing gap had been completed and a decision was approved to make the arrangement with Sudan effective on the date, not later than June 25, 1984, on which Sudan has no overdue financial obligations to the Fund.
7/ The annual access based on the time period between effective approval and the expiration of the arrangement (nine months) is 66 percent of quota.
8/ The deadline for the agreement to become effective subsequently was extended to June 27, 1984 at a Board discussion (6/20/84). At that meeting the staff informed the Board that a prior policy action relating to telephone rates had been withdrawn. Confirmation that the authorities had complied fully with the terms and understandings of the supplementary letter of intent was also made a condition for the program to become effective.
9/ Effective approval of the arrangement was conditional on the refinancing of short-term liabilities amounting to SDR 52 million or 36 percent of quota.

rescheduling granted in respect of maturities due was close to 100 percent. 1/ The above characteristics related to the debt service payments required by the debtor within the consolidation period and were thus of most immediate relevance for the closing of a program's ex ante financing gap. However, in addition, exceptional terms usually involved grace periods and maturity periods in respect of the rescheduled amounts that were somewhat longer than the norm (Table 2). 2/

Since the Paris Club requires that an arrangement with the Fund be in place before it considers requests for rescheduling, the approval-in-principle procedure was chosen in five cases because exceptional Paris Club financing was considered essential to the viability of the program. 3/ In the case of Ecuador, the financing gap was expected to be covered by "new loans" from commercial banks. The approval-in-principle procedure was adopted, in part, to contribute to an early resolution of protracted negotiations between Ecuador and the banks. For Jamaica, this procedure was used to ensure that the refinancing of certain short-term liabilities, originally intended as a precondition for Board approval, was successfully arranged. In a number of cases (Sudan (1983 and 1984), Madagascar, Zaire, and Zambia) where exceptional Paris Club financing was required, and one case where it was not (Ivory Coast) exceptional financing from other sources--official aid groups or private creditors--was also considered necessary. In the case of the Ivory Coast, for example, commercial banks in addition to rescheduling 100 percent of principal falling due during the consolidation period also provided additional loans beyond what they would have provided on a purely "spontaneous" basis.

In the cases of Ivory Coast, Jamaica, and Madagascar, there were additional conditions regarding specific policy measures that had to be implemented before the arrangement could become effective. These

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1/ That is, the percentage of maturities due that was formally rescheduled was at least 95 percent and a part of the remaining downpayment was not required to be paid until after the end of the consolidation period.

2/ Terms considered "exceptional" by the Paris Club would also be considered exceptional by other creditors. In addition, requests for commercial banks to reschedule interest payments or to provide "new money" in situations where normal access to commercial markets by the country concerned had been interrupted or where "spontaneous" lending would be less than assumed in a program would also be considered exceptional. However, commercial banks have been more willing to reschedule short-term debt than official creditors.

3/ The five cases are Madagascar, Sudan (1983 and 1984), Zaire, and Zambia. The terms of the Paris Club rescheduling requested by Ivory Coast were not considered exceptional although the approval in principle was contingent on satisfactory arrangements being made to fill the total financing gap, including financing provided through Paris Club debt relief.

Table 2. Official Multilateral Debt Renegotiations Involving Fund Members 1975-84: Summary

(As of August 8, 1984)

Country	Date of Agreement	Forum	Amount Rescheduled (In millions of U.S. dollars)	Type of Debt Consolidated 1/	Consolidation Period (In months)	Proportion of due payments Rescheduled 2/3/ (In percent)	Terms 4/ 5/ Grace (In years)	Terms 4/ 5/ Maturity (In years)
Chile	5/6/75	Paris Club	230	PI	12	70	2	8
Zaire	6/16/76	Paris Club	270	PA	18	85	1	7 1/2
Zaire	7/7/77	Paris Club	170	PA	12	85	3	8 1/2
Sierra Leone	9/15/77	Paris Club	39	PIA	12	80	1 1/2	8 1/2
Zaire	12/1/77	Paris Club	40	I	6	75	3	9
Turkey	5/20/78	OECD	1,300	PIAt	12	80	2	6 1/2
Gabon	6/20/78	Special task force	63	Ap	...	...	...	...
Peru	11/3/78	Paris Club	420	P	24	90	3	7 1/2
Togo	6/15/79	Paris Club	260	PIA	21	80	3	8 1/2
Turkey	7/25/79	OECD	1,200	PIAs	12	85	3	7 1/2
Sudan	11/13/79	Paris Club	487	PIA	21	85	3	7 1/2
Zaire	12/11/79	Paris Club	1,040	PIAtR	18	90	3 1/2	9
Sierra Leone	2/8/80	Paris Club	37	PIA	30	90	4	9 1/2
Turkey	7/23/80	OECD	3,000	PtItAtR	36	90	4 1/2	9
Liberia	12/19/80	Paris Club	35	PIA	18	90	3 1/4	7 3/4
Togo	2/20/81	Paris Club	232	PI	24	85	4	8 1/2
Madagascar	4/30/81	Paris Club	140	PIAt	18	85	3 3/4	8 1/4
Cen. Afr. Rep.	6/12/81	Paris Club	72	PIA	12	85	4	8 1/2
Zaire	7/9/81	Paris Club	500	PI	24	90	4	9 1/2
Senegal	10/12/81	Paris Club	75	PI	12	85	4	8 1/2
Uganda	11/18/81	Paris Club	30	PIA	12	90	4	8 1/2
Liberia	12/16/81	Paris Club	30	PI	8	90	4 1/4	8 1/2
Sudan	3/18/82	Paris Club	80	PIA	18	90	4 1/2	9 1/2
Madagascar	7/13/82	Paris Club	107	PIAt	12	85	4 3/4	9 1/4
Romania	7/28/82	Paris Club	234	PI	12	80	3	6
Malawi	9/22/82	Paris Club	25	PI	12	85	3 1/2	8
Senegal	11/29/82	Paris Club	74	PI	12	85	4	8 1/2
Uganda	12/1/82	Paris Club	19	PI	12	90	4 1/4	9
Costa Rica	1/11/83	Paris Club	200	PIA	18	85	3 3/4	8 1/4
Sudan 6/	2/4/83	Paris Club	536	PtItAtR	12	100	5 1/2	15
Togo	4/12/83	Paris Club	300	PIAR	12	90	5	9 1/2
Zambia	5/16/83	Paris Club	375	PIAt	12	90	5	9 1/2
Romania	5/18/83	Paris Club	736	P	12	60	3	6
Mexico	6/22/83	Creditor Group Meeting	2,000	PAt	6	90	3	5 1/2
Cen. Afr. Rep.	7/7/83	Paris Club	13	PIA	12	90	5	9 1/2
Peru	7/26/83	Paris Club	400	PI	12	90	3	7 1/2
Ecuador 6/	7/28/83	Paris Club	200	PI	12	85	3	7 1/2
Morocco	10/25/83	Paris Club	1,489	PIA	16	85	3 3/4	7 1/4
Malawi	10/27/83	Paris Club	26	PI	12	85	3 1/2	8
Niger	11/14/83	Paris Club	36	PI	12	90/60 7/	4 1/2	8 1/2
Brazil	11/23/83	Paris Club	3,478	PIA	17	85	4	7 1/2
Zaire 6/	12/20/83	Paris Club	1,497	PIAR	12	95	5	10 1/2
Senegal	12/21/83	Paris Club	72	PI	12	90	4	8 1/2
Liberia	12/22/83	Paris Club	17	PI	12	90	4	8 1/2
Sierra Leone	2/8/84	Paris Club	25	PtItAtR	12	90	5	10
Madagascar 6/	3/23/84	Paris Club	89	PIAR	18	95	4 3/4	10 1/4
Sudan 6/	5/03/84	Paris Club	269	PIR	12	100	6	15 1/2
Ivory Coast 6/	5/04/84	Paris Club	356	PI	13	100/50 8/	4	8 1/2
Yugoslavia	5/22/84	Creditor Group Meeting	...	P	12	100	4	6 1/2
Peru	6/05/84	Paris Club	1,000	PI	15	90	5	8 1/2
Togo	6/06/84	Paris Club	75	PIR	16	95/50 9/	4 3/4	9 1/4
Jamaica 6/	7/16/84	Paris Club	105	PIAP	15	100/50 8/	4	8 1/2
Zambia 6/	7/20/84	Paris Club	253	PIR	12	100	5	9 1/2

Source: Agreed minutes of debt rescheduling; and staff estimates

1/ Key:
- P - Principal, medium- and long-term debt
- Pt - Principal, debt of all maturities
- I - Interest, medium- and long-term debt
- It - Interest, debt of all maturities
- A - Arrears on principal and interest, medium- and long-term debt
- As - Arrears on principal and interest, short-term debt
- At - Arrears on principal and interest, debt of all maturities
- Ap - Arrears on principal, medium- and long-term debt
- R - Previously rescheduled debt

2/ I.e., current principal and interest due on medium- and long-term debt.

