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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/94

3:00 p.m., June 15, 1984

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	J. K. Orleans-Lindsay, Temporary
	H. G. Schneider
	X. Blandin
	M. A. Weitz, Temporary
	M. K. Bush
M. Finaish	T. Alhaimus
T. Hirao	T. Yamashita
J. E. Ismael	Jaafar A.
R. K. Joyce	D. I. S. Shaw, Temporary
A. Kafka	
	G. Grosche
G. Lovato	N. Coumbis
	C. J. Batliwalla, Temporary
	J. E. Suraisry
J. J. Polak	T. de Vries
	K. G. Morrell
G. Salehkhou	O. Kabbaj
	E. I. M. Mtei
	J. L. Feito
J. Tvedt	
	T. A. Clark
Zhang Z.	Wang E.

J. W. Lang, Jr., Acting Secretary
S. J. Fennell, Assistant

Also Present

L. de Azacarate, Director, Country Policy Department, IBRD. African Department: J. B. Zulu, Director; R. J. Bhatia, Deputy Director; L. M. Goreux, Deputy Director; O. B. Makalou, Deputy Director; J. C. Williams. European Department: P. C. Hole, M. H. Rodlauer. Exchange and Trade Relations Department: C. D. Finch, Director; D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; G. Belanger, D. J. Donovan, L. H. Duran-Downing, H. W. Gerhard, M. Guitian, S. Kanesa-Thasan, M. R. Kelley, D. Lee, D. A. Lipton, R. L. Sheehy. Fiscal Affairs Department: R. D. Kibuka, D. C. McDonald. Legal Department: G. P. Nicoletopoulos, Director; W. E. Holder, Ph. Lachman, S. A. Silard. Middle Eastern Department: A. S. Shaalan, Director; P. Chabrier, Deputy Director; A. K. El Selehdar, Deputy Director; J. G. Borpujari, P. L. Clawson, S. Geadah, Z. Iqbal, S. Kawar, K. Nashashibi, M. Yaqub. Research Department: A. Salehizadeh. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Berthet, S. I. Fawzi, T. B. C. Leddy. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, E. A. Ajayi, S. El-Khouri, K. A. Hansen, S. M. Hassan, H.-S. Lee, W. Moerke, G. E. L. Nguyen, P. Péterfalvy, M. Z. M. Qureshi, D. C. Templeman. Assistants to Executive Directors: H. Alaoui-Abdallaoui, J. R. N. Almeida, I. Angeloni, R. L. Bernardo, J. Bulloch, M. B. Chatah, Chen J., L. E. J. M. Coene, M. Eran, I. Fridriksson, G. Gomel, V. Govindarajan, D. Hammann, N. U. Haque, H. Kobayashi, E. Landis, E. Portas, M. Rasyid, J. Reddy, D. J. Robinson, A. A. Scholten, Shao Z., A. J. Tregilgas, Wang C. Y.

1. PROLONGED USE OF FUND RESOURCES

The Executive Directors continued from the previous meeting (EBM/84/93, 6/15/84) their consideration of a staff paper on the prolonged use of Fund resources (SM/84/91, 4/27/84; Cor. 1, 5/7/84; and Cor. 2, 5/9/84), together with supplementary material (EBS/84/104, 5/4/84).

Mr. Feito stated that the so-called use of Fund resources was a non-issue that threatened to divert attention from the real problem of world economic adjustment and the appropriate role of the Fund in that process. Through elusive statistics, the staff had attempted to identify prolonged use as a cause for concern.

In his view, Mr. Feito went on, prolonged use was primarily a reflection of the nature of the balance of payments adjustment mechanism under conditions of worldwide depression and stagnant international trade, and of the increased role of the Fund in international adjustment. The 1980-82 world economic recession had been graver than the 1973-75 recession and second in severity only to the depression of the 1930s. The burden of adjustment had been placed on incomes and imports; in effect, the cut in the external imbalance had been made by only one blade of the adjustment scissors. Not only did such cuts take longer, but they were also more complicated. The Fund's policies and lending were designed to support and should reflect the working of the international adjustment mechanism. It should come as no surprise that the average period of adjustment of member countries might increase following the deterioration in the economic environment in the early 1980s. Care should be exercised both in interpreting concepts such as "a viable balance of payments position" and "adequate progress toward external adjustment" and in applying them to individual countries, particularly as the increase in the average period of adjustment might vary from one country to the next.

The length of adjustment varied among member countries because each country's capacity to adjust to income and import cuts depended not only on economic factors, but also on political ones, Mr. Feito continued. The ability of a country to adjust was often not related to its natural resources or economic management, but rather to its capacity to engineer a deflationary course and to secure social acceptance of the consequences. A small change in exogenous variables, such as an improvement in the international trade climate or a more optimistic view of international commercial banks and domestic holders of wealth, might modify dramatically the adjustment prospects of politically constrained countries. He did not wish to be misunderstood; there might be a few countries where the deterioration of the external position under a Fund-supported adjustment program had gone beyond the point that would permit prompt recovery, should international conditions improve. But the existence of a few cases did not mean that there was a systemic problem of prolonged use of Fund resources. The problem of prolonged use should properly be tackled in the context of reviews of performance criteria.

The second factor explaining the greater use of Fund resources and the rising outstanding liabilities to the Fund was the growing involvement of the Fund in world economic adjustment together with increased resources that it had available for member countries, Mr. Feito considered. The staff's suggestion that the relative increase in the Fund's membership explained the larger use of Fund resources was unconvincing. Until about 1982, the Fund had been crowded out of international adjustment by the commercial banks, whose external portfolios had been growing with increasing concentration on countries where lending had decreased. The sharp increase in the number of members with prolonged periods of heavy liabilities expected in the next few years was explained by the fact that the countries making the largest use of Fund resources since 1982 had also had the greatest external imbalances and the largest need for longer-term adjustment.

Any future paper on prolonged use should take into account the working of the adjustment mechanism under conditions of worldwide depression and the increased role of the Fund in the international financial system, Mr. Feito continued. Proper attention to those two factors would give a better understanding of relevance of the principle of the revolving nature of Fund resources under conditions of global disequilibrium and would also lend force to the argument that the extended Fund facility was the most appropriate facility for bringing about adjustment during a worldwide depression. Many points in SM/84/91 underlined the possibilities of the extended Fund facility, a largely unused and undeveloped instrument.

Given the present strains on the world economy, he did not consider that the principle of the revolving nature of Fund resources was endangered by the prolonged use of Fund resources, Mr. Feito indicated. Nor did he consider that members' willingness to provide resources for the Fund had been eroded by the increased outstanding liabilities to the Fund as a result of the adjustment required by the world depression. Experience clearly indicated that the main force behind quota increases was not the rate of interest on, or any other pecuniary aspect of, members' Fund-related assets, but rather countries' views on the working of the international economy and the appropriate role of the Fund. Greater attention needed to be directed toward adapting the Fund's instruments to the changing nature of the international economic environment.

Turning to the last four points of the summary in SM/84/91, Mr. Feito said, the Fund's only acceptable course of action was to retain its flexibility to deal with each country according to its particular circumstances. The proposal included in paragraph 4 of the summary was an example of how a misguided preoccupation with the prolonged use of Fund resources might curtail the role of the Fund in international adjustment. Expectations regarding the balance of payments and the availability of external financing might prove to be wrong, and a country should not be denied support from the Fund as a result of such a detrimental and subjective exercise.

On paragraph 5 of the summary, Mr. Feito stated, he could agree only with the suggestion to include in papers requesting use of Fund resources a review of the Fund's experience with the members concerned. However, the Fund must be careful not to make mechanical extrapolations from the past that could be rendered meaningless by any subsequent change either in the political structure of the country or in the international environment. Finally, with respect to collaboration with the World Bank, he endorsed Mr. Kafka's comments.

