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To: Members of the Executive Board

From: The Secretary

Subject: Relationship Between Performance Criteria and Phasing of
Purchases Under Fund Arrangements

The attached paper on the relationship between performance criteria and phasing of purchases under Fund arrangements has been tentatively scheduled for discussion on Thursday, December 6, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Kanesa-Thanan, ext. (5)7860.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Relationship Between Performance Criteria
and Phasing of Purchases Under Fund Arrangements

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(In consultation with other Departments)

Approved by C. David Finch

November 19, 1984

Introduction

The use of performance criteria to monitor performance and purchases under Fund arrangements is an essential aspect of conditionality in the use of Fund resources in the upper credit tranches. While the use of performance criteria is well established, questions have arisen regarding the nature of the linkage between them and purchases from the Fund, particularly in regard to the timing of performance tests and the distribution of purchases. On a number of occasions, Executive Directors have questioned the underlying rationale of staff proposals in these areas in the context of particular Fund arrangements and have also expressed some concern as to whether the principle of uniformity of treatment of members was being observed.

This paper analyzes the experience with and the general principles that govern various facets of the relationship between performance criteria and phasing of purchases from the Fund. The analysis is conducted in the context of one-year stand-by arrangements as well as annual segments of multiyear arrangements. The specific aspects covered include the frequency of purchases, the size of the initial purchase, the time distribution of purchases and performance criteria, the time horizon for the setting of quantitative performance criteria, and effective transition between annual adjustment programs. In regard to each one of these aspects, the paper summarizes the normal practice in arrangements approved since 1981 and at the same time identifies deviations from such practice and the circumstances which gave rise to such deviations. Based on this analysis, the paper offers operational guidelines which would strengthen the linkage between performance and purchases under Fund arrangements and also enhance uniformity in its application. At the same time, the paper endorses the need for flexibility in the application of these guidelines, taking into account particular circumstances that may apply in some cases.

As noted earlier, a basic attribute of Fund conditionality is the linkage of purchases from the Fund to implementation of an adjustment program supported by the Fund arrangement. Central to the underlying rationale is the assumption that the period of the member's adjustment

program (i.e., the "program period") does not differ significantly from the period of the supporting Fund arrangement (i.e., the "arrangement period"). This is ensured most conveniently when the period of an annual program with the Fund coincides with the basic policy period of the member, like the fiscal year. This would facilitate determination of the financial program to be supported by the Fund and specification of performance criteria for the full 12 month period of the program. In practice, however, as will be evident from the paper, circumstances have not permitted this to occur in many instances and, therefore, guidelines have to be developed to cover a wide range of possibilities.

The paper deals with the important and interrelated problems that have resulted when extended differences have been experienced between the two periods including undue compression of purchases within the arrangement period, the absence of performance criteria during the closing months of the arrangement after the program period has lapsed, and the consequential risk of a loss of the momentum of adjustment between one annual program and the next. The paper also deals with the legal and operational implications of the opposite situation where performance criteria are included for the end or close to the end of the arrangement, but there is not sufficient time for the Fund to verify the member's compliance before the end of the arrangement.

1. Frequency and phasing of purchases

It has been normal practice to formulate Fund-supported adjustment programs on an annual basis and to provide for performance criteria and purchases within each 12-month period of the supporting Fund arrangement to be phased on an approximately quarterly basis. An analysis of Fund arrangements approved since 1981 bears this out. The average length of time between scheduled purchases has been around 2.7 months (Appendix Table 1). The number of purchases under annual arrangements or annual segments of multiyear arrangements ^{1/} has been generally either four or five, including initial purchases on approval where applicable. There has been no case of fewer than four purchases on an annual basis. It would appear that the current practice as regards frequency of purchases is generally satisfactory.

The number of purchases has depended largely on the length of the lags in the reporting of data on performance criteria and on the timing of adjustment measures. Generally, where reporting lags have been relatively long and where there was a front-loading of adjustment measures the number of purchases has tended to be four rather than five.