3/ In most instances, some portion of the remaining amount was also postponed, though typically with a much shorter maturity.

4/ On current principal and interest due on medium- and long-term debt.

5/ Grace and maturity periods are defined to begin at the end of the consolidation period.

6/ An arrangement with the Fund was approved "in principle."

7/ Includes 90 percent of principal and 60 percent of interest due.

8/ Includes 100 percent of principal and 50 percent of interest due.

9/ Covers 95 percent of principal and interest, and 50 percent of (certain) previously rescheduled debt.

measures had been intended as prior actions but were not satisfactorily implemented in time. In the case of Ivory Coast and Madagascar, it was decided to proceed with the scheduled Board meeting and to include the implementation of the policies among the conditions for the arrangement to become effective. In both cases, the desire to have a meeting of the Paris Club was an important factor influencing the decision to proceed with Board approval of the arrangement.

2. Procedure for approval in principle

The procedure followed in arrangements approved in principle has been to identify the size of the financing gap and the possible sources of financing in the Board paper. In order not to prejudge the terms of debt rescheduling, the sources of financing were usually described only in very general terms. Typically, the following condition was included in the Board decision:

> The stand-by arrangement set forth in EBS/../.. shall become effective on the date on which the Fund finds that satisfactory arrangements have been made for the financing of the uncovered gap in (member's) balance of payments for (period). 1/

After financing arrangements were made and, where appropriate, required policy measures were announced, a supplementary paper was issued to the Board providing the details of such arrangements. Effective Board approval was usually adopted on a lapse-of-time basis, except for Madagascar and Jamaica which were discussed by the Board again before the arrangements became effective. The first purchase was made shortly after the arrangement became effective.

All arrangements that have been approved in principle have become effective. The lapse of time between Board approval and the effective date of the arrangement ranged from one to two weeks (Jamaica, Zaire, and Zambia) to three months (Ivory Coast and Madagascar). Experience with earlier arrangements had shown that problems can arise if a limit is not placed on the period during which the arrangement could enter into effect (see Section II.3 below). To avoid these problems and to ensure that the negotiated programs remained appropriate to the circumstances of the country, a deadline was set in each of the last three arrangements approved in principle (Jamaica, Sudan (1984), and Zambia) after which the approval would lapse. The deadline for Sudan was subsequently extended three times--twice because arrangements to finance the balance of payments gap had not been completed and once because Sudan had overdue financial obligations to the Fund. The arrangement became effective after these overdue financial obligations had been settled--eight weeks

1/ In those cases where policy measures were also included as a condition for the arrangement to become effective, the Board decision included an extra condition as follows: "and that satisfactory [policy measures] have been announced."

after the arrangement was approved in principle. In the case of Jamaica, the original deadline was extended once but the arrangement became effective within two weeks of being approved in principle.

3. Specific issues related to approval in principle

Several specific issues that merit discussion have arisen in the course of applying the approval-in-principle procedure. These relate mainly to the phasing of purchases and related performance criteria, the inclusion of specific policy measures among conditions necessary for the arrangement to become effective, and the Fund's relationship vis-a-vis other creditors or sources of financing.

a. Phasing and performance criteria

Under current practices, purchases are linked to performance criteria and phased to ensure a sustained implementation of policies throughout the duration of an arrangement. However, for some arrangements approved in principle, the phasing of the drawings and their linkage to performance criteria became inappropriate due to delays between Board approval of an arrangement and its coming into effect. In one case delays made it impossible to fulfill the performance criterion on external arrears.

Table 3 contains summary data on phasing and performance criteria for the eight arrangements approved in principle. The proportion of the total amount of the arrangement available during the first three months of the arrangement was relatively high in all cases except Jamaica and Zaire. In the cases of Sudan (1983 and 1984) and Zambia this mainly reflected intentional frontloading as the amount available within the first three months was approximately in line with the intended phasing. For Ecuador, Ivory Coast, and Madagascar, however, the amounts available in the first three months were large in comparison to what would have been available had there not been delays between Board approval of an arrangement and its coming into effect. 1/ In two cases (Ecuador and Madagascar), the final purchase under the arrangement was to be available ahead of the norm of eight weeks before the end of an

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1/ Delays in the coming into effect of these arrangements resulted in bunching of the first and second purchases in the case of Ecuador and of the first three purchases in the case of Madagascar. In the case of Ivory Coast, the delay in the entry into effect of the arrangement allowed the first two purchases under the arrangement to be made together. At the time of the first review of the arrangement for Ivory Coast the phasing under the arrangement was modified (see Appendix page 22). In the absence of this modification, 75 percent of purchases under the arrangement would have been available in the first three months of the arrangement.

Table 3. Phasing of Purchases Under Arrangements Approved in Principle

	First Purchase	Amount available in First Three Months of Arrangements	Lapse of Time Between: Last operational performance criteria and expiration of agreement	Lapse of Time Between: Last purchase and expiration of agreement
	(As percent of total arrangement)		(In months)	
Sudan (1983)	40	55	3	1
Ecuador	25	50	4 1/	2 1/
Zaire	16	34	3	1
Madagascar	9	45	3	3
Sudan (1984)	22	50	3	1
Ivory Coast	50 2/	50	5	2
Jamaica	22	22	3	2
Zambia	23 3/	43 3/	4	2

Source: Appendix.

1/ Originally the last purchase was conditional upon December 1983 ceilings and the second review. Hence the lapse of time between the last operational performance criteria and expiration of arrangement (July 25, 1984) would have been seven months. However the review was not completed as scheduled; also external payments arrears emerged. The Board discussed the second review in 1984, and the last purchase could have been made thereafter on the basis of March 1984 performance criteria. The final purchase in fact only became available after a waiver of the external arrears ceiling was granted on July 20, 1984.

2/ Delays in the entering into effect of the arrangement allowed the first two purchases under the arrangement (of 25 percent of quota each) to be made together.

3/ First purchase/amount available in first three months, as percent of annual access.

arrangement. 1/ Also in two cases (Ecuador and Ivory Coast), a significant period of the arrangement was not covered by quantitative performance criteria. The lapse of time between the final operative quantitative performance criteria--that is, the final performance criteria to which a purchase was linked--and the expiration of the arrangement ranged from two to five months.

The performance criterion on external payment arrears could not be adhered to at all times during the period of the arrangement with Ecuador. The Fund arrangement originally was intended to coincide with the period covered by the 1983/84 Paris Club agreement with Ecuador. However, due to delays in the completion of a financial package with commercial banks on which effective approval of the arrangement was contingent, the Fund arrangement only became effective eight weeks after it was approved in principle. Thus, unpaid debt service beyond the period covered by the Paris Club agreement became payments arrears and a waiver of the arrears ceiling was required before the final purchase under the arrangement could be made.

b. Specific policy aspects of a program and the Fund's relationship with other creditors

Three of the arrangements approved in principle (Ivory Coast, Jamaica, and Madagascar) included specific policy measures as prior conditions for the arrangement to become effective. The inclusion of policy actions under the conditions for the arrangement to become effective in these cases provided no advantage over the normal procedure of requiring prior actions to be implemented before Board discussion of the arrangement. Delays in the adoption of required policy measures were responsible wholly (Madagascar) or in part (Ivory Coast) for long delays in these programs becoming effective. 2/ Moreover, the Board was concerned that this procedure would reinforce the notion that the Fund's conditions are very specific, micro-oriented, and inflexible.