Mr. Salehkhou remarked that a variety of developments had been responsible for the prolonged and repeated use of Fund resources in the past few years and for the prospects of a continuation of that pattern throughout the decade. Prominent among those developments were the severity and duration of the world economic recession, excessively high international interest rates, erratic movements in the exchange rates of major currencies, and a deterioration in the terms of trade of developing countries. Those and other exogenous factors had adversely affected the economic and financial performance of countries under Fund-supported programs, as the original assumptions accepted by both the Fund and the borrowers had rapidly proved to be off the mark. Other equally important factors explaining the prolonged use of Fund resources included the weakness and inadequacy of program design, as well as the incomplete implementation or untimely relaxation of adjustment efforts by members. The staff had also appropriately noted the crucial role structural reform was playing in most Fund-supported programs and the relatively long time needed for such adjustment, which necessitated the adoption of multiyear programs and the extension of repurchase periods under the supplementary financing facility and the enlarged access policy. Moreover, the importance of the Fund's involvement in restoring external confidence in borrowing countries and in debt restructuring made it necessary for many members to seek Fund assistance over a prolonged period.

The staff had stressed that the failure of countries to adapt policies to adverse circumstances had contributed to the limited progress under many Fund-supported programs and to the need for extended use of Fund resources, Mr. Salehkhou noted. In his view, such programs provided insufficient room for maneuver to correct or accelerate policy implementation without jeopardizing the domestic support for and the viability of the adjustment process.

Prolonged use of Fund resources was not unprecedented in the history of the Fund, and should be seen in the light of the significant increase in membership since 1966, Mr. Salehkhou went on. Given the history of the use of Fund resources, including the limited number of cases in which repeated use had been clearly linked to a country's failure to implement or adapt adjustment policies, the recent multiplication of such cases in itself should not be a cause for unduly great concern. More disturbing was the fact that, in many cases, prolonged use of Fund resources produced only limited adjustment and in a few instances had not prevented a continued deterioration in the member's economc situation. He was surprised that in suggesting possible action by the Fund, the staff had concentrated on new regulations and procedures to restrict access to Fund resources further, rather than on the need to improve program design and implementation and to adapt recommended adjustment policies and instruments to the particular domestic and external circumstances, for instance, by including more *growth-oriented policies in programs.* Although he concurred with the staff that the question of improving Fund-supported adjustment programs fell in the broad area of conditionality--which could be covered by the Executive Board's review of stand-by and extended arrangements--that issue should not be ignored in the present discussion if the Board were to deal positively with the problem of prolonged use of Fund resources.

Furthermore, the avenues explored by the staff to deal with cases of prolonged use of Fund resources seemed inconsistent with the Fund's overall responsibilities in the international monetary system and with recent developments that made it a necessary partner in most negotiations involving external financing for developing countries, Mr. Salehkhou continued. Access to Fund resources should not be tied to stricter guidelines than those recently examined by the Board; staff and management should retain the flexibility necessary to deal with individual cases. Neither the suggested limitations on the level of access, number of arrangements, and length of use of Fund resources, nor the net repurchase norm were appropriate. There were a number of disadvantages to such limitations, some of which had been underlined by the staff, and they did not seem necessary in view of the Board's recent tightening of access conditions and introduction of the two-tier system of maximum annual and cumulative access. The Fund should obviously take into account members' past use of resources and record of implementation of Fund-supported programs, but it would be more desirable for any decision on further assistance to reflect the strength of proposed adjustment policies and instruments, their appropriateness in dealing with the actual difficulties, and the member's need for adequate financing.

With respect to Part V, Section 2 of the staff paper on program formulation and monitoring, the Executive Board had already agreed on a number of changes, including the use of prior actions, review clauses, and back-loading of purchases--conditions necessary for arrangements to become effective--together with a medium-term scenario analysis, Mr. Salehkhou noted. For prolonged users, the staff might also usefully review performance under previous arrangements. There was a risk, however, that such a review might not consider all the factors and particular circumstances that had necessitated continued use of Fund resources.

He had often expressed the need to strengthen collaboration with the World Bank to ensure appropriate structural adjustment under Fund-supported programs, Mr. Salehkhou commented. He was concerned, however, about the increasing degree of cross-conditionality emphasized in suggestions for increased collaboration and about possible delays in disbursements owing to the procedures of either institution. Cross-conditionality would tend to compound the difficulties facing the countries using the resources of the Fund and the Bank and might adversely affect the successful implementation of adjustment programs.

The revolving character of Fund resources should be safeguarded, Mr. Salehkhou reiterated, but the recently observed prolonged use of Fund resources was neither unprecedented nor unjustified. The Executive Board should avoid overreacting by deciding on a set of measures that would adversely affect members' adjustment efforts and the Fund's ability to contribute effectively to the management of the present international crisis.

He wished to associate himself with Mr. Kafka's remarks regarding the increased tendency of the staff to propose a set of conclusions, or summaries, in important policy papers, rather than formal and carefully worded draft decisions, Mr. Salehkhou said. Whenever the staff favored some important change in policy, it should present a clear proposal and draft decision to the Executive Board in order to avoid misunderstandings and to ensure the uniform treatment of all members.

Finally, Table 3 of SM/84/91 could be a source of confusion regarding the number of programs entered into by countries, Mr. Salehkhou observed. For example, one of the countries in his constituency was listed as having had five programs with the Fund. However, two of the programs--an extended arrangement and an 18-month stand-by arrangement--had started in July and had thus covered only six months of a calendar year. For the sake of consistency, Table 3 should be revised to reflect programs on a yearly basis.

Mr. Grosche remarked that in recent years an increasing number of countries had made continuous or repeated use of Fund resources without achieving any significant improvement in their balance of payments position. That experience gave ground for serious concern, particularly as the number of cases might increase in the future.

The staff papers provided a solid base for considering how to adapt the Fund's policy on access for actual or potential prolonged users, Mr. Grosche continued. He hoped that Executive Directors could agree in the near future on principles and guidelines that would safeguard more effectively the Fund's monetary character and the revolving nature of its resources. In the light of the present discussion and of experience in formulating programs, the staff should provide the Executive Board as soon as possible with specific and detailed proposals on how to prevent excessively prolonged and unsuccessful use of Fund resources. He hoped that the Executive Board could agree at the present meeting on a time frame for future discussions of the issue.

In paragraph 3 of the summary, the staff put forward two basic approaches for safeguarding the revolving character of the Fund's resources, Mr. Grosche observed. The first, which would limit access beyond a certain number of programs or length of period of outstanding liabilities, was rigid and could perhaps impair current access policy. The alternative, a norm requiring net purchases after a certain period, seemed to tackle the problem in a more flexible way and deserved further consideration; the relevant remarks by Mr. Polak and Mr. Wicks at the present meeting should be taken into account in future papers. Although some guidelines were needed, the Fund should retain sufficient flexibility to deal with each case according to its particular circumstances. A simple statement that a member using Fund resources repeatedly without success would be expected to make repurchases after a certain period would not sufficiently reflect the severity of the situation.

In paragraph 4 in the summary, the staff had made a distinction between members that were in a position to adopt programs designed to re-establish balance of payments viability, and others that were likely to require exceptional assistance beyond the medium term, Mr. Grosche noted. The staff proposal regarding the latter was a cause for considerable concern. There might be cases, as in the past, of an exceptional nature that would justify more medium-term involvement by the Fund. In that regard, he could subscribe to the last sentence of the third paragraph on page 10. However, he would not be willing to support Fund programs where medium-term balance of payments viability was not in sight at the outset of the program. Long-term adjustment problems would be best dealt with by bilateral and multilateral development institutions.

The guidelines that should be devised for dealing with prolonged use of Fund resources should emphasize that Fund support would continue to depend primarily on the strength of the adjustment effort and the extent of past use of Fund resources, Mr. Grosche went on. It might also be appropriate to put more emphasis on reviewing performance under preceding arrangements. The Fund should try to impede prolonged use of its resources by those countries where there had been no improvement in the balance of payments position. Improved techniques of ensuring and monitoring the implementation of Fund-supported adjustment programs would also be appropriate.

Finally, he welcomed the staff's remarks on Fund/Bank collaboration, Mr. Grosche said. The increasing incidence of prolonged use pointed clearly to the need for closer cooperation. Existing procedures for collaborating with the World Bank should be reviewed to determine whether there was room for improvement. He looked forward to more detailed discussion on the staff suggestions.

Mr. Suraisry considered that it was important to keep the problem of prolonged use of Fund resources in perspective. On the one hand, prolonged use was a real problem, even though it might be difficult to conclude convincingly that it had increased sharply in recent years. Some countries had accumulated large liabilities to the Fund, and several prolonged users had not achieved a viable balance of payments position, a principal objective of Fund-supported programs, the achievement of which enabled those countries to repay the Fund on time.