The frequency distribution of arrangements approved since 1981 according to the length of reporting lags is given in Appendix Table 2. It shows an increase in the lags in 1984, reflecting the increased proportion of arrangements with African members. Especially long reporting lags

^{1/} Defined as arrangements for 18 months or longer.

have been experienced in the case of members of the West African and Central African Monetary Unions (typically about 2 1/2 months). Clearly, reinforced efforts are needed to minimize reporting lags without loss of reliability of data. It would be reasonable for the Fund to expect that every member seeking its support would have the capacity to report the necessary data at least within two months. In exceptional cases where reporting lags are unavoidably greater, the staff will bring the reasons as well as the steps being taken to reduce the lags to the attention of the Executive Board.

A related issue concerns the amounts of the initial purchase made available under annual arrangements. The Fund's normal practice has been to provide resources fairly evenly throughout the period of the arrangement to ensure that adequate support to the adjustment effort was available at all points of the implementation of the program. However, it has been recognized that, on occasion, there are substantial reasons in favor of front-loading and, accordingly, a flexible approach has been followed. ^{1/} A useful indicator of the degree of front-loading is the amount of the initial purchase as a percentage of scheduled purchases during the initial 12 months of the arrangement (excluding arrangements with initial purchases under the first credit tranche). On an average basis, this ratio amounted to about 30 percent for the stand-by arrangements approved in 1982, 24 percent for those approved in 1983, and 22 percent for those approved so far in 1984. For extended arrangements, broadly similar ratios have applied in the first year as well as in subsequent years of the arrangements.

The frequency distribution of arrangements approved since 1981 by the size of the initial purchase is shown in the Appendix Table 3. It shows that in 1983 and 1984 there has been a shift in the distribution from initial purchases in excess of 30 percent to purchases in the 20 percent to 30 percent range. As a result there is now on average an almost equal distribution of purchases during the life of the arrangement, given the normal practice of providing for four or five purchases. This development reflects largely the fact that most of the members currently using Fund resources are faced with a serious balance of payments problems which call for close and continuous monitoring and adoption of adjustment measures throughout the period of the arrangement. In fact, in about a third of the arrangements in recent years, the initial purchases were limited to less than 20 percent reflecting a deliberate back-loading of purchases, usually associated with delays in the implementation of specific adjustment measures or with a pending agreement on debt rescheduling or exceptional external financing and in a few instances with purchases under the Compensatory Financing Facility in the early part of the arrangement.

^{1/} The criteria to be applied in regards to phasing of purchases were spelled out in the paper on "Enlarged Access to Fund Resources" (EBS/80/262, 12/4/80).

2. Time distribution of purchases and performance criteria

While few problems have been experienced with average frequency of purchases there have been instances where the time distribution of subsequent purchases, within the 12-month period of the arrangement has been quite uneven. This has resulted mostly from the second purchase under an annual arrangement occurring within a relatively short period after the initial purchase on Board approval of the arrangement, and/or the last purchase occurring too early before the end of the arrangement.

A bunching of the first two purchases has arisen where the first set of quantitative performance criteria applied to a date which fell relatively soon after the date of approval of the arrangement, and exceptionally to a date which had even preceded the approval date. While the interval between the first two purchases has averaged 2.3 months for arrangements approved since 1981, in 30 percent of cases the interval was one month or less (Appendix Table 4) and the proportion has risen steadily over the three years.

The latter situation has arisen generally where the performance test dates have been linked to a program period that differed markedly from the period of the arrangement. Such a disparity could easily occur where the program is designed to coincide either with the calendar year or the fiscal year of the member, while the arrangement becomes effective only later when approved by the Executive Board. The problem becomes accentuated where Board approval of the arrangement is unduly delayed (e.g., until some prior actions are implemented), or where the arrangement, after its approval in principle by the Board, becomes effective even later (after adequate external financing is ensured). As such situations have had the effect of weakening the effective linkage between purchases and performance during the period of the arrangement, as a general rule, every effort should be made to limit the time lag between the beginning of the annual program period and discussion by the Executive Board of the supporting annual arrangement to the minimum. Such an approach would make it possible to provide for five purchases under a one year arrangement--one on approval followed by four purchases based on performance criteria relating to the four quarters of the program period. The achievement of such an "ideal" time distribution of performance criteria and purchases would be helped by engaging in negotiations on a program before the beginning of the program year and thereafter by minimizing the delay between agreement on an annual program and Executive Board consideration of the supporting arrangement. For this reason, the staff should aim to limit the cumulative time lag between management approval of the program and discussion by the Executive Board of the supporting arrangement to three months. 1/