In the case of Madagascar it was determined by a staff mission after the arrangement was approved in principle that prior policy actions in the area of producer prices were inadequate for the objectives for the program and also that the financing gap was larger than estimated in the Board paper (EBS/83/255, 11/30/83). The Paris Club meeting on

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1/ For Ecuador, the original phasing would have permitted the final drawing to be made six months before the expiration of the arrangement. At the time of the first review the phasing was modified and the last purchase was rescheduled to occur within eight weeks of the expiration of the arrangement. For Madagascar, the last purchase that could be made after December 31, 1984 was contingent on compliance with performance criteria as of the end of December 1984. Since the data lag is about 5-6 weeks, in practice the last purchase would be made within a period of eight weeks before the expiration of the arrangement (March 31, 1985).

2/ See Appendix for additional information.

Madagascar originally scheduled for February 9-10, 1984 was postponed by the Chairman of the Paris Club pending the reaching of understandings between the Fund and Madagascar on pricing policies and additional adjustment measures aimed at reducing the financing gap to the originally envisaged amount. Such understandings were not reached until three months after the arrangement was approved in principle. In the case of Ivory Coast, delays in implementing the prior actions and in securing the necessary external financing meant that the staff mission to carry out the first review under the arrangement took place before the arrangement became effective. Understandings on policy measures, including those concerning the prior actions, were reached during this mission. For Madagascar, in addition to causing delays, these developments also gave rise to undue uncertainties as regards the timing of a Paris Club rescheduling meeting. In both cases the need for the Fund to reopen discussions with the member after approval of an arrangement may have given creditors the impression that arrangements approved by the Fund are not necessarily viable.

III. Normal Procedures for Ensuring that Fund Programs are Viable

As the approval-in-principle procedure is a relatively recent one that has been used somewhat on an ad hoc basis, it is useful to review the procedures that normally are followed by the Fund to ensure that the use of its resources is consistent with their revolving character and with the purposes of the Fund. In general, Board approval of a stand-by or an extended arrangement is not normally sought until understandings have been reached on key policy elements of the program, prior actions have been implemented, and management and staff are reasonably assured that the amount of external financing assumed in the program will be available.

In the past, one of three approaches has been followed when understandings on a program have been reached with a member's authorities but certain essential actions remain to be taken by the member or there are important uncertainties regarding external financing: (a) staff reports have not been issued until the pending issues have been resolved to the satisfaction of management; (b) staff reports have been issued with the understanding that the Board discussion would take place after outstanding issues had been resolved; (c) the arrangement has been submitted for Board approval but with a provision for an early review to resolve remaining uncertainties.

With regard to policy elements of a program, the recent practice has been to require that policies crucial for the achievement of program objectives be implemented either prior to Board approval of an arrangement or before a mandatory review of the program. In the latter cases, the review clause ensures that purchases beyond a certain period do not take place unless such policies have been implemented. The choice between these two options depends partly on the importance of the policies and their timing for the achievement of the program's objectives and partly on the member's track record. 1/

With regard to external financing, until recently programs presented for Board approval generally did not contain ex ante financing gaps. Programs were based on the staff and authorities best estimates of normal capital inflows--that is normal concessional flows from aid groups and normal access to commercial flows. In cases where creditor club rescheduling was envisaged, the terms of such debt relief were fairly typical of what the country or other similar countries had received in previous reschedulings. In general, straightforward approval by the Board was, and still is, proposed in these cases. The use of a review clause and other performance criteria provide safeguards in these circumstances. In the event external financing on the scale assumed in the program does not materialize and additional adjustment is not undertaken, it is most likely that some of the performance criteria (e.g., reductions in external arrears, balance of payments tests or the standard clauses on the introduction or intensification of payments restrictions) will not be met or the review will not be completed. Thus, drawings under such an arrangement would be interrupted until new understandings are reached with the Fund on policies to be followed for the remainder of the arrangement period.

With the emergence of the financing crisis in mid-1982 and the interruption of "spontaneous" private lending in a number of countries, uncertainties regarding the amount and timing of external financing that is likely to be available during the period of an arrangement have become greater. In a number of cases (in addition to those approved in principle) adjustment programs presented for Board approval entail ex ante financing gaps. These gaps typically are related to uncertainties regarding debt rescheduling negotiations, concessional flows from aid donors, or the scale of commercial flows, particularly in situations where a country's access to normal market financing has been interrupted. 2/ In these circumstances, if programs envisage external financing on exceptional scale or terms, management and staff require firmer assurances that such gaps can be expected to be eliminated in a timely fashion before seeking Board approval. In some cases management has required explicit assurances from some creditors on the amount of financing to be provided during the period of an arrangement. Such assurances are particularly necessary in those cases where the size of

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1/ The role of prior actions has been discussed extensively in Board papers that have reviewed experience with stand-by and extended arrangements (EBS/81/52, 6/14/81; EBS/82/97, 6/9/82; EBS/82/98, 6/9/82; and EBS/83/216, 10/4/83).

2/ In some cases the timing of external flows may be subject to uncertainty because of specific legal or technical issues related to the terms of a restructuring rather than the exceptional nature of such refinancing.

uncertain financing is so large relative to the adjustment capacity of the country that it would be difficult or impossible to reach understandings on compensating adjustment measures in the event such financing was not forthcoming.

Table 4 provides details of 27 arrangements (or annual programs within multiyear arrangements) with ex ante financing gaps that have been approved by the Board since January 1982. This excludes the eight cases where the approval-in-principle procedure was adopted. Not all of these arrangements were dependent on debt relief or external financing on an exceptional scale or terms to fill the gap. 1/ For those arrangements that did depend on such assistance, the source of financing was commercial banks (e.g., Argentina, Brazil, and Mexico), aid from donor countries (e.g., Morocco), official debt rescheduling groups (e.g., Sudan 1982), or some combination of these.

The standard approach in these cases has been to design an adjustment program on the basis of certain working assumptions concerning the timing of the debt relief and/or exceptional financing expected to fill the ex ante gap. 2/ In some of these cases, quantitative performance criteria were formulated for only that part of the program period where major variables were not affected by the outcome of the debt renegotiation. In most cases review clauses were included with a view to reaching understandings on future policies and performance criteria in light of the actual outcome of debt renegotiation.

For cases where official multilateral debt renegotiations or official aid flows constituted a crucial element in the financing package (e.g., Madagascar (1982) and Sudan (1982)), the general approach was to present the program for Board consideration only after it was certain that debt rescheduling or aid donors meetings had been or would be scheduled to take place promptly, and that financing consistent with program assumptions could be considered. Where private creditors--mainly commercial banks--were expected to provide the major portion of financing (e.g., Argentina, Brazil, Chile, Mexico, and Uruguay), Board consideration generally was made conditional upon explicit assurances from these creditors that they would provide the required amount of finance ("critical mass"). In some of these cases (Costa Rica (1982), Malawi (1984), Romania (1982) and Yugoslavia (1983 and 1984)), Board approval was given without these explicit assurances when negotiations with commercial banks were in progress or were expected to begin soon after the Board meeting.

In general these procedures have worked well. For cases where a rescheduling of official debt was required, an agreement at a creditor club meeting was reached within about one month after Board approval

1/ The concept of exceptional financing was discussed in Section II.
2/ In order not to prejudge the terms of debt rescheduling explicit assumptions on the terms of debt relief normally are not contained in Board papers.