On the other hand, the external environment had been particularly difficult in recent years, Mr. Suraisry remarked. The international recession had been long and deep; real interest rates had been at historically high levels; capital flows to the developing countries had diminished.

to monitor closely the implementation of, and progress under, adjustment programs to ensure that its resources were used in the most effective possible way. The Fund should therefore use the best monitoring techniques available to identify adverse developments at an early stage; in that connection, prior actions, frequent reviews, and backloading of purchases would be useful. End-year ceilings should be among the performance criteria in all multiyear arrangements. The level of access in individual cases should be determined by past performance under Fund-supported programs, and the staff should provide more detailed reviews of previous arrangements in its reports on requests for use of resources by prolonged or frequent borrowers. Bearing those points in mind, the Fund should determine access on a case-by-case basis. If a prolonged user could demonstrate a break with past policies by adopting substantial prior actions and expressing a strong commitment to adjustment, and if such actions were expected to result in the restoration of a sustainable position within the medium term, it might be appropriate to provide a higher level of access.

The staff had suggested that stricter guidelines to limit prolonged use could be adopted, Mr. Hirao noted. While such guidelines might be helpful in determining the level of access in a manner consistent with the temporary and revolving character of Fund resources, adequate flexibility should be retained so that the characteristics unique to each situation could be taken into account. Of the two alternatives suggested in the paper, the first--limiting access beyond a certain period of outstanding liabilities--did not seem practical, but the second--requiring net repurchases after a certain period--deserved further consideration.

The Fund and the World Bank, Mr. Hirao commented, should enhance their collaboration to avoid either giving conflicting policy advice to, or overburdening, a borrowing country. A closer working relationship with the Bank staff at the early stages of formulation of an arrangement with substantial structural elements would serve those purposes. Staff papers could encourage complementarity in program design and help in the formulation of mutually reinforcing policy advice by containing fuller discussions of the other institution's involvement in a member country.

Mr. Alfidja noted that the staff had compared the use of Fund resources in recent years with that in earlier periods. On average, the number of consecutive programs as a percentage of all upper credit tranche arrangements had been higher before 1981. The number of users of the Fund's conditional resources maintaining debtor positions for a period exceeding five years had been fewer in the recent past than in the earlier period. Given that information, he agreed that the problem of prolonged use of Fund resources was neither widespread, nor unprecedented.

In Part III of SM/84/91, the staff had attempted to define the nature of the present concern over the continuous use of Fund resources by focusing on countries that had adopted four or more programs during the decade and had outstanding liabilities totaling more than 100 percent of quota, Mr. Alfidja observed. It was evident from Table 3 that, of the

57 countries having concluded programs with the Fund, only 13 had made purchases equal to or exceeding 200 percent of quota. The table also showed that nearly 60 percent of the members had used the Fund's conditional resources at least three consecutive times. The staff had gone further with its definition by drawing a distinction between countries that generated slight concern and those whose situation was more worrying. Other definitions could be formulated based on the data in Table 3; the staff had not made a convincing case for establishing a general policy to deal with the problem of repeated or prolonged use of Fund resources.

The staff had analyzed some of the reasons for the prolonged use of Fund resources by members, Mr. Alfidja went on. Unforeseen exogenous developments, often of an extremely harsh nature, coupled sometimes with delays in the implementation of certain domestic policies, explained why a number of members had failed to achieve a swift improvement in their economies. Some of those exogenous factors were the long downward trend in economic activity in advanced countries, the unprecedented high interest rates, the appreciation of some major currencies, the deterioration in the terms of trade, and prolonged drought that had devastated agricultural production and livestock and had also reduced energy supplies. The decline in concessional capital inflows to many frequent users of Fund resources had hindered their structural adjustment efforts. In several instances, the underlying assumptions, as well as the program objectives, had been overoptimistic. Although it was difficult to assess the precise effect of such factors on debtor members, they had been more important than domestic developments in explaining the underperformance of some members.

The Executive Board should not overreact, by adopting new rules, in order to deal with the prolonged use of Fund resources, which was not widespread and, therefore, did not warrant strict guidelines, Mr. Alfidja considered. Access to Fund resources should be handled on a case-by-case basis.

The staff had put forward various proposals to deal with prolonged use, including reduced access and suspended access, Mr. Alfidja noted. A policy of reduced access was in fact already the order of the day for many users of Fund resources. Suspending access might be inconsistent with the Articles. In any event, he strongly disagreed with any suggestion that would not only place an undue burden on already heavily burdened countries, but also change the rules of the game after it had started.

The staff's opinion, on the need to include in staff papers reviews of a member's past use of resources, needed to be expanded, Mr. Alfidja continued. Concerning cooperation between the Bank and the Fund, he agreed with the staff that there was room for improvement, particularly regarding the timing of disbursements of financial assistance by both institutions. In that connection, delays in reaching agreement on major policies on structural adjustment and in the disbursement of Bank loans had not always been due exclusively to national authorities. Regular reviews of Fund/Bank collaboration might be helpful.

The Fund should continue to be mindful that the problems faced by many users of Fund resources were structural and could not be solved rapidly, Mr. Alfidja remarked. The Executive Board should not adopt a narrow, short-term view of the problem of prolonged use of Fund resources, and a further examination of the subject was called for. Persuasion, rather than coercion, should be used to deal with the problem; instead of calling for sanctions, the Fund should attempt to persuade the most frequent users of its resources to redouble their efforts to put their economies in order. That approach would succeed only if the largest industrial countries realized the disrupting and devastating effect of their financial policies and trade restrictions on the economies of developing countries and took the necessary remedial measures. Finally, the absence of spectacular or complete progress should not be interpreted as lack of progress; the deterioration in a member's balance of payments position might have been more acute if sustained Fund financial assistance had not been available. In any event, the present discussion was merely preliminary; all the issues would have to be examined further.

Mr. Zhang observed that the staff paper tried to demonstrate that the number of prolonged or repeated users of Fund resources had been, and was expected to continue, increasing. The case was overstated and was not convincing. The data in Tables 1-3 indicated that the incidence of prolonged or repeated use had not been consistently high. As the total number of consecutive upper tranche programs had been increasing over the years as a result of the expansion of Fund membership, the proportion of such programs in total programs had not risen significantly. It would be interesting to know the amount of funds that had been absorbed by the prolonged users. Moreover, the introduction of the supplementary financing and extended Fund facilities and of the enlarged access policy had extended the period of repurchase and, hence, the period of outstanding liabilities under such arrangements--a positive move for the developing countries. The discussion should center on such questions as whether the resources had been properly used in those cases, and how appropriate and effective the programs themselves had proved.

The staff had concluded that inadequate program design and incomplete implementation of agreed measures had been important causes of the failure of some members to adjust, Mr. Zhang continued. Experience had shown that program design had suffered from three major weaknesses. First, a Fund-supported program typically placed strong emphasis on shocks that were expected to bring about substantial results in a short period. Second, only a limited set of macroeconomic policy instruments was employed to achieve the desired results in both the monetary and the real sectors; consequently, large adjustments in those instruments had to be made. Third, payments imbalances were generally thought to result primarily from failures in domestic demand management that could be corrected by deflation through monetary restraint. The importance of structural and institutional factors in the adjustment process had been underplayed by the staff. Moreover, as had often been revealed in Board discussions of country programs, the need for proposed policy changes under individual programs had not always been supported by empirical evidence; exchange rate adjustment was a case in point.

Inadequate progam design had inevitably led to difficulties in implementation, Mr. Zhang considered, but incomplete implementation had also been due to the change in Fund lending practices: until recently, the Fund had accommodated the need for longer adjustment by approving three-year extended arrangements; recently, it had been favoring adjustment under one-year stand-by arrangements. The quicker and more severe adjustment necessarily planned under a one-year stand-by arrangement had frequently been found to have been unrealistic, causing the authorities to interrupt their adjustment program during the period of their arrangement with the Fund. As often happened, a new one-year program with the same orientation would be negotiated and agreed upon, and the process would repeat itself.