1/ This will cover the preparation of the staff report and the period required by the Executive Board for circulation of the staff report. Current practice is that staff reports dealing with requests for use of Fund resources in the upper credit tranches should normally have circulation periods of not less than four weeks. See Managing Director's statement on "Issuance of Papers for Executive Board Agenda." (Buff 83/20 of February 23, 1983.)

In practice, however, there will be occasions when such an alignment between the periods of the annual program and the supporting annual arrangement may not prove attainable, even when the lag in Executive Board discussion of the program is minimized--for example, when the member requests Fund support in the middle of its fiscal year and the fiscal year is operationally the member's basic policy period. 1/ In such situations, current practice has been often to provide for stand-by arrangements of longer duration than 12 months, covering both the balance of the current fiscal year and the whole of the following fiscal year, but with detailed program parameters and performance criteria being specified initially only for the current fiscal year. In some cases, where considered appropriate, when agreement has been reached at the end of the current fiscal year on an adjustment program for the following fiscal year, a new 12-month stand-by arrangement and cancellation of the earlier one have been proposed, thereby achieving a broad concurrence of the periods of the adjustment program and the stand-by arrangement, which could thereafter be sustained in arrangements that may follow. The issue that needs to be addressed is whether this practice is appropriate and whether, as a rule, performance criteria should be specified for all or most of a 12-month arrangement period, overlapping with part of the subsequent basic policy period. This is discussed in the next section on time horizon for setting performance criteria.

It should be noted that in practice precise concurrence between program and arrangement periods is not an end in itself. The objective is to have a close relationship between the program and the arrangement which would allow performance criteria to cover as much of the former as possible. Indeed, given statistical reporting lags, a short delay between the commencement of the program period and the commencement of the arrangement would be beneficial from this point of view. An example might be that of a country with a two-month lag in reporting data: in that case, an arrangement beginning two months after the beginning of the program, and ending two months after it would permit the last performance criteria to coincide with the end of the program.

In all cases, it would be an important general principle to provide for as even a distribution of performance criteria and purchases as possible over the period of the Fund arrangement. For this reason, normally, it should not be possible for the second purchase to take place within two months of the initial purchase. 2/ One possible exception would be

1/ The timing of a member's request will be influenced by its balance of payments need as well as other factors such as domestic political considerations and requirement by the member's creditors that a Fund arrangement be in place before they could provide debt relief or exceptional external financing.

2/ In those cases where the member has implemented substantial adjustment measures prior to approval of the arrangement by the Executive Board, a front-loading of the initial purchase could be provided, following current practice.

where initial Executive Board approval has been only in principle and final approval occurs later by up to 30 days. The date of the first set of performance criteria (linked to the second purchase) would then depend on the lags in reporting of data relating such criteria. In any event, the first test date should not precede the date of discussion of the arrangement.

Similar considerations apply to the length of the time interval between the earliest availability of the last purchase under an arrangement and the expiry date of the arrangement. The general objective of having an even temporal distribution of purchases would dictate that the last purchase be relatively close to the expiry date. In actual practice, the average interval between the last purchase and the expiry of arrangements has been about two months for arrangements approved in 1982 and in 1983, and about 1.5 months for those approved so far in 1984 (Appendix Table 5).

However, there have been instances where the last purchase was made available unduly early in relation to the expiry date of the arrangement. These have also usually arisen in the same circumstances as the bunching of the first two purchases. As in that case, an appropriate guideline would be that, normally, the interval between the earliest availability of the last purchase and the end of the annual arrangement should not be longer than two months. The test date associated with the last purchase would then depend on the lags experienced in each case in the reporting of performance test data. However, it would be equally important to ensure that the last performance test date is also not unduly early in relation to the last date of the arrangement. For this reason, in cases where the reporting delays are long, the date of the last purchase would need to be set closer to the end of the arrangement than otherwise. In any case, the last performance test date linked to the last purchase should not normally be earlier than three months from the expiry date of the arrangement.