Table 4. Treatment of External Financing Gaps in Recent Arrangements 1/

Country	Type of Program	Date of Board Approval	Amount of Arrangement 2/ (Millions of SDRs)	Amount of Arrangement 2/ (Percent of quota)	External Financing Gap 3/ (Percent of quota)	Source of Financing: Donors, aid groups, official creditors — At time of Board approval	Source of Financing: Donors, aid groups, official creditors — Date of agree-ment	Source of Financing: Private creditors — At time of Board approval	Source of Financing: Private creditors — Date of agree-ment	Program design: Percentage of purchases available before first review	Program design: Last date of per-formance criteria
1982											
Sudan	1-year SBA	2/18/82	198	150	249	P.C. meeting scheduled	3/18/82	Agreement reached	12/30/81	35	10/82
Romania	3-year SBA (2nd year)	6/21/82	595	162	812	P.C. meeting expected	7/28/82	Negotiations in progress	12/7/82	2 4/	5/83 5/
Madagascar	1-year SBA	7/9/82	51	100	227	Agreement reached with Aid Group P.C. meeting scheduled	6/82 7/13/82	...	...	60	5/83 5/
Malawi	1-year SBA	8/5/82	22	77	98	P.C. meeting expected; Commonwealth Development Committee	9/22/82 Early 1983	Meeting expected	11/82	45	3/83
Uganda	1-year SBA	8/11/82	113	150	105	P.C. debt relief assumed	12/1/82	--	--	44	9/83
Costa Rica	1-year SBA	12/20/82	92	150	1,750	P.C. meeting scheduled	1/11/83	Negotiations in progress	4/22/83	60	11/83 5/
Mexico	3-year EFF (1st year)	12/23/82	1,003	125	2,730 6/	Assurance given to country	...	Critical mass secured	3/83	10	11/83 5/
1983											
Argentina	15-month	1/24/83	1,500	187	1,709 7/	...	...	Critical mass secured	1/83 (Draft principles)	50	12/83
Brazil	3-year EFF	2/28/83	1,247	125	1,005 6/	Official creditors to increase net disbursements	...	Critical mass secured	2/25/83	40	11/83 5/

Table 4 (continued). Treatment of External Financing Gaps in Recent Arrangements 1/

Country	Type of Program	Date of Board Approval	Amount of Arrangement 2/ (Millions of SDRs)	Amount of Arrangement 2/ (Percent of quota)	External Financing Gap 3/ (Percent of quota)	Source of Financing: Donors, aid groups, official creditors — At time of Board approval	Source of Financing: Donors, aid groups, official creditors — Date of agreement	Source of Financing: Private creditors — At time of Board approval	Source of Financing: Private creditors — Date of agreement	Program design: Percentage of purchases available before first review	Program design: Last date of performance criteria
1983 (concluded)											
Yugoslavia	3-year SBA (3rd year)	3/11/83	554	133	1,260	New medium- and long-term loans agreed	1/19/83	90-day moratorium agreed Negotiations in progress	1/18/83 10/83	32 4/	11/83 5/
Romania	3-year SBA (3rd year)	3/30/83	368	100	250	P.C. meeting requested	5/18/83	Commercial banks agreement in principle	6/20/83	25 4/	11/83 5/
Uruguay	2-year SBA (1st year)	4/22/83	189	150	80-124	--	--	Critical mass secured	7/29/83	100	3/84
Panama	18-month SBA	6/24/83	150	222	418	--	--	New loan being sought	9/83	20	10/84 5/
Western Samoa	1-year SBA	6/27/83	3.4	75	224	--	--	Commercial arrears, rescheduling expected	...	50	12/83
Chile	2-year SBA, waiver and modification	7/27/83	284	87	1,100	--	--	Critical mass secured	7/28/83	100	12/83
Liberia	1-year SBA	9/14/83	55	99	58	P.C. Meeting requested Donor conf. scheduled	12/22/83	London Club negotiations begun	...	25	6/84
Morocco	18-month SBA	9/16/83	300	133	694	P.C. meeting scheduled; Donors' conference	10/25/83 9/28/83	Commercial banks committed to reschedule	...	10	12/84
Malawi	3-year EFF (1st year)	9/19/83	29 8/	102 8/	91	P.C. meeting scheduled Donors' conf. expected	10/27/83	London Club agreed subject to Fund prog. and SAL	3/6/83	52	6/84
Senegal	1-year SBA	9/19/83	63	100	188	P.C. meeting expected	12/21/83	Rescheduling assumed	2/84	25	6/84
Niger	14-month SBA	10/5/83	18	75	102	P.C. meeting expected	11/14/83	...	4/84	38	9/84

Table 4 (concluded). Treatment of External Financing Gaps in Recent Arrangements 1/

Country	Type of Program	Date of Board Approval	Amount of Arrangement 2/ (Millions of SDRs)	Amount of Arrangement 2/ (Percent of quota)	External Financing Gap 3/ (Percent of quota)	Source of Financing: Donors, aid groups, official creditors: Time of Board approval	Source of Financing: Donors, aid groups, official creditors: Date of agreement	Source of Financing: Private creditors: Time of Board approval	Source of Financing: Private creditors: Date of agreement	Program design: Percentage of purchases available before first review	Program design: Last date of performance criteria
1984											
Sierra Leone	1-year SBA	2/3/84	50	87	75	P.C. meeting expected	2/8/84	Non-Paris Club rescheduling agreed in principle	...	38	9/84
Mexico	3-year EFF (2nd year)	3/2/84	1,204	103	532 5/	Assurance given to country	...	Critical mass secured	...	100	9/84
Brazil	3-year EFF (2nd year)	5/9/84	1,496	102	591 7/	P.C. meeting already occurred; Assurances given to country	11/23/83	Agreed in principle	1/27/84	75	11/84 5/
Yugoslavia	1-year SBA	4/18/84	370	3,048	494	Agreement reached	3/24/84	Negotiations in progress	5/16/84	27	12/84
Peru	1-year SBA	4/26/84	250	76	325	Agreement in principle	7/5/84	Negotiations in progress	...	30	7/85 5/
Togo	1-year SBA	5/2/84	19	50	130	P.C. Meeting scheduled; Other exceptional finance already secured	6/6/84	--	--	21	12/84
Chile	2-year SBA (2nd year)	5/14/84	216	49	840	--	--	Critical mass secured after Board delay	6/14/84	50	12/84

Source: Board documents.
1/ Excludes arrangements that were approved by the Executive Board "in principle." P.C. refers to Paris Club.
2/ For multiyear programs, amount in this program year. Quota as at time of Board approval. New quotas became effective December 1983.
3/ After net purchases from the Fund. The definition varies somewhat from case to case.
4/ The second purchase was explicitly dependent on satisfactory rescheduling. Amount available before that.
5/ Date after which last drawing could be made.
6/ Sum of new commercial bank money; rollover of current medium- and long-term maturities, and new funds from official creditors.
7/ Includes new bank money only.
8/ Purchases were only specified for the first six months of the program. Assumed here that future purchases were evenly distributed.

in all cases except Liberia, Peru, Romania (1983), Senegal, and Uganda. In the latter cases the use of a review clause ensured that the bulk of purchases would be made only after a satisfactory debt rescheduling agreement was reached. The explicit commitments on financing from private sector and aid donor groups generally have been forthcoming provided the member in question adhered to the adjustment program supported by the Fund. In general, however, it has taken somewhat longer to reach agreement on financing with private creditor clubs than with official creditors.