Any Executive Board decision on the prolonged use of Fund resources would affect the existing policy on access, Mr. Zhang considered. The evidence in the staff paper did not justify any change in that policy. He favored neither the establishment of strict rules limiting access in a predetermined way, in terms of number of programs or length of period of outstanding liabilities to the Fund, nor the adoption of a norm requiring net repurchase after a certain period. Those proposals would drastically change present Fund lending policies and practice.

The staff had distinguished between two groups of countries making prolonged use of Fund resources, Mr. Zhang noted. For the first group--countries considered capable of re-establishing balance of payments viability--the level of access could be high, depending upon the staff's judgment. For the second group--countries requiring exceptional balance of payments assistance beyond the medium term--the staff had proposed that access should be limited to a modest amount, sufficient to maintain the confidence of aid donors and other creditors. In its present paper, the staff had again advocated the Fund's role as a catalyst, even though the Board had still not reached a consensus on it. Moreover, the staff had suggested that, in the extreme case in which a country's program could not be effective because of a lack of sufficient external financing, there would be no basis for Fund support. That proposal would, in fact, mean that the Fund would either cease supporting the member concerned or remain only when there was financial involvement of other institutions; if adopted, the proposal would lead not only to a reduction of access below the present limits, but also to a change in the nature of Fund lending.

He endorsed the staff's suggestion that the Executive Board be provided with a review and analysis of a country's preceding arrangements with the Fund when a new program was requested, Mr. Zhang stated. He also favored improving the monitoring of program implementation, provided that it did not lead to an increase in conditionality, which was already excessive.

The Fund and the World Bank should collaborate in designing their respective programs for a particular country, Mr. Zhang considered, but in so doing they should not delay the formulation and execution of those programs, or impose cross-conditionality. Unfortunately, that was already occurring in some instances. Could the staff explain the differences between a structural adjustment loan and an extended arrangement? Could an extended arrangement be modified to perform the same functions as a structural adjustment loan? Were there any access limits on structural adjustment loans, and what was the total amount of resources set aside for those loans?

Mr. Joyce remarked that, like other Directors, he was concerned about the growing number of cases of repeated or continuous use of Fund resources, particularly when there had been little improvement in the borrowing country's balance of payments position. The resources of the Fund were limited and must be revolving if the ongoing needs of members were to be met. Members with programs should therefore be expected to achieve a sustainable balance of payments position in the medium term, and there should be a real prospect that net repurchases could be made within a reasonably short period. In considering the likelihood that a member could achieve a viable balance of payments position, the Executive Board must take account of previous use of Fund resources by the country, as well as its overall indebtedness and, in particular, its debt to the Fund. It was also prudent to examine the performance of the member under past adjustment programs in order to determine the viability of the proposed adjustment program. However, a country with a serious balance of payments situation even following a series of Fund programs could be eligible for Fund assistance, particularly if the need for prolonged use had resulted partly from exogenous forces rather than the authorities' failure to implement agreed measures. Because of the difficult external environment in recent years, the Fund had adopted policies reflecting its recognition that efforts to correct payments imbalances might often require more extensive resources and a lengthier period of adjustment than had been customary in the past. He continued to support that policy stance and the flexible approach it implied.

However, the Executive Board must also be careful to ensure that the Fund's lending policies did not result in its resources being used to support objectives that were more appropriately supported by development institutions, Mr. Joyce went on. The Fund's resources should be used to support the adjustment measures necessary to reduce members' current account deficits to manageable proportions, rather than to underwrite their balance of payments deficits on an indefinite basis.

While the supplementary material on the experience of five member countries' adjustment programs was useful, the sample should have been broader, Mr. Joyce considered. The limited sample tended to focus undue attention on certain countries and might be taken to imply that those five members, in particular, had not performed adequately. Nevertheless, background information could usefully be included in staff papers on the use of Fund resources by all members that had been, or were likely to become, prolonged users of Fund resources.

In the past, some countries had received prolonged Fund assistance without making any significant progress toward achieving a viable balance of payments position, Mr. Joyce continued. A somewhat sharper analysis of the relative importance of the various factors that had led to the failure of previous Fund programs would be useful. The staff had pointed out that the external environment had been an important factor in the failure of some programs. Certainly, a number of members had been unable to achieve program objectives because of their dependence on one or two primary commodity exports for which demand had been depressed owing to global economic conditions; in those cases, the forecast of the recovery of export markets had often been overoptimistic. However, as Mr. Kafka had rightly pointed out, the appropriateness of program design could also be questioned. Although the staff paper referred to the question of program design, not enough thought had been given to the role of the social and political environment in program failure. In the future, the Fund must take account of the underlying social realities in a country when negotiating a program. There was little point in winning a government's belated commitment to a program if it was clear to the authorities that the underlying social and political conditions would not permit the full implementation of key measures.

In some cases, a new administration had taken office shortly after a financial program had been designed, Mr. Joyce stated. Sometimes the government had inherited a program with economic objectives and social implications that were inconsistent with its own philosophy or objectives. In those circumstances, it might be necessary to modify the program, or at least to ensure that the new authorities fully supported the original program objectives.

The Fund should not try to restrict the number of arrangements for an individual country or the length of outstanding liabilities to the Fund, Mr. Joyce considered. Such restrictions, whether conceived as specific requirements or simply as guidelines, would jeopardize the Fund's flexibility to respond to changing circumstances. If quantitative safeguards were needed, the Fund should rely on existing annual and total outstanding access limits; a case-by-case approach must continue to be used.

When prolonged or repeated users of Fund resources introduced new measures that were expected to lead to a rapid improvement in the balance of payments position, the Fund should have little hesitancy in providing financial support, Mr. Joyce said. However, there were unlikely to be many such cases. When, in spite of prior actions, doubt remained whether appropriate policies would be maintained, the Fund should still provide limited assistance on the condition that there were provisions for a review and revision of the program should the measures specified appear inadequate. He accepted the staff's view that additional support must depend upon the extent of progress achieved. If the size and nature of balance of payments difficulties indicated a probable need for substantial financing in the medium term, the extent of the Fund's involvement should be determined on a case-by-case basis, taking into account the involvement of other agencies, particularly the World Bank. The Fund should not provide new assistance merely to help a member fulfill its repurchase obligations to the Fund, but it could consider providing limited support when a member had adopted appropriate policies and sufficient external financing from other sources could be obtained to cover total financing needs. Like the staff, he viewed the Fund's role in those cases as largely catalytic.

If problems with policy implementation had contributed to insufficient adjustment, substantial prior actions, frequent reviews, and modified phasing of purchases could be useful, Mr. Joyce remarked. Program reviews should identify the areas where adjustment could be strengthened, even in countries where policy implementation had not been a problem. Contingency plans with additional adjustment measures might be outlined when there was a large measure of uncertainty about exogenous developments, whether foreign or domestic. End-program performance criteria should be established to prevent relaxation of policies in the final months of the program year.

Given the lack of progress to date in carrying out structural adjustment in many countries, greater Fund/Bank cooperation should be encouraged, Mr. Joyce considered. The World Bank should be involved at an early stage of Fund negotiations with members when structural issues were involved, and the Fund staff needed the Bank's advice on the appropriateness of the country's development strategy, investment program, public capital expenditures, and pricing policies. He would also welcome some role for the World Bank in monitoring the implementation of structural adjustment measures.

Mr. Mtei stated that he was concerned that the repeated references to certain countries in the staff papers might give the wrong impression. What criteria had been used to select the countries mentioned in EBS/84/104? Had any countries made greater or longer use of Fund resources than the five countries examined in detail in that paper?

The issue before the Executive Board had many serious implications, and its resolution could lead to a new policy on the use of Fund resources, although no convincing case for one had been made in the staff paper, Mr. Mtei said. The Executive Board should not rush to adopt decisions that could significantly alter the current situation; the existing policy on access to Fund resources, although not ideal, covered the problems described in the paper.