In cases where long delays are experienced between the conclusion of negotiations of a program and Board discussion of it, it might become necessary in some cases for key elements of the program to be subject to renegotiation, including a shifting forward of the time horizon and distribution of performance criteria and purchases. The need for such an approach has already been stressed in the staff paper on "Approval in Principle of Fund Arrangements" (SM/84/217, 9/25/84, p.20). Limiting the cumulative lag between the date on which a program has been approved by the management and the date of Board discussion of the arrangement to three months, as proposed above, would provide a reasonable time frame for this purpose. The three-month span would serve as a desirable target rather than a rigid outer limit. Should the three-month period be exceeded, it would be expected that the staff would confirm, before the Board discussion of the arrangement, that the program as originally proposed remains generally appropriate. In those exceptional cases

where the delay indicates a significant slippage in the implementation of the agreed program, there would be an obvious need to renegotiate the program (at least in regard to the areas where the slippages have occurred), including the performance criteria and phasing of purchases.

4. The horizon for setting performance criteria

Quantitative performance criteria linked to purchases serve a dual purpose--they are ex ante guideposts to the member in formulating and implementing its adjustment policies and also ex post measures of the member's performance in implementing adjustment policies and of its ability to make purchases under the Fund arrangement. Customarily, and for good practical reasons, the staff has agreed with the member on detailed adjustment programs for periods of 12 months at a time. It has also generally sought to include at the outset performance criteria covering all or most of that period. In practice, however, in a substantial number of cases performance criteria have been agreed initially only for shorter periods, with criteria for the balance period of the 12 months being left to be agreed during a review of the program, usually around the middle of the arrangement. This has typically been the case where the Fund arrangement has been approved during the course of the member's fiscal year, or where a substantial level of uncertainty existed even over the short run, in regard to an important element of the program. Thus, in the case of arrangements approved by the Fund since 1981, performance criteria which govern purchases were initially specified for an average time horizon that varied between 7.4 months in 1982, 5.3 months in 1983 and 6.4 months in 1984 from the date of approval of the arrangements (Appendix Table 6). The average time horizon does not, however, reveal the whole story. In about a third of the arrangements approved in 1983 and 1984, the horizon was three months or less. Furthermore, in many instances even indicative targets were not included for the balance of the 12-month period at the time the arrangements were approved. The obverse of this experience has been the frequent use of program reviews for the determination of performance criteria. 1/

1/ Under the 1979 Conditionality Guidelines, reviews to establish performance criteria were provided for only "in programs extending beyond one year and in circumstances where a member is unable to establish in advance one or more performance criteria for all or part of the annual program period." In the latter case, provision was to be made for a review to establish later performance criteria for the remaining period. The record of Executive Board discussions leading to the formulation of the Guidelines implied that the use of program reviews to set performance criteria "would be particularly appropriate for longer-term stand-by arrangements, where difficulties of forecasting might not permit the formulation of performance criteria for the period beyond the first year" (SM/78/230, 8/29/78, p.8; and SM/78/296, Rev.1, Sup. 3, 3/5/79). Also most Directors favored the establishment of objective criteria to reviews as a means of monitoring performance for purchases because of the uncertainties regarding access which the latter would generate.

The frequent use of reviews to determine performance criteria has, however, made the program design excessively dependent on short-term considerations, and also weakened the important role of performance criteria as ex ante guideposts to the implementation of the adjustment program. These considerations would suggest that every effort should be made to establish quantitative performance criteria initially for as much of the 12-month period of the arrangement as possible. Such an approach, while presenting some problems, would be consistent with the practice followed in earlier years in Fund arrangements when the use of reviews to set performance criteria was less frequent.