IV. Summary and Recommended Guidelines

1. Summary

a. The Fund is responsible for ensuring that adjustment programs supported by use of its resources are consistent with purposes of the Fund and the revolving character of its resources. Policies and practices have evolved to ensure that adjustment programs submitted for Board approval are consistent and viable. In the past, arrangements were not presented for Board approval until understandings had been reached on key policy elements of a program, prior actions had been implemented, and management and staff were reasonably certain that the amount of external financing assumed in the program was likely to be forthcoming. Provided such financing was not on an exceptional scale or terms, it did not need necessarily to be in place before Board approval. The use of review clauses and other performance criteria provided safeguards in the event external financing on the scale assumed was not forthcoming and offsetting adjustment measures were not implemented.

b. With the emergence of the financing crisis in mid-1982 and the interruption of "spontaneous" private lending in a number of countries, additional safeguards have been required, particularly with regard to the level, source, timing, and terms of external financing, to ensure that programs can be financed. The initial response was to require, in addition to the usual safeguards provided by performance criteria and review clauses, explicit understandings from private creditors and, in some cases, from certain foreign governments and aid group donors, on the amount of financing that would be provided over the arrangement period before recommending Board approval. A different approach was applied in a number of programs in 1983 and 1984 where Board approval of these programs was given in principle only and the arrangements went into effect only after the Fund was satisfied that arrangements had been made for the financing of the uncovered gap in the member's balance of payments. The approval-in-principle procedure emerged mainly to break a deadlock created by creditors' insistence that debtor countries have in place a program supported by the Fund before they grant debt relief, and the Fund's need to know what kind of debt relief will be given in order to elaborate an appropriate program.

c. For arrangements involving ex ante financing gaps there has been no clear-cut distinction between cases where the approval-in-principle procedure was applied and those where outright Board approval was sought. Where the size of uncertain financing has been so large that it would have been difficult to reach understandings quickly on offsetting policy adjustments to the program had such financing not been forthcoming, either the approval-in-principle procedure was applied or outright Board approval was sought after more explicit assurances had been received from creditors. In general, reflecting the requirement of the Paris Club that an arrangement with the Fund be in place before it considers requests for rescheduling, the former approach was used when exceptional Paris Club financing was required, and the latter approach was used when finance on an exceptional scale or terms was required from private creditors.

d. Three arrangements approved in principle included the implementation of specific policy measures among the conditions for these arrangements to become effective. The fact that such measures had not been implemented, however, was not the overriding reason for choosing the approval-in-principle procedure. In other words--had external financing not been been a problem, these arrangements would not have been presented to the Board until the necessary prior actions had been taken.

2. Recommended guidelines

a. Given the different circumstances between member countries and the need for the Fund to be able to respond flexibly when necessary, it is not possible or desirable to establish rigid guidelines on the use of the approval-in-principle procedure. Nevertheless, it is appropriate to set out the main factors that should be taken into account when deciding whether or not to use this procedure. In this context it is important to bear in mind that this procedure has disadvantages. Where possible, it is preferable to avoid it by using alternative procedures, including a closer coordination with creditors prior to Board discussion of an arrangement.

b. As a general principle, member countries seeking approval-in-principle for Fund arrangements should not be given more favorable treatment than members seeking outright approval of arrangements. This principle suggests that such arrangements should not be presented for Board approval until all actions within the member's control considered crucial for the achievement of program objectives have been taken. Thus, arrangements should not be presented to the Board for approval when prior actions have not been taken or where understandings have not been reached on similar policy elements. Apart from helping to ensure equal treatment between members, the requirement that such policy measures be in place before Board approval of an arrangement--even in principle--avoids the risk of reinforcing the notion that the Fund's conditions are specific, inflexible, and micro-oriented. In circumstances where certain policies are to be implemented during the course of an arrangement approved in principle, the implementation of these policies would be monitored, as in the case for other arrangements, through use of a review clause and not by including implementation of such policies among the conditions for an arrangement to become effective.

c. Fund approval of an arrangement constitutes a seal of approval for the viability of the adjustment effort. Until all the key elements of a program, including its financing, are in place, it is desirable for the Fund to retain maximum flexibility to seek adjustments as necessary in the policy program, in the financing arrangements, or both. This consideration suggests that as a general principle uncertainties should be reduced as far as possible before a program is presented to the Board. This principle reinforces the guideline suggested above regarding prior policy actions and would suggest that as a general rule Board approval should not be sought, even in principle, until management and staff are reasonably certain that financing will be made available in the expected amounts and terms.

d. The implications of the above general principle in situations where programs are viable only with financing on an exceptional scale and/or terms are as follows.

(1) In cases where a country's access to normal commercial market financing has been interrupted or where sufficient "spontaneous" financing cannot be relied upon, management and staff should seek to obtain substantial assurances on the amount and timing of financing that would be available during the period of the arrangement. With such assurances, outright Board approval could be sought. In cases where some uncertainties remain, the timing of the review could be arranged to ensure that the bulk of purchases under the arrangement were available only after its financing has been firmly secured and that early adjustments were made in the program should that be necessary.

(2) In situations where debt relief on exceptional terms is being sought from the Paris Club, the procedures adopted would need to be consistent with the requirement of the Paris Club for an arrangement with the Fund to be in place before it will consider debt rescheduling. Outright Board approval of an arrangement could be recommended provided a Paris Club meeting had already been scheduled to take place shortly after the Board had approved an arrangement and provided that the staff and management had reason to believe that debt relief on exceptional terms would be considered. To facilitate such an assessment, apart from taking into account precedents, the staff would hold informal consultations with the Paris Club Secretariat and individual creditors and where necessary advance informal consultations could be held with the Paris Club itself. When advance consultation was considered necessary, the staff would seek the reaction of Paris Club creditors, at a meeting prior to Fund Executive Board consideration of the proposed arrangement, to the working assumptions regarding debt relief from official creditors that could be incorporated in the program; such advance consultation

has taken place in the cases of Brazil, Sudan, Zaire (1983), and Zambia (1984). In these cases also it would be necessary to provide for an early review to ensure that necessary adjustments to the program are made at an early stage. The bulk of purchases would be available only after successful completion of the review.

e. Circumstances in which the approval-in-principle procedure might be considered include cases where substantial uncertainties on the financing of a program remain but management is of the view that approval in principle of the arrangement would assist the member in reaching agreement with its creditors. In reaching such a judgment, due consideration would need to be given to whether in some cases this might reduce the pressure on creditors to come to an agreement. The approval in principle procedure would thus apply mainly in instances where the Fund's role is primarily to give confidence to other creditors (including the Paris Club) that the members concerned are making serious adjustment efforts, and where the revolving character of the Fund's resources requires that all other financing be firmly in place before any purchases are made under an arrangement. In all cases where this procedure is contemplated members would be expected to implement prior policy actions before the arrangement was submitted for Board approval.

f. At present, when large uncertainties on the financing of a program remain at the time of Board approval of an arrangement--either in principle or outright--credit ceilings/targets, and other relevant quantitative performance criteria/targets are established on the basis of assumed debt rescheduling or exceptional assistance. The view has been that an automatic downward adjustment of credit ceilings/targets would be appropriate should more favorable rescheduling or assistance be received. However, there has been no presumption that an upward adjustment of ceilings would be appropriate in the event of less favorable external assistance than assumed, as this would only add to the financing gap. It is recommended that the same procedures and assumptions continue to be applied in cases involving ex ante financing gaps, including the limited number of cases where approval in principle is still to be sought.

3. Deadline for lapse of approval

On the above line of reasoning, the procedure of approval in principle would be used sparingly. In cases where it is deemed appropriate, however, there is a practical issue that needs to be addressed. Whenever substantial delays occur between the date of the Board meeting (i.e., approval in principle) and the date when the pending issues are settled (i.e., entry into effect of the arrangement), they can cause the phasing of purchases under the arrangement to fall out of step with the timing of the performance criteria, make the amount of access under the arrangement inappropriate, or make the fulfillment of certain performance criteria (e.g., arrears, liberalization of restrictions) virtually impossible. For these reasons, whenever approval in principle is sought, the proposal should include a deadline after which the approval would lapse. Thirty days could be a reasonable outer limit for this purpose. It would be understood that a recommendation to extend the deadline would be made only if it was clear that the negotiated program, including for example the phasing and the period covered by the performance criteria and program targets, remained appropriate to the circumstances of the country.

The phasing of purchases under arrangements and the amount of access provided may also become inappropriate in situations where outright approval is sought if there are long delays between the conclusion of negotiations and Board discussion of the proposed arrangement. As a general rule, therefore, negotiating missions should establish with the authorities of member countries concerned the time period by which prior actions must be implemented and/or external financing must be secured. It would be understood that failure to meet these deadlines might make it necessary to reopen discussions on key elements of the program including the proposed phasing of purchases under the arrangement.