It was evident from Part II of SM/84/91 that neither the incidence of repeated use in recent years nor the incidence of continuous periods of outstanding liabilities in the credit tranches had differed significantly from earlier experience, Mr. Mtei went on. The difficult international economic environment prevailing since 1980 was the main cause of the somewhat higher balance of payments difficulties and large debt obligations and, consequently, members' continued incidence of prolonged use of Fund resources. Hence, there was no justification for reviewing the access policy. The staff had noted that Fund resources were expected to remain outstanding in the next few years because of the size and nature of adjustment required by many members. The principle of the revolving character of Fund resources was valid, but most members requesting Fund resources at present--unlike those in the 1950s and 1960s--had structural problems that would take a relatively longer period to solve. Indeed, it was for that reason that the extended Fund facility had been introduced in 1974. As repurchases under that facility fell due ten years after the date of purchase, it was not surprising that members had outstanding liabilities to the Fund for long periods. The Fund should focus attention on the need to tailor its financing to meet the evolving character of the international monetary and financial system and the changing pattern of members' financing needs rather than on the problem of prolonged use of its resources. Programs under the extended Fund facility should be designed to ensure they would help members to overcome their problems.

He agreed with most of the analysis in Part IV of the paper regarding the particular circumstances of instances of prolonged use of Fund resources that had not achieved effective adjustment, Mr. Mtei stated. Exogenous factors, inappropriate domestic policies, and inadequate program design had all contributed to the lack of effective adjustment and were a cause for concern. Appropriate domestic policies were essential for successful adjustment. However, structural problems and rigidities that made it difficult for economies to adjust to external shocks and respond to policy measures should be taken into consideration in designing programs and formulating policies. Undue reliance on restrictive policies would not only fail to address the critical issues, but also impose hardships, particularly on people living at or below the subsistence level. Compromises by the Fund and the authorities were necessary, but they should not lead to the formulation of programs that bore little relation to reality. Adjustment should be viewed in a long-term framework, and programs should give due weight to the need for growth and structural reform. Fundamental improvements in program design were necessary to that end, and the Fund should be innovative in helping members to deal effectively with their problems.

He found it difficult to agree with the staff conclusions and recommendations in Part V of the paper, Mr. Mtei said. Where exogenous factors or inadequate program design had been responsible for the lack of effective adjustment, program failure could not be avoided by reducing further an already low access limit; indeed, in such circumstances, that course of action could not be justified. Sometimes too little, or what the staff described as modest, initial assistance by the Fund caused programs to fail, especially in countries with limited or no access to capital markets. Furthermore, he saw no convincing justification for either of the staff's proposals to restrict access further for so-called actual and potential prolonged users. The adoption of general guidelines or rules on access would only introduce unnecessary rigidities. The Fund should retain the flexibility to consider each case on its own merits.

It would be inconsistent with the principle of equal treatment to conclude that a country's problems were unsolvable, Mr. Mtei continued, and to say that some countries' problems could be solved and that others' could not was purely judgmental. Although some of the countries in his constituency were in dire difficulties, it should not be assumed that those conditions would last indefinitely. Approval of the staff's suggestion on pages 16-17 of SM/84/91--that "where an improvement in the balance of payments is not expected, or where the program cannot be effective because of a lack of sufficient external financing, there would be no basis for Fund support"--would result in the abandonment of some members to their own means and would be contrary to the role and purposes of the Fund set out in the Articles. Some of the countries in his constituency had been experiencing severe difficulties when they had first requested Fund assistance, and if the staff's proposal had been in effect in 1981, the Fund would have been unable to assist, for example, Uganda. The fact that Uganda had turned around its balance of payments position was a tribute to the Fund's flexibility and to the commitment of the Ugandan authorities. With that experience in mind, the Executive Board should not make the Fund less flexible in its operations.

The principle of the revolving character of Fund resources, although important, was being overemphasized, Mr. Mtei considered. The authors of the Articles had not meant to imply that the Fund's resources should be deposited indefinitely, rather than be used to resolve members' problems, however intractable.

As for program formulation and monitoring, he agreed that a review of a member's performance under previous programs would be helpful, Mr. Mtei stated. However, use of more elaborate monitoring techniques was not a substitute for improving program design to make programs consistent with the realities in countries undergoing adjustment. Without such an improvement, increased use of prior actions, periodic reviews, and back-loading of purchases would serve only to add to the already-tight conditionality and would probably make the achievement of program objectives more difficult. The staff, management, and the Executive Board were not infallible and should avoid adhering rigidly to particular solutions. Policy proposals from other sources, particularly officials of member countries, should not be regarded as worthless or unworkable. The Fund should remain flexible and should analyze carefully the reasons for program failure. Learning from past mistakes could ensure success in the future. The social and political structure of member countries should be taken fully into account in redesigning programs. Finally, closer Fund/Bank collaboration would be useful, but it should not lead to cross-conditionality, which would add to the difficulties of countries seeking Fund support.

Mr. Morrell remarked that, like other Directors, he was concerned about the implications of the increasing incidence of prolonged use of resources, particularly for the liquidity position and creditworthiness of the Fund. The present situation had developed largely as a result of the honest pursuit by the Fund of the policies agreed by the Executive

Board, and reflected the responses made by the Fund to the rapidly changing world economic environment. The effects of any improvement in program design would be only marginal and would not solve the problems facing the Fund. Members must continue to make a realistic assessment of the resources required for the Fund to fullfil its responsibilities.

He shared some of the reservations expressed by other Directors regarding the categorization of Fund members by the staff, Mr. Morrell indicated. On a matter of terminology, it was inappropriate to distinguish between "proper" and "improper" uses of Fund resources. Suggestions that some members were making improper use of resources had unpleasant overtones. Some members' adjustment efforts could be said to have been more or less successful, or more or less productive, but the words "proper" and "improper" should not become part of Fund terminology.

He agreed with the staff that both inadequate program design and incomplete implementation of adjustment policies had contributed to the failure of members to adjust, Mr. Morrell went on. The world recession had made the adjustment process more difficult, but adjustment was still necessary. Problems had arisen because of the failure of national authorities to implement additional measures when they had become necessary. However, he appreciated that, despite the best intentions, it was unrealistic to expect every program to deal effectively with every problem that it sought to address, especially as exogenous developments could frustrate successful implementation of programs. He agreed with Mr. Joyce on the need to take adequate account of members' social and political structures in designing adjustment programs.

He did not support the adoption either of rigid rules governing access to the Fund's resources by members making repeated or prolonged use of Fund resources, or of a norm requiring net repurchases after a certain period, Mr. Morrell continued. Each request for the use of Fund resources should stand on its own merits, one of which would be performance under, rather than the number of, previous programs. The Fund must retain the flexibility to deal with each case individually. The staff had drawn the distinction between countries that were able to adopt policies to restore balance of payments viability in a short period, and those that, because of the magnitude of their problems, required financing beyond the medium term. That distinction raised questions about the Fund's emphasis on rapid restoration of a viable position, as opposed to slower adjustment with, perhaps, faster growth.

He agreed that in determining annual access for members likely to use the Fund's resources for some years, close attention needed to be given to aggregate use, Mr. Morrell stated. In some cases, the Fund's annual financial contribution might be small because of the period over which assistance was required. The process of adjustment should be maintained, but lending by the Fund should not simply amount to a rescheduling of debt. It would be a matter for concern if the Fund's contribution to adjustment became so small that it lost any leverage with debtor countries.

He could support a case-by-case approach whereby Fund support was clearly dependent on the extent of progress achieved toward a viable balance of payments position, Mr. Morrell said. Scrupulously fair and balanced descriptions of the track record of a country requesting Fund resources should be included in the relevant staff paper. Furthermore, prior actions, periodic reviews, and back-loading of purchases should be used to ensure the implementation of adjustment measures. Finally, he would welcome greater collaboration between the Bank and the Fund when there was a need for structural adjustment in a member country.

Miss Batliwalla remarked that it was important for the Fund to determine what lessons could be drawn from experience. It was evident from the staff papers that prolonged or repeated use of Fund resources in recent years was not a cause for serious concern. The number of successive programs and the length of time over which Fund resources in the upper credit tranches had been used had depended on the evolution of the global economic situation. Thus, the number of consecutive upper tranche programs had dropped from an average of 16 a year in the late 1960s to 2 in the mid-1970s, and had risen again later in the decade. Despite the unexpectedly harsh external evironment, the number of members with outstanding upper tranche liabilities had not increased sharply. The number of members with liabilities to the Fund exceeding 25 percent of quota continuously for more than five years had fallen from an average of more than five during 1965-69, to less than one during 1971-79, but had risen to over eight in 1981-83. Bearing in mind the recent trend toward multiyear arrangements and the increase in Fund membership, the fact that eight members had outstanding liabilities to the Fund beyond five years should not cause considerable alarm. After all, the extended Fund facility and the enlarged access policy had been established as a result of the welcome recognition that in many cases the achievement of a viable balance of payments position required more time than had been given under stand-by arrangements.