Based on past experience, the most common reason why performance criteria have been agreed initially for shorter periods has been a significant lack of concurrence between the period of the annual arrangement and the member's fiscal or planning year. However, the absence of such a concurrence should not necessarily prevent agreement on important financial parameters such as the overall balance of payments and external debt targets, likely demand for money and credit, and external borrowing needs for the entire period of the arrangement. Based on these parameters, it should normally be possible to agree on most performance criteria such as those for total credit, foreign borrowing limits, and reduction in external arrears. There would also be an advantage in agreeing ahead on a performance criterion for credit to the public sector beyond the current fiscal year, which would serve as a focal point on which the following years' budget and associated policies could be formulated.

There will, however, be situations where it may not be possible to agree initially on some or all performance criteria well into the 12-month arrangement, for two main reasons. First, as noted earlier a substantial level of uncertainty may exist in regard to major economic trends during the year. In practice, this has been experienced in regard to a wide range of important areas, e.g., the likely rate of inflation and the exchange rate, commodity prices, the level of debt relief and other external support, the size of harvests, and the likely effects of economic reforms and certain policy measures, in planned economies. Secondly, again as noted earlier, there could be normal delays totaling up to three months between the time that negotiations on an adjustment program are completed and the date of its discussion by the Executive Board. Such delays would make the establishment of performance criteria well into the period of the 12-month arrangement even more difficult, where substantial uncertainties exist in the economy.

Taking into account both sets of factors, as well as the actual experience in recent years, it would seem reasonable to expect that under normal circumstances performance criteria should be initially included which would govern purchases over a period of at least six months of the arrangement. This would normally involve at least two sets of performance criteria. In situations where this has not proved possible, the staff should explain fully the reasons for choosing a shorter time horizon, and in any event supplement the performance criteria by

indicative targets for the balance of the period of the arrangement. In such cases performance criteria for the balance period of the arrangement will need to be agreed during the review, usually in midyear. A point of some importance in this context is whether the purchase linked to the performance test date immediately preceding the review should also be made conditional on the satisfactory completion of the review. Past practice has not been consistent, but it would seem advisable to make such a requirement a normal practice, since it would strengthen the implementation of the agreed adjustment program.

A further question applies in cases where completion of the review and agreement on performance criteria have been delayed for one reason or another to a date close to the end of the annual arrangement. It has sometimes been argued that performance criteria, or at least indicative targets should be agreed for a further minimum period of six months, even though it could extend beyond the period of the annual arrangement. Such an approach would have considerable merit. While it would be legally impossible to provide performance criteria for dates beyond the end of the annual arrangement, except in the context of a multiyear arrangement, the specification of indicative targets should, present no problem.

5. Transition between annual programs

The issue of effective transition between the annual programs is a critical one both in the context of multiyear arrangements as well as in a succession of one-year arrangements. During the Executive Board discussions on the staff paper on "Prolonged Use of Fund Resources" (SM/84/91, 4/27/84), some Directors expressed the view that effective transition would be strengthened by specifying performance criteria until the end of each annual program. Such criteria would not only strengthen the implementation of the first year's program but also serve as an important reference point for the review that establishes policies and performance criteria for the succeeding annual program.

In fact, in an overwhelming majority of multiyear arrangements, quantitative ceilings have been specified for year-end, and have been treated either as performance criteria or as indicative targets. An analogous practice for a succession of annual arrangements has not generally been followed. In most such instances, neither performance criteria nor indicative targets have been specified for the end or near the end of the first annual arrangement.

In the case of multiyear arrangements, there are strong grounds for normally requiring the inclusion of year-end performance criteria (and not indicative targets). These performance criteria, would normally, when appropriate, include as a condition of purchase that understandings be reached with the Fund on an adjustment program for the subsequent period within the multiyear arrangement. Such an approach would strengthen effective and continuous implementation of adjustment policies and also provide for a smooth and even transition in purchases from one

program to the next. In cases where the first year-end performance criteria have not been adhered to, it would be expected that the second year's program would include appropriate corrective measures. The staff report on the second year's program would then explain fully the circumstances leading to the breaching of those criteria and the corrective measures being taken, and recommend modifications or waivers in respect of those criteria to enable the member to make the related purchase, where appropriate.