Ecuador

1. Type of arrangement: One-year stand-by

2. Amount: SDR 157.5 million (105 percent of quota)

3. Date of approval: In principle — June 1, 1983; Effective (lapse of time) — July 25, 1983

4. Condition(s) for arrangement to become effective

The arrangement was to become effective on the date the Fund found that satisfactory arrangements had been made with respect to financing from foreign commercial banks.

5. Phasing and performance criteria: The phasing and linkage to performance criteria were as follows.

Date (Available after)	SDR Million	Performance Criteria: Ceilings	Performance Criteria: Reviews (Completion date)
Effective Board approval (7/25/83)	39.375	--	--
7/31/83	39.375	6/83	--
10/31/83	39.375	9/83	First review (10/18/83) 1/
1/31/84	39.375	3/84 2/	Second review (12/31/83) 2/

1/ The program originally contained only one review. When this review was discussed at the Board on November 23, 1983 (EBS/83/230, 10/26/83), the program was modified (a) to allow the review to be completed without a program for 1984; and (b) an additional review was added to establish the program for 1984 and quantitative performance criteria for the remaining period of the arrangement. A CFF purchase was also approved at the time of the first review.

2/ Originally, the fourth purchase was conditional upon December 1983 ceilings and completion of the second review. However, the review was not completed as scheduled; also, external payments arrears were not eliminated by November 30, 1983. Thus March 1984 ceilings became binding. A waiver of the arrears ceiling was granted on July 20, 1984, after (i) Ecuador established an escrow account relating to payments falling due to official creditors after May 31, 1984; and (ii) commercial banks extended to end-1984 the repayment period related to trade-related arrears. The fourth purchase became available thereafter.

6. Financing gap: SDR 403 million (268 percent of quota)

7. Reason for using approval-in-principle procedure

To encourage the conclusion of negotiations that had become protracted between Ecuador and foreign commercial banks on financing arrangements needed for the program to be viable.

8. Important external finance

a. Paris Club

The meeting held 7/28/84 rescheduled 85 percent of principal and interest falling due in the 12-month period ending May 31, 1984. The rescheduling included a goodwill clause for debt service falling due after May 31, 1984. The estimated debt relief was SDR 81 million.

b. Commercial banks

The program assumed that commercial banks would refinance part of the public sector debt and provide a new medium-term loan for the public sector.

9. Problems

a. The delay between the date of approval in principle and effective approval of the arrangement resulted in a bunching of the first two purchases in August 1983.

b. The 1983/84 Paris Club agreement was intended to coincide with the period of the one-year arrangement approved by the Board on June 1, 1983. The delay in effective approval meant that the period covered by the Fund arrangement extended two months beyond that covered by the Paris Club agreement. Thus, after May 31, 1984, unpaid debt service payments due to official creditors became payments arrears pending a new rescheduling agreement with the Paris Club.

Ivory Coast

1. Type of arrangement: One-year stand-by. (At the time the arrangement became effective the expiration date was set at one year from the date of approval in principle. Thus the arrangement in effect became a nine-month arrangement).

2. Amount: SDR 82.75 million (50 percent of quota)

3. Date of approval: In principle May 2, 1984; Effective (lapse of time) August 3, 1984

	In principle	Effective (lapse of time)
Date of approval:	May 2, 1984	August 3, 1984

4. Condition(s) for arrangement to become effective: The arrangement was to become effective on the date the Fund found that satisfactory arrangements had been made (a) for financing the uncovered gap in the balance of payments for 1984; and (b) for the planned increases in mass transit fares and water charges.

5. Phasing and performance criteria: The phasing and linkage to performance criteria were as follows.

Date (Available after)	SDR Million	Performance Criteria: Ceiling	Performance Criteria: Reviews (Completion date)
Effective Board approval	20.69 1/	--	--
6/15/84	20.69 1/	3/84	--
12/15/84	20.69 2/	9/84	First review (9/84)
3/15/85	20.68 2/	12/84	Second review (2/85)

1/ Because of the delays in activation of the program, the first two purchases were made at the same time on August 14, 1984.

2/ The phasing of purchases was modified during the first review of the program (EBS/84/161). The original phasing provided for the third purchase to be made after September 15, 1984 subject to compliance with end-June ceilings and completion of the first review; the fourth purchase was scheduled after February 28, 1984 subject to compliance with end-September 1984 ceilings and completion of the second review (EBS/84/81).

6. Financing gap: SDR 527 million (318 percent of quota) (EBS/94/161). The gap was estimated originally at SDR 448 million (270 percent of quota) (EBS/84/81).

7. Reasons for using approval-in-principle procedure

The proposed program projected an external financing gap in 1984 after allowing for normal drawings for project loans and structural loans from the World Bank and the CCCE. To close this gap, it was necessary for Ivory Coast to obtain refinancing of the debt falling due in 1984 and some arrears that had accumulated at the end of 1983 from bilateral and commercial sources. In addition, it was likely that exceptional financing in the form of "new money" or the equivalent in rescheduled interest would be sought from commercial banks.

8. Important external finance

a. Paris Club (May 3-4, 1984)

The meeting provided for the rescheduling of 100 percent of principal and 50 percent of interest falling due over the 13-month period starting December 1, 1983. The rescheduling included a goodwill clause for debt service falling due in 1985. The estimated debt relief was SDR 208 million.

b. London Club (July 27, 1984)

The meeting provided for the rescheduling of 100 percent of the principal falling due during the same 13-month period. The estimated debt relief was SDR 259 million. The banks also agreed to grant Ivory Coast "new money" for about SDR 113 million in the form of a loan with the same conditions as for the rescheduling. Banks also agreed to reschedule under the same terms 90 percent of the principal falling due in the year 1985, provided that there was a program with the Fund and rescheduling of debt with the Paris Club for 1985.

c. Suppliers

Suppliers were expected to reschedule maturities falling due in 1984 under the same terms as in (b) above.

9. Problems

a. Delays in activating the program resulted in the bunching of the first two purchases (or 50 percent of total purchases available under the program).

b. The phasing of purchases contained in the original program was extensively discussed at the time of the Board discussion. Many Directors questioned the practice of the five-month interval between the third and fourth purchases, particularly because the conditions for the fourth purchase (viz., September ceiling and October review) could be satisfied well before February 1984. Also, as the arrangement was not expected to become effective until end-May or early June, some Directors were concerned about the bunching of the first and second purchases in June 1984. Moreover, in view of the projected effective date of the arrangement, some Directors questioned why the last purchase was not linked to the December ceilings which would cover the end of the 1984 fiscal year. The Board decision maintained the phasing as proposed in the staff report. It was also decided to informally delay the mission for the second review until late in 1984 to enable the mission to check program implementation after September 1984, the last operational test date. As explained, the phasing of the last two purchases was changed at the time of the first review of the program.

c. The delay in the activation of the program resulted in part from the inclusion of specific policy measures among the conditions for the program to become effective. These measures were not implemented as intended, and a further staff visit took place in the context of the first review before understandings were reached on them.

d. The proposed decision initially indicated among other conditions that the arrangement would become effective after conditions for the release of the second tranche of SAL II had been met. This condition was deleted during the Board discussion as Directors were concerned at the implied cross-conditionality between World Bank loans and Fund stand-by arrangements.

Jamaica

1. Type of arrangement: One-year stand-by

2. Amount: SDR 64 million (44 percent of quota)

3. Date of approval: In principle — June 8, 1984; Effective (Board discussion) — June 22, 1984

	In principle	Effective (Board discussion)
Date of approval:	June 8, 1984	June 22, 1984

4. Condition(s) for arrangement to become effective

a. The agreement was to become effective on the date that the Fund found that satisfactory arrangements had been made for the refinancing of certain short-term liabilities.

b. A cutoff date of June 20, 1984 was included in the decision. The cutoff date was subsequently extended to June 27 (EBS/84/101, Supplement 4). At the same time the Board decision was amended to include confirmation that the authorities had complied fully with the terms and understandings of the supplementary letter of intent as one of the conditions for the arrangement to become effective. Increases in telephone rates had been announced as part of a series of measures to be taken prior to Board approval of the arrangement. After Board approval of the arrangement the staff was informed that the approval for increases in telephone rates had been rescinded but had then been reinstated.