In essence, the revolving character of Fund resources was safeguarded by the Articles so long as they were made available to meet the objectives of the institution and were repaid on schedule, irrespective of whether some members used the resources continuously over long periods, Miss Batliwalla went on. A country repeatedly used Fund resources only when its adjustment program had received the approval of the Executive Board. That the Fund assisted such a country repeatedly and for prolonged periods indicated that it was pursuing appropriate adjustment policies. Therefore, repeated use of Fund resources need not imply insufficient adjustment in all cases.

Economic developments since 1973 had been abnormal, Miss Batliwalla remarked. There were enough cases to show that exogenous external and domestic developments had adversely affected programs and retarded efforts to move toward a viable external payments position. The significant divergence from program assumptions about exogenous variables--such as the terms of trade, international interest rates, growth rates, external demand for products, and protectionist tendencies--had all tended to lengthen the period of adjustment. Hence, the recent increase in the prolonged and repeated use of Fund resources should not be regarded as normal and did not justify the generalizations in the paper. The Executive Board must not take a short-term view and react precipitously to those recent developments.

Fund resources were made available to facilitate the expansion and balanced growth of international trade, thereby contributing to promoting and maintaining high levels of employment and real income and to developing the productive resources of all members, Miss Batliwalla stated. In that connection, the revolving nature of Fund resources was essential.

The staff had conceded that outstanding use of Fund resources over a number of years was not necessarily a cause for concern, Miss Batliwalla noted. Members implementing an extended arrangement could remain indebted to the Fund for ten years from the date of each drawing. Furthermore, a follow-up arrangement could be agreed to overcome new problems, in which event outstanding use of Fund resources could stretch even further into the future. The staff had indicated that, if a viable balance of payments position could be restored within a reasonable period, repeated use of Fund resources was appropriate and justified. It had classified such countries as Korea, Mexico, Turkey, and Yugoslavia--all of which had made substantial repeated use of Fund resources--as cases that should not be a cause for great concern. According to Table 3 in EBS/84/91, the payments positions of 13 countries had deteriorated despite large and repeated use of Fund resources under a series of programs. She found it difficult to fault all 13 countries, some of which had been unable to achieve a sustainable external payments position despite their strong adjustment efforts.

Treating countries making prolonged use of Fund resources differently from other members would be dangerous and arbitrary, Miss Batliwalla continued. The few cases of prolonged use did not require specific rules or guidelines; they could be examined on a case-by-case basis, and the circumstances responsible for the continued use should be determined. Abandoning a country on the ground that it was a prolonged user would be inconsistent with the Articles. After all, quota limits and balance of payments need should be the main determinants of access. Prolonged use of Fund resources had been necessary because quotas had been small in relation to balance of payments need. Insufficient adjustment could have been due to inadequate program design, deficient forecasting, or unanticipated developments. Those problems should be tackled without restricting a country's access to Fund resources.

The staff had suggested three options for dealing with cases of prolonged use--applying stricter guidelines on access beyond a given number of years, requiring repurchases above a norm, and using a flexible, case-by-case approach--Miss Batliwalla noted. She favored a case-by-case approach over rigid, mechanistic guidelines to limit sequential use. The paper recognized the limitations of such a hard-and-fast approach and pointed to the disadvantage of devising a rule that would blur the distinctions among members with regard to the strength of past adjustment and quality of cooperation with the Fund. She was not attracted to the proposal to adopt a norm requiring net repurchases after a certain period; there might be cases in which a country's adjustment was strong, its creditworthiness was good, but its balance of payments need remained large because of long-term structural constraints. To deny a member use of Fund resources simply because it had made previous use would not be justified. It was inappropriate for the Fund to provide fewer resources the larger the external need and the more difficult the adjustment process. Fund support in many cases had been minimal, and it would be tragic to tell countries with little or no exposure to commercial banks that they had no need for Fund resources.

Access should not be limited by a further tightening of conditionality and by making finer distinctions between categories of members, Miss Batliwalla considered. The Executive Board should recognize that the period of adjustment was bound to vary in different countries, depending on the severity of economic problems. Where there was a genuine balance of payments need, Fund support should be forthcoming even if it entailed prolonged use of resources.

Her chair did not wish the Fund to play the role of catalyst for the economically weak countries, Miss Batliwalla indicated. It made little sense to say that the Fund would be involved only marginally in countries with a large projected financing need and requiring heavy debt rescheduling beyond the medium term, and that those countries should look to bilateral sources for assistance. A meaningful adjustment program was based on a realistic assumption about the availability of external financing. It was odd for the staff to suggest that, if a program could not be effective because of a lack of sufficient external finance, there was no basis for Fund support. Such an approach would only prolong the anguish of the member concerned and make its adjustment difficult, painful, and costly.

The staff's suggestion to strengthen monitoring techniques was not warranted, Miss Batliwalla stated, as it would work against the principle, which she favored, of supporting weaker members. The Fund's primary responsibility was to ensure global adjustment by both surplus and deficit countries so that the monetary system would evolve in an orderly fashion. Stricter treatment of member countries with deficits and little access to commercial banks and international capital markets would make the adjustment process asymmetrical.

As for Fund/Bank collaboration, the staff felt that, where successful balance of payments adjustment depended on structural adjustments in the economy, the World Bank's assessment of the investment program would be useful, Miss Batliwalla observed. The paper, however, indicated the practical difficulties in obtaining such an assessment, particularly where the Bank's involvement was narrowly focused or even nonexistent. Furthermore, for collaboration on a country to be meaningful, there would have to be adequate World Bank support of the member's investment program, providing reasonable assurance of the availability of supplementary resources in the long term, should there be a shortfall in external resource flows from other sources. Clearly, financial assistance from both the World Bank and commercial banks would have to be additional to the medium-term resources provided by the Fund. While she supported closer Fund/Bank collaboration, it should not result either in delays in Fund-supported adjustment programs as a result of a stage-by-stage approach to the formulation of a medium-term program, or in cross-conditionality.

The coordinated approach to assisting members should move more in the direction of closer, informal collaboration than of institutionalized cooperation, Miss Batliwalla continued. She could support Mr. Polak's suggestion for a World Bank representative to be present at Fund Executive Board meetings to explain the Bank's viewpoint on a member country's investment program. The Executive Board had not taken stock of how collaboration had worked since its last in-depth discussion of the matter in early 1981. The staff considered that, although the procedures for collaboration were adequate, there was room for improvement in their implementation. Could the staff comment further on any methods for improving reconciliation of potential policy differences? Finally, no decision altering the thrust of the existing policy on access should be taken until further conclusive evidence on the prolonged use of Fund resources became available. If a decision had to be taken, she supported Mr. Kafka's suggestion that it should be a formal decision.

The Director of the Exchange and Trade Relations Department stressed that the staff paper was intended to elicit views of the Executive Directors. The reaction of the staff to Executive Directors' comments would be elaborated in forthcoming papers, on conditionality and the Fund's policy on access, and he would not reply in detail at the present meeting on those issues. The staff would also be drawing on preliminary views expressed by Directors to prepare a paper on Fund/Bank collaboration.

The staff did not necessarily endorse some of the possible courses of action mentioned in its paper, the Director continued. In particular, the staff did not wish to give the impression that it was endorsing the establishment of strict rules on access to Fund resources.

In addressing the question of prolonged use of Fund resources, the staff had taken a close look at the experience of a number of countries, the Director stated. The five countries selected for inclusion in the supplementary material (EBS/84/104) were not intended to be seen as either bad or good examples, but were meant to be illustrative of the range of problems facing countries making prolonged use of Fund resources. The staff had hoped that those examples would help to give Executive Directors a better understanding of the relevant issues.

A number of Directors had indicated that there was little evidence in Table 1 of SM/84/91 that the prolonged use of Fund resources was a cause for concern, the Director recalled. The staff accepted many of the arguments put forward by those Directors. He agreed that, in the current economic situation, many members faced acute problems, and that it was therefore appropriate for the Fund to provide assistance over the long term. Nevertheless, the staff considered that the issue of prolonged use might become more worrisome in the future, and that it was appropriate for the Executive Board to be looking ahead. The issues addressed at the present meeting would be of increasing importance in coming years.