In the case of a succession of annual arrangements, the linkage between annual programs will also be strengthened if performance criteria are set for the end of the program year and the related purchase become available at or very near the end of the annual arrangement. In cases of unexpected delays in Board consideration of the program performance criteria up to the end of the annual program year could leave a significant portion of the arrangement unmonitored and the last purchase under the arrangement could become available too early before the end of the arrangement. While the proposals made above to limit the earliest date of availability of the last purchase to within two months of the end of the arrangement and the associated test date to within three months of the end of the arrangement would reduce this risk, it would be desirable to include a set of indicative targets up to the end of the arrangement which would be taken into account in the formulation of the next annual program. In the event that the indicative targets are not adhered to, the staff paper on the new arrangement will include a detailed explanation of the deviation and the corrective measures being taken by the member. Also, where the member's circumstances are such that prolonged use of the Fund's resources is clearly in prospect and where the member indicates an interest in further use of Fund resources, it would be desirable as in the case of a multiyear arrangement, to make the last purchase under the arrangement conditional on the member reaching understandings with the Fund on a successor annual program.

Some Executive Directors have expressed support for the inclusion of performance criteria involving purchases (rather than indicative targets) for the end or close to the end of the annual arrangement, even when it is outside a multiyear arrangement, on the ground that it would reduce the risk of slippage in the member's performance toward the end of the arrangement period. Such an approach has already been alluded to above in the context of the timing of the last drawing of an arrangement. Directors have sought clarification of the legal and operational implications of such an approach, which, depending on the reporting lags, could delay the Fund's determination of a member's compliance with performance criteria beyond the end of the arrangement. As far as the legal aspects are concerned, the practice of the Fund has been to act on a purchase request only if a valid request, i.e., one that meets all performance criteria, has been received during the period of the arrangement. Under this practice, performance criteria cannot be set, say, for the end of the fourth quarter of an annual arrangement because the normal

reporting lag would not permit the making of a valid request before the arrangement expired. However, it would be possible to change this practice so as to allow for the establishment of testing dates near, or at the end of, an arrangement, and the Fund would then meet a purchase request after the expiry of the period of an arrangement, when the observance of the performance criteria has been ascertained, provided that the request had been received in the Fund before the expiration date. Then the final purchase would be based on a testing date at the end of the period notwithstanding the prospect that the compliance could be ascertained only on the basis of data becoming available after the expiry of the period. Viewed from an operational viewpoint, however, such a change would have less justification if a broad concurrence could be realized between the periods of the program and the supporting arrangement of the kind discussed earlier. Even where this is not feasible, the limits discussed earlier regarding the earliest dates for the last set of performance criteria and for the associated purchase should provide generally satisfactory safeguards for continued performance by the member during the closing months of the arrangement, especially if such a purchase also had been made conditional on agreement with the Fund on the next annual program. If consecutive annual arrangements involve the final purchase of one falling close to the first purchase of the next, it may be necessary to adjust the phasing of the amount of the two arrangements to ensure a fairly even flow of resources over this period.

In reviewing the record of implementation of multiyear programs, an important question has been whether those members whose programs had included year-end performance criteria rather than indicative targets have been more successful in sustaining their adjustment efforts. The results have been largely inconclusive in part because of the relatively limited number of multiyear arrangements approved during 1982-84, and also because of the relatively large number of these which appear to have gone off track prior to the last performance test in the annual programs. However, a review of all multiyear arrangements approved since 1979 indicates that quantified performance criteria specified through the end-of-the-program period were observed in 52 percent of cases (11 out of 21). ^{1/} In contrast, programmed credit targets were exceeded either at the end of the program period or earlier in 82 percent of the cases (9 out of 11) in which only indicative end-year targets were specified. Also, all but one case (7 out of 8) in which neither performance criteria nor indicative targets were specified for the end-of-the-program period went off track substantially earlier than the transition period between annual programs.

^{1/} Some caution is needed in interpreting even these limited results because the cases where performance criteria were included for the end of the arrangement, were also those which would best be able to meet such criteria because of lower uncertainties in the economy.

Conclusion

The current paper has been prepared in response to a request by Executive Directors for a study of the relationship between performance criteria and phasing of purchases under Fund arrangements. Their request had been prompted by an interest in understanding the rationale of staff proposals in this area in the case of particular Fund arrangements, as well as by some concern that the principle of uniformity of treatment may not have been observed in all cases.