5. Phasing and performance criteria: The phasing and linkage to performance criteria were as follows.

Date (Available after)	SDR Million	Performance Criteria: Ceiling	Performance Criteria: Reviews (Completion date)
Effective Board approval	14.6 1/	--	--
7/16/84	3.4	6/84	--
10/16/84	10.0	9/84	9/84
1/16/84	18.0	12/84	12/84
4/16/85	18.0	3/85	--

1/ A purchase under the CFF of SDR 72.6 million was also made 6/26/84.

6. Financing gap: US$274 million 1/ (179 percent of quota).

7. Reason for using approval-in-principle procedure

To ensure that arrangements for refinancing certain short-term liabilities (initially intended as a prior action) were completed.

8. Important external finance

a. Paris Club meeting (July 16, 1984)

The participating creditor countries agreed to reschedule 100 percent of principal and 50 percent of interest payments falling due and not paid during the consolidation period (January 1, 1984 to March 31, 1985). Principal in arrears as of December 31, 1983 was also rescheduled. The agreement covered guaranteed or insured commercial credits and official loans to Jamaica with original maturities of more than one year and contracted prior to October 1, 1983. The estimated debt relief amounted to US$105 million compared to US$108 million implicitly assumed in the program.

b. Commercial banks (August 17, 1984)

Jamaica signed debt rescheduling agreements (agreed in principle with commercial banks in June 1983) for postponement of US$93 million in principal payments falling due in 1984/85 and $65 million in payments which fell due in 1983/84.

1/ Excluded refinancing of arrears and debt payments of US$169 million originally expected to be secured prior to Board discussion of the program. Of this amount, US$96 million had not been secured. It was determined that US$41 million of the latter amount was eligible to be refinanced through the Paris Club. The arrángement was approved in principle conditional on satisfactory arrangements being made for refinancing the remaining US$55 million (EBS/84/101, Supplement 1).

Madagascar

1. Type of arrangement: 15-month stand-by

2. Amount: SDR 33 million (50 percent of quota)

3. Date of approval: In principle — December 21, 1983; Effective (Board discussion) — April 10, 1984

Date of approval:	In principle	Effective (Board discussion)
	December 21, 1983	April 10, 1984

4. Condition(s) for arrangement to become effective

The arrangement was to become effective on the date on which the Fund found that (a) satisfactory arrangements had been made to finance the estimated balance of payments deficit for 1984; and (b) adequate increases in producer prices had been adopted.

5. Phasing and performance criteria: The phasing and linkage to performance criteria were as follows.

Date (Available after)	SDR Million	Performance Criteria: Ceiling	Performance Criteria: Reviews (Completion date)
Effective Board approval 4/10/84	3.0	12/83	--
3/31/84	6.0	--	First review (5/31/84) 1/
3/31/84	6.0	3/84	--
6/30/84	6.0	6/84	Second review (8/31/84) 1/
9/30/84	6.0	9/84	Third review (11/30/84) 1/
12/31/84	6.0	12/84	--

1/ Originally, the three reviews were to be completed by end-March, end-June, and end-October 1984, respectively. The dates for the reviews were changed (EBS/84/45, 3/8/84) due to the delay in the effective approval of the arrangement.

6. Financing gap: SDR 136 million 1/ (205 percent of quota).

1/ The gap was revised to SDR 164.8 million in EBS/84/85, 3/8/84.

7. Reason for using approval-in-principle procedure

Debt relief on exceptional terms from official creditors and official aid on an exceptional scale were required to fill the financing gap. Also, adequate increases in producer prices were to be adopted before the arrangement became effective.

8. Important external finance

The Board paper indicated that debt rescheduling on terms previously obtained would provide debt relief of SDR 70 million. The remaining gap of SDR 66.7 million would need to be filled by other balance of payments support; the latter amount was one third higher than the SDR 50 million committed by the donor's club in 1983.

a. Paris Club

(Meeting originally scheduled for February 9-10, 1984 was postponed and rescheduled for March 23, 1984.) The debt rescheduling agreement for 1984 provided for the effective rescheduling of 95 percent of all arrears outstanding on June 30, 1983 and of all debt service payments due from July 1983 to December 31, 1984, including arrears and regular debt service on previously rescheduled debt. The debt relief provided by this agreement was estimated at SDR 84.5 million. The staff estimated that debt relief on similar terms from other official creditors would provide SDR 33.5 million (EBS/84/82).

b. Aid Donors' meeting (April 5-6, 1984)

Firm pledges were received for SDR 48 million.

9. Problems

a. The arrangement was expected to become effective in early February 1984. It was understood that confirmation of the implementation of measures relating to producer prices for agricultural commodities would be required prior to Board consideration of the arrangement. One day prior to the Board meeting, the staff informed management that it was unable to evaluate whether the measures implemented by the authorities were adequate. Nevertheless, in view of the importance of early meetings of the Paris Club and donors, the Board meeting was held as scheduled. The condition relating to producer prices was included among the conditions for the arrangement to become effective.

A subsequent staff mission concluded that the increases in producer prices were not adequate and would not provide the necessary incentives to production and exports to reach the short- and medium-term targets of the program. Moreover, revised balance of payments projections indicated a financing gap of SDR 213 million, or SDR 50 million larger than estimated in the Board paper (EBS/83/255, 11/30/83), due mainly to shortfalls in exports and lower drawings on foreign loans than originally anticipated. Under these circumstances, for the stand-by arrangement to become effective, it was considered necessary for the authorities not only to introduce the necessary pricing measures, but also to strengthen adjustment to reduce the financing gap.

The Paris Club was informed of the Fund staff's findings and the Chairman of the Paris Club decided to postpone the meeting originally scheduled for February 9-10, 1984. Some creditors complained about the late and abrupt cancellation of the meeting. These developments gave rise to undue uncertainties vis-à-vis the Paris Club as regards the timing of a rescheduling meeting.

Following another staff visit, a supplementary letter of intent was issued. The authorities implemented agricultural pricing policies and additional adjustment measures, relating mainly to the exchange rate and a revised import program, aimed at reducing the financing gap to the originally envisaged amount. These measures were accepted as adequate by the Board on March 19, 1984 (EBS/84/45, 3/8/84). Thereafter, following the conclusion of satisfactory arrangements to secure financing in the Paris Club and Fund-chaired Aid Donors' meeting, the stand-by arrangement became effective on April 10, 1984 by a lapse-of-time Board decision.

b. The delay between approval in principle of the arrangement and its coming into effect resulted in a bunching of the first three purchases under the arrangement.

Sudan--1983

1. Type of arrangement: One-year stand-by

2. Amount: SDR 170 million (100 percent of quota)

3. Date of approval: In principle — January 28, 1983; Effective (lapse of time) — February 23, 1983

4. Condition(s) for arrangement to become effective

The arrangement was to become effective on the date on which the Fund found that satisfactory arrangements had been made for the reduction in Sudan's debt service obligations for 1983 to a level consistent with the proposed program.

5. Phasing and performance criteria: The phasing and linkage to performance criteria were as follows.

Date (Available after)	SDR Million	Performance Criteria: Ceiling	Performance Criteria: Reviews (Completion date)
Effective Board approval	68.0 1/	--	--
5/20/83	25.5	3/83	--
8/20/83	25.5	6/83	Review (5/31/83) 2/
11/20/83	25.5	9/83	--
2/9/84	25.5	11/83	--

1/ The purchases were frontloaded due to Sudan's critical foreign exchange situation. A CFF purchase was approved 3/11/83.

2/ The review was delayed and could not be completed until September 14, 1983.

6. Financing gap: SDR 703 million (415 percent of quota)

7. Reasons for using approval-in-principle procedure

Debt rescheduling on exceptional terms was needed to close the ex ante financing gap.