He agreed that the design of adjustment programs was a factor in the prolonged use of Fund resources, the Director said. In addition, problems of implementation should be taken into account in designing Fund programs. Those issues would have to be dealt with in detail in the forthcoming papers on conditionality.

Some Directors apparently thought that the paper indicated that the Fund might abandon certain countries, the Director continued. That conclusion was unfortunate; the staff had in no way singled out a group of countries for more stringent treatment. When anyone examined the problem of prolonged use, the question of the revolving character of Fund resources immediately came to mind. It was difficult to conclude that all the programs endorsed by the Fund were consistent with the revolving character of its resources. The staff was, in fact, encouraging the wide use of the Fund's resources by suggesting that the Fund should maintain financing to countries whose prospects for balance of payments improvement were fairly limited. It had not suggested that the poorer countries did not qualify for higher access even when their policies suggested that their balance of payments position would improve sharply. The staff's argument was not about categories of countries, but rather about particular circumstances and policies.

World Bank structural adjustment loans and Fund extended arrangements were complementary, the Director of the Exchange and Trade Relations Department indicated. The sorts of measures taken in connection with an extended arrangement or a sequence of stand-by arrangements were consistent with the aim of balance of payments recovery. However, as many Directors had emphasized, other actions were also conducive to improving the medium-term and long-term balance of payments position, including the efficient operation of the public sector and the investment effort, all of which were dealt with under structural adjustment loans from the World Bank. It was therefore essential for both the Fund and the Bank to collaborate effectively with a member undertaking medium-term adjustment. The amount available under the structural adjustment loans of the World Bank was limited on a global basis to 10 percent of the Bank's commitments. There was some effort to keep structural adjustment loans to any country to 30 percent of the total lending to that country over three to four years. More than SDR 4 billion had been committed under structural adjustment loans, including 427 agreements with 16 countries. A more detailed analysis of Fund/Bank collaboration would be presented in a forthcoming paper.

Mr. Mtei said that conclusions on a country's ability to resolve its problems in the short or the long term were judgmental and depended on the attitude of the staff and the manner in which it approached the country's statistics. If the categories proposed by the staff had been used in 1981, when Uganda's economy had been in complete disarray, the Executive

Board would have concluded that there had been no hope of solving Uganda's problem. Because of the flexibility of the Fund at that time, the staff had been able to work with the authorities to design appropriate adjustment policies, and the Ugandan economy had been turned around. The Fund should not lose that flexibility.

The Director of the Exchange and Trade Relations Department indicated that the staff was in favor of maintaining the Fund's flexibility. The Fund should support a country that, although in economic disarray, was willing to pursue appropriate adjustment policies that would bring about economic recovery. The staff had indicated that, in countries where adjustment action was less dramatic and the recovery of the balance of payments would be slow, the Fund's contribution should be modest.

Mr. Kafka remarked that he would like to be reassured by the staff that the views expressed by Executive Directors at the present meeting would not be incorporated into the Fund's policies without a formal decision to that effect. On the design of programs, he had not meant to say that it was incorrect; rather, the Fund ignored certain circumstances in choosing the design.

The Director of the Exchange and Trade Relations Department commented that there was considerable uncertainty about the instruments that could be used to bring about adjustment without disrupting the political situation in a member country. When the Fund decided to commit its resources, it should have some confidence that the adjustment measures would bring about a rapid recovery. The balance of payments position of a member would improve, provided that it was able to take the necessary exchange rate and fiscal measures, even in relatively disorderly conditions such as those that existed in Uganda.

Mr. Kafka said that he would have liked to receive some indication from the staff that it sometimes had to design programs without knowing much about a variety of factors, such as the demand for money, its elasticity, and the reaction of savings to an increase in the interest rate. If members themselves did not already study those factors, the Fund should encourage them to do so.

The Chairman agreed that the Fund did not have enough information on those factors.

The Chairman then remarked as follows:

> First, a number of Directors stressed that there was no evidence that the extent and nature of the problem of prolonged use of Fund resources had become worse or different. In fact, the proportion of members maintaining debtor positions in the upper tranches for more than five years--a benchmark that some Directors did not accept--remained lower than in the second half of the 1960s and significantly lower than in about 1970. These Directors felt that the problem of prolonged use should not be

blown out of proportion, all the more so as certain fundamental external developments had compounded the adjustment problem, namely, the international recession, the lower prices and volume of exports, the profound changes in the pattern of capital flows financing balance of payments gaps, and, consequently, the increased role of the Fund in a different international setting, one characterized, inter alia, by entrenched structural problems.

Second, a number of other Directors pointed to the increase in recent years in the number of members making prolonged use of Fund resources in the form of consecutive upper credit tranche programs. They did not contest that development, as they had participated actively in the decisions to finance the programs that had led to the increased and consecutive use of resources, but they noted that repeated use would, for obvious reasons, lead to a sharp increase in the number of members making prolonged use of Fund resources in the next few years. It would be a matter of concern if that trend were allowed to continue because it might impinge on some of the fundamental principles governing this institution. They indicated, in that context, that the Fund should not provide long-term development assistance, and that, as required by the Articles of Agreement, the Executive Board must protect the revolving character of the Fund's resources.

Third, it was stressed rather widely that prolonged use was not in itself the problem. Rather, prolonged use of Fund resources must be assessed in the light of progress made in the adjustment process, in each individual case. Some so-called prolonged users had been listed in the staff paper, particularly in Table 3, even though they had achieved a remarkable turnaround in their balance of payments position and prospects. The repeated intervention of the Fund in those cases might well have been an instrumental and essential ingredient of their success. Several Directors felt that the country groupings in the staff report were not sufficiently refined and might lead to unwarranted conclusions.

Directors were of the view that prolonged use of resources unaccompanied by adequate progress toward adjustment and a viable balance of payments position in the medium run constituted the basic problem, rather than prolonged use in itself. The problem that the Fund had to deal with, if it were to maintain its fundamental monetary character, was persistent disequilibrium, in spite of the use, year after year, of Fund resources; the Fund must, of course, address members' adjustment problems with the necessary flexibility and on a case-by-case basis.

Three main issues have been covered in the discussion: access to Fund resources; remedial action to ensure more effective adjustment under programs; and structural problems, including the role of increased Fund/Bank cooperation.

Access to Fund Resources

Directors generally agreed that it would not be appropriate at the present time to introduce strict rules limiting access, based on the number of consecutive programs for which a member had received support from the Fund or on the period of its outstanding liabilities to the institution. The present guidelines for the application of the limits on cumulative use of Fund resources under the policy on enlarged access should continue to be applied on a case-by-case basis. The staff would explain more clearly, in presenting to the Board members' requests for the use of Fund resources, the rationale for the proposed amount of use, within the applicable range of access.

A number of Directors made interesting observations on the considerations to be kept in mind in judging cases of prolonged use. They felt that a member's past record, the strength of the proposed adjustment, its balance of payments prospects, external financing conditions, and the medium-term financial framework had an important bearing on the action to be taken in individual cases. The staff did of course have those factors in mind in assessing a member's situation.

Some Directors, however, felt that the Executive Board should go further, and explore the issue of prolonged use with a view to proposing some concrete decisions on the establishment of a norm regarding the duration and amount of outstanding use of Fund resources. In their view, the norm should not be a rigid one; they would be ready to consider departures from it, for sufficiently persuasive reasons. Executive Directors will have the opportunity to return to the matter during their forthcoming discussions of conditionality and the policy on enlarged access.

Remedial Actions to Ensure More Effective Adjustment

The causes of insufficient adjustment accompanying prolonged use of Fund resources have been related to three main factors: the inadequacy of program design, the need for improved monitoring devices, and the need for better implementation of adjustment policies by members.

Some Directors felt that the staff paper had not concentrated enough on the inadequacy of program design. The staff did not wish to give the impression of complacency; it had addressed the issue of the design of programs clearly, although perhaps not with the emphasis that some Directors would have liked. I am heartened to hear the Board stress the importance of good program design, indeed of fundamental importance, but I would like to learn more about how Executive Directors believe that it could be improved in terms of setting Fund policies. I noted, in particular, Directors' observations on the usefulness of more analysis and quantitative assessment of the sensitivity of Fund programs to external shocks or adverse conditions in order to prepare the member to respond better to these shocks without necessarily allowing the program to go off track. It would also be interesting to pursue, with those Directors who have precise ideas on the issue, the possible usefulness of building into programs some safety margins or provision for contingencies.

There was a good deal of support shown in the Board for including in staff papers a review of the historical background to a member's problems, which could help the Board to assess better the quality and strength of the proposed adjustment. I suggest that this issue should be considered by the Executive Board when it discusses the staff papers on the design of Fund-supported programs and on the assessment of recent adjustment programs.

The improvement of monitoring devices and more effective implementation of adjustment programs are closely linked in practice. Many programs are not successful, because the Fund has not been able to identify slippages at a sufficiently early stage. The inability of the Fund to detect these emerging slippages and to prevent them from leading to a breakdown of the adjustment program is evidence not only that we have not mastered a full understanding of the economy, but also that the measures agreed are not appropriate to meet the targets. Limiting implementation to the agreed adjustment measures does not necessarily mean that the targets will be met. Both member countries and the Fund staff need to have a better grasp of the various ways of monitoring and implementing adjustment programs.

The efforts to use the many existing monitoring methods more successfully should not be abandoned. Review clauses in adjustment programs are now more numerous and reviews more frequent than they were; as a result, some adjustment programs have been saved because reviews have eventually led to action on the part of the authorities. More use could be made of statistics, not necessarily linked to performance criteria, to spotlight key and easily monitored variables in order to keep programs on track and detect weaknesses in policies or in the design of the program at an early stage.

Of course, prior policy actions are, by definition, a way to avoid problems of implementation. But prior actions should be required selectively; it is important that the Board continue to be informed each time the Fund asks a member to take such prior actions.

Directors considered that back-loading and front-loading of purchases had to be determined on a case-by-case basis and according to the specific circumstances of each country.

There was support for the notion of end-program performance criteria in multiyear arrangements. It is rather illogical for there to be no integral linkage between three consecutive one-year programs; such a linkage would provide a continuum for implementing the criteria of each program. In saying that, I am not making a formal proposal, but as the Executive Board wishes to have a formal decision on any change in Fund policy, I shall advise the staff to work on a proposal to establish end-program performance criteria for future submission to the Board.

Structural Problems and Collaboration with the World Bank

Directors stressed the need for policies aimed at addressing structural problems. Effective collaboration with the World Bank is essential to this end. They emphasized that the World Bank should be approached as early as possible to provide the Fund staff with its assessment of priorities in investment programs and on other similar matters if such assessments were not already available.

Several other suggestions were made to increase Fund/Bank collaboration. Ways of further improving the relationship between the two institutions will be examined in greater depth when the Executive Board discusses papers being prepared by the staff on that issue. Two papers are under preparation: one updating factual information on present practices, and the other offering some thoughts on policy approaches and possible modifications in our present practices. Finally, a number of Directors thought that the Fund and Bank should not engage in cross-conditionality.

Extending his remarks, the Chairman noted that in considering those complex issues, the Executive Board must not depart from the fundamental principle that the Fund was essentially an agent of adjustment rather than of direct financing. No category of members should be ineligible to draw on the Fund's resources, but the Fund could not take on the responsibility for the economic welfare of all member countries. Its resources should be used with caution. In some cases, the provision of a large amount of resources could be counterproductive, not only to the Fund itself, but also to the member countries using the resources. Some countries were obviously not in a position to repay the Fund in the medium term; therefore, the Fund should consider whether its lending to a member would increase the country's debt service burden to such an extent that it would not be able to repay the Fund. That question should be addressed carefully by the Executive Board, and it was for that reason that the staff included in its papers on requests for use of Fund resources a medium-term debt service scenario indicating the plausibility of repayment to the Fund, given members' balance of payments and debt servicing prospects.

It was important to stress that the Fund's resources were limited, and that when a request was finally presented to the Executive Board, the staff was confident that the adjustment program was worth supporting, the Chairman went on. Whatever the amount of resources made available to a member, it must fulfill obligations. He was not suggesting that the flexibility of the Fund should be limited. However, in particular cases, the Fund had to be cautious in providing financial assistance.

Responding to a question from Mr. Zhang, the Chairman said that the shift away from the extended Fund facility since the beginning of the 1980s had not reflected a decision by the Executive Board, but rather the misgivings that had arisen when a number of extended arrangements had gone off track. An extended arrangement should be based on strong structural adjustment measures. The achievement of a viable balance of payments position depended on the ability of a country to formulate a medium-term strategy and on its administrative ability to carry out such a strategy. Since 1981, when the impact of the recession had made adjustment even more difficult, the Fund had tended to lean more toward a succession of one-year stand-by arrangements than toward extended arrangements. Nevertheless, the Fund had not abandoned the extended Fund facility, and a number of extended arrangements had recently been adopted. Before approving a request for an extended arrangement, the Executive Board should be sure that there was a good chance that the member country could achieve a viable balance of payments position under the arrangement.

The Director of the Exchange and Trade Relations Department stated that the staff, in proposing one-year adjustment programs, did not expect that all the problems facing a country would be solved in 12 months. In fact, the staff was allowing for more flexibility by encouraging a country to improve its economic position in stages, one year at a time.

Mr. Zhang inquired whether three consecutive one-year stand-by arrangements were comparable to an extended arrangement. How did the World Bank encourage structural adjustment?

The Chairman said that the development programs supported by the World Bank had a longer-term framework than the adjustment programs supported by the Fund. Bank-supported projects affected the allocation of resources within member countries, and structural adjustment measures took some time to be formulated.

The Director of the Exchange and Trade Relations Department remarked that, because of the difficult economic conditions and the variable interest rates of the past few years, it had been difficult for the staff and national authorities to formulate programs for the three-year period of an extended arrangement. In a number of cases, an extended arrangement had been seen as too rigid, and the staff had considered that greater flexibility would be available under a series of one-year stand-by arrangements. The World Bank dealt with aspects of adjustment that were important over the longer term.

Mr. Mtei commented that, if the Fund had maintained its enthusiasm for the extended Fund facility since 1974, there would have been more cases of prolonged use of Fund resources. However, the Fund had preferred a succession of stand-by arrangements. Why was there concern about the prolonged use of Fund resources when, in fact, in 1974 a facility had been introduced to enable any member to make prolonged use of those resources? The concern about prolonged use expressed by a number of Directors was unwarranted.

The Chairman stated that Executive Directors did not appear concerned about countries that adopted an extended arrangement for three years and would therefore make repurchases over ten years. They were concerned about countries using Fund resources under a succession of programs that did not lead to a clear improvement in their balance of payments position.

The Executive Directors concluded their discussion on prolonged use of Fund resources.

2. SUDAN - STAND-BY ARRANGEMENT - EFFECTIVE DATE

The Executive Directors considered the staff paper on a request from Sudan for a one-year stand-by arrangement equivalent to SDR 90 million (EBS/84/83, 4/11/84; and Sup. 5, 6/15/84).

The Director of the Middle Eastern Department stated that of the additional debt relief of $22 million mentioned on page 2 of Supplement 5, the $10 million owed to Kuwait was conditional on other creditors' providing similar relief to Sudan. Efforts were under way to resolve that issue. Progress with debt rescheduling, including the debt to Kuwait, would be assessed during the review scheduled for July 1984.

Responding to a question from Mr. Grosche, the Director stated that the deficit in Sudan's balance of payments in 1984 of $660 million (cited in Table I of the Supplement) did not include the $10 million net inflow of Fund resources. If it were included, the balance of payments gap would be $650 million.

Mr. Salehkhou stated that he agreed with the statement by the Chairman at the present meeting regarding the difficult situation facing many members and the need for the Fund to stand ready to accommodate members' needs. He would therefore withhold his objection to the practice of repeatedly placing Sudan on the Board's agenda on short notice and of asking immediate approval of proposed decisions on Sudan.

It had been well over a year since the Islamic Republic of Iran had complained in the Executive Board about Sudan's long-overdue payments, Mr. Salehkhou continued. The existence and legitimacy of that claim had been acknowledged by the Sudanese authorities themselves and had been independently confirmed by an auditing firm. Despite repeated attempts by the Iranian authorities to