An attempt has been made in this paper to analyze important facets of the relationship between performance criteria and purchases, and drawing on past experience, to enunciate certain operational guidelines, which would ensure broad uniformity of treatment of members. These are based on the established practice of having detailed adjustment programs and performance criteria formulated for one year at a time, whether it be in the context of Fund arrangements for one year or for a number of years at a time. The paper notes that there could be exceptional circumstances where a departure from the guidelines would be warranted and, therefore, that the guidelines should be applied flexibly. In cases where a departure from the operational guidelines is being recommended by the staff, it would be important to provide a detailed description of the circumstances which justify such a departure. It should be stressed that the proposed operational guidelines are essentially a codification and clarification of current practice as it has evolved within the framework of the conditionality guidelines approved by the Executive Board in 1979.

The operational guidelines proposed in the paper may be summarized as follows:

(1) As a general rule, every effort should be made to limit the lag between the beginning of the annual program period and the date of discussion by the Executive Board of supporting annual arrangement (or the annual segment of a multiyear arrangement) to a minimum. This would facilitate the inclusion of quarterly performance criteria throughout the program period and of purchases throughout the period of the arrangement, thereby strengthening the link between Fund financing and adjustment.

(2) Particular attention should be given to minimizing lags in reporting of data relating to performance criteria without loss of reliability of data. It would be reasonable for the Fund to expect that all members seeking the Fund's support should be able to limit reporting lags to two months. In very exceptional cases where reporting lags exceed two months, the staff will explain the reasons for such lags as well as the steps being taken to reduce them.

(3) Every effort should be made to limit the period between the approval of an adjustment program by management and the date when the supporting arrangement is discussed by the Executive Board to no more

than three months. Should the period be exceeded, the staff would confirm before the Board discussion of the arrangement that the program as originally proposed remains generally appropriate. In those exceptional cases where the delay indicates a significant slippage in the implementation of the agreed program, the staff would renegotiate the program, including the performance criteria and phasing of purchases.

(4) There would be no fewer than four purchases during a 12-month period of the arrangement, five being the preferred course of action. The purchase dates would also be distributed as evenly as possible throughout the arrangement. However, problems have often been experienced in this regard because of a bunching of the first two purchases under an arrangement and/or the last purchase occurring unduly early before the end of the arrangement. In order to avoid such problems, as a general rule, the date of the second purchase would not be earlier than two months from the initial purchase on approval of the arrangement and the date of the last purchase would not be earlier than two months before the end of the arrangement. One possible exception would be the case where initial Executive Board approval has been only in principle and final approval follows later by up to 30 days.

(5) The test dates for performance criteria would also be distributed as evenly as possible through the period of the arrangement. Normally the date of the first performance test would not be earlier than the date on which the arrangement becomes effective, and the date of the last performance test would not be earlier than three months from the end of the arrangement.

(6) Every effort should be made to include performance criteria initially for as much of the 12-month period of the Fund arrangement as possible. However, it may not be possible always to establish in advance one or more performance criteria for part of the period of the arrangement because of substantial uncertainties about major economic trends and normal time lags between the completion of negotiations on the arrangement and Board discussion of the arrangement. Taking into account both sets of factors, as well as the actual experience in recent years, it would be reasonable to expect that, as a normal rule, performance criteria would be included initially which would govern purchases over a period of at least six months of the arrangement. This would normally involve at least two sets of performance criteria. Where this minimum period is not met, the staff report would include a full explanation of the underlying reasons.

(7) As a general rule, indicative targets would be included at the outset for that part of the 12-month arrangement for which performance criteria are yet to be established. Provision will also be made for a review in order to replace these indicative targets later with performance criteria. Indicative targets will also be included for the last month of the arrangement period.

(8) In the case of annual programs within the framework of a multi-year arrangement, normally performance criteria would be included up to the end of each such annual segment. In addition, the purchase linked to end-year performance criteria would also be conditional on understandings being reached with the Fund on the next year's program within the multiyear arrangement.