8. Important external finance

a. Consultative Group meeting (January 12-14, 1983)

The Consultative Group meeting resulted in the pledging of about US$539 million for projects included in the Sudanese authorities' three-year investment program, 1982/83-1984/85. This level of commitments, along with disbursements from previous commitments, was judged by the staff to be consistent with disbursements of about US$300 million for investment projects in each of 1983 and 1984 (EBS/83/9, Supplement 2).

b. Paris Club Meeting (February 3-4, 1983)

Consolidated short-term debt and already rescheduled debt as follows: all arrears as of end-1982, all payments on principal falling due in 1983, and one half of interest payments falling due in 1983 were consolidated into a 15-year loan with 5 1/2 years' maturity.

c. Oil exporting countries

Saudi Arabia and Kuwait had agreed to provide debt relief on the same terms as the Paris Club.

d. Commercial banks' meeting (February 9, 1983)

Sudan indicated willingness to pay banks US$30 million (out of US$279 million due in 1983) during 1983 and to begin making periodic payments of this amount into an escrow account pending agreement with the banks.

Sudan--1984

1. Type of arrangement: One-year stand-by

2. Amount: SDR 90 million (53 percent of quota)

3. Date of approval: In principle Effective (Board discussion)

	In principle	Effective (Board discussion)
	April 30, 1984	June 25, 1984

4. Condition(s) for arrangement to become effective

The arrangement was to become effective on the date, but not later than May 31, 1984, on which the Fund found that satisfactory arrangements had been made to finance the uncovered gap in Sudan's balance of payments in 1984. The cutoff date for the arrangement to become effective was extended subsequently three times to June 7, 1984, June 15, 1984, and June 25, 1984.

5. Phasing and performance criteria: The phasing and linkage to performance criteria were as follows.

Date (Available after)	SDR Million	Performance Criteria: Ceiling	Performance Criteria: Reviews (Completion date)
Effective Board approval	20.0	--	--
8/15/84	25.0	6/84	First review (6/84)
11/15/84	20.0	9/84	Second review (9/84)
2/15/85	12.5	12/84	--
5/15/85	12.5	3/85	--

6. Financing gap: SDR 619 million 1/ (365 percent of quota)

7. Reasons for using approval-in-principle procedure

Debt relief on exceptional terms was required from the Paris Club and other official creditors to close the financing gap.

1/ Excluding debt relief already agreed with commercial banks and projected net use of Fund credit.

8. Important external finance

a. Paris Club meeting (May 2-3, 1984)

The meeting agreed to consolidate into a single loan (with a repayment period of 16 years including a six-year grace period) 100 percent of principal and interest on (a) loans and commercial credits with original maturity exceeding one year contracted before January 1, 1984; and (b) Paris Club reschedulings of November 1979 and March 1982.

b. Other bilateral official creditors

It was expected that rescheduling on comparable terms to Paris Club would be sought.

c. Commercial banks

The commercial banks had agreed to debt rescheduling prior to approval in principle of the arrangement.

d. Additional nonproject aid

Pledges for additional nonproject assistance (SDR 35 million) were received before the arrangement became effective.

9. Problems

The arrangement did not become effective until two months after the arrangement was approved in principle due to difficulties encountered in securing external financing and the emergence of arrears vis-à-vis the Fund.

Zaire

1. Type of arrangement: 15-month stand-by

2. Amount: SDR 228 million (78 percent of quota)

3. Date of approval: In principle — December 16, 1983; Effective (lapse of time) — December 27, 1983

4. Condition(s) for arrangement to become effective

The arrangement was to become effective on the date that the Board found that satisfactory arrangements had been made to reduce Zaire's debt service obligations for 1983 and 1984 to a level consistent with the proposed financing.

5. Phasing and performance criteria: The phasing and linkage to performance criteria were as follows.

Date (Available after)	SDR Million	Performance Criteria: Ceiling	Performance Criteria: Reviews (Completion date)
Effective Board approval (12/27/83)	36.0	--	--
2/28/84	42.0	12/83	First review (2/28/84)
5/30/84	40.0	3/84	Second review (7/31/84)
8/30/84	40.0	6/84	Third review (10/30/84) 1/
11/21/84	40.0	9/84	--
2/27/85	30.0	12/84	--

1/ Originally, only two reviews were scheduled; the second to be completed by end-August 1984 and linked to the fourth purchase. A third review was added when the Board approved the first review (EBS/84/72, 4/2/84).

6. Financing gap: 1984--SDR 368 million (127 percent of quota); 1985--SDR 348 million (120 percent of quota).

7. Reason(s) for using approval-in-principle procedure

Financing on exceptional terms from Paris Club and debt rescheduling from commercial bank creditors of the London Club was required to fill the projected financing gaps in 1984 and 1985.

8. Important external finance

a. Paris Club meeting (December 19-20, 1983)

Agreed to reschedule 95 percent of all arrears as of December 31, 1984 and December 31, 1985. The rescheduled debt service up to and including 1984 was to be repaid over a six-year period following six years' grace, except for previously rescheduled short-term debt which was to be repaid over a three-year period after three years' grace. Moratorium interest for debt due and not paid as of December 31, 1983 was capitalized and was to be repaid over a 12-year period. These terms were considered unusually favorable when compared with most Paris Club reschedulings. In fact, by effectively rescheduling 97.5 percent of all arrears and current maturities, the Paris Club creditors provided Zaire with debt relief second only to that accorded to Sudan in 1983.

Ongoing discussions with commercial banks of the London Club were expected to result in additional debt relief. In view of the above, the Fund found that the projected financing gaps would be covered.

b. Consultative Group meeting

A meeting was held shortly after the Paris Club meeting.

Zambia

1. Type of arrangement: 21-month stand-by

2. Amount: SDR 225 million (83 percent of quota)

3. Date of approval: In principle July 21, 1984; Effective (lapse of time) July 26, 1984

Date of approval:	In principle	Effective (lapse of time)
	July 21, 1984	July 26, 1984

4. Condition(s) for arrangement to become effective

The arrangement was to become effective on the date the Fund found that satisfactory arrangements had been made with respect to the financing of the estimated balance of payments deficit for 1984. While exceptional financing was required from all creditors and from official donors, the decision for the program to become effective was to be based on the results of the Paris Club.

5. Phasing and performance criteria

The phasing and linkage to performance criteria were as follows.

Date (Available after)	SDR Million	Performance Criteria: Ceilings	Performance Criteria: Reviews (Completion date)
Effective Board approval	30.0	--	--
8/15/84	25.0	7/84	First review (End-September 1984)
11/15/84	25.0	9/84	--
2/15/85	29.0	12/84	Second review (End-March 1985)
5/15/85	29.0	To be specified in the second review	
8/15/85	29.0	To be specified in the second review	
11/15/85	29.0	To be specified in the second review	
2/15/86	29.0	12/85	Understanding on policies for 1986--before end-March 1986

6. Financing gap: SDR 486 million (180 percent of quota)

7. Reasons for using approval-in-principle procedure

The proposed program projected an external financing gap in 1984 after allowing for debt relief on similar terms as obtained in 1983. To close the financing gap it was necessary for Zambia to obtain exceptional debt relief from the Paris Club, bilateral non-Paris Club members, and private creditors and to obtain extra assistance from donor countries.

8. Important external finance

a. Paris Club (July 20, 1984)

Provided for rescheduling of 100 percent of (a) principal and interest due in 1984 on loans of more than one year maturity contracted before January 1, 1983 and; (b) principal and interest due in 1984 on debt consolidated in 1983. These amounts were consolidated into a ten-year loan with a five-year grace period. Also, 100 percent of principal and interest on debt consolidated in 1983 that fell due but was not paid in 1983 was consolidated into a one-year loan.

b. Non-Paris Club and private creditors

Similar terms were anticipated.

9. Problems

The arrangement became effective five days after it was approved in principle so that there were no problems associated with delays between approval and activation. A potential financing problem exists. The program became effective after agreement with the Paris Club. The remaining gap to be filled amounted to about 63 percent of the total gap.