(9) In the case of an annual program which is considered likely to be one of a succession of one-year programs, the limits on the earliest date for the last purchase and the related performance criteria under the supporting stand-by arrangement as well as the inclusion of indicative targets for the end of the arrangement called for under earlier guidelines should provide generally satisfactory safeguards for continued performance by the member up to the end of the arrangement. It would also be desirable to make the last purchase conditional on the member reaching understandings with the Fund on a new program, where the member has indicated an interest in further use of Fund resources and there is a clear prospect of prolonged use by the member.

Table 1. Stand-By Arrangements Approved in 1982-84:
Average Length of Time Between Scheduled Purchases

	1982	1983	1984 <u>1/</u>
Length of arrangement (in months)/ number of purchases			
Average for all arrangements (months)	2.70	2.69	2.66
Frequency distribution (percentages)			
Less or equal to 2.2 months	--	6	8
Greater than 2.2 months but less or equal to 2.5 months	38	33	46
Greater than 2.5 months but less or equal to 2.8 months	24	19	--
Greater than 2.8 months but less or equal to 3 months	38	42	46
Greater than 3 months	--	--	--
Number of arrangements	21	31	13

Source: Executive Board documents.

1/ Approved during January 1-August 15, 1984.

Table 2. Stand-By Arrangements Approved in 1982-84:
Length of Interval Between Testing Dates
and Availability of Purchases

	1982	1983	1984 <u>1/</u>
<hr/>			
Interval between testing dates and availability of purchases			
Average for all arrangements (months)	1.29	1.27	1.71
Frequency distribution (percent)			
Less than or equal to 1 month	48	52	21
Greater than 1 month but less or equal to 2 months	43	42	57
Greater than 2 months	9	6	22

Source: Executive Board documents.

1/ Approved during January 1-August 15, 1984.

Table 3. Proportion of Resources Available Upon
Board Approval

	1982	1983	1984 <u>1/</u>
First purchase as a percentage of total purchases scheduled during the 12 months of the arrangement			
Average for all arrangements (percent)	30.5	23.8	22.0
Frequency distribution			
Less than or equal to 20 percent	33	43	31
Less than or equal to 30 percent, but greater than 20 percent	17	37	69
Less than or equal to 40 percent, but greater than 30 percent	39	13	--
Greater than 40 percent	11	7	--

Source: Executive Board documents.

1/ Approved during January 1-August 15, 1984.

Table 4. Stand-By Arrangements Approved in 1982-84:
Length of Interval Between the First Two Purchases

	1982	1983	1984 <u>1/</u>
Average interval between the first two purchases (months)	2.39	2.31	2.32
Percentage of cases where interval was two months or less	52.4	58.1	66.7
Percentage of cases where interval was one month or less	19.0	32.3	41.7
Number of cases where Board approval occurred after the scheduled availability of the second purchase	--	1	2

Source: Executive Board documents.

1/ Approved during January 1-August 15, 1984.

Table 5. Stand-By Arrangements Approved in 1982-84:
Length of Interval Between Availability of Last
Purchase and End of Arrangement

	1982	1983	1984 ^{1/}
Interval between earliest availability of last purchase and end of arrangement			
Average for all arrangements (months)	2.1	2.0	1.5
Frequency distribution (percentages)			
Less or equal to 1 month	33	32	36
Greater than 1 month but less or equal to 2 months	24	45	50
Greater than 2 months but less or equal to 3 months	29	16	7
Greater than 3 months	14	7	7
Maximum value (months)	3.5	6	4

Source: Executive Board documents.

^{1/} Approved during January 1-August 15, 1984.

Table 6. Stand-By Arrangements Approved in 1982-84:
Time Horizon of Performance Criteria 1/

	1982	1983	1984 <u>2/</u>
Average interval between approval date and the last testing date (months)	7.4	5.3	6.4
Percentage of cases of interval of six months or less	40.0	70.4	46.2
Percentage of cases of interval of three months or less	15.0	48.1	23.1
Percentage of cases of interval of one month or less	10.0	14.8	7.7

Source: Executive Board documents.

1/ As specified at time of approval of arrangement.

2/ Approved during January 1-August 15, 1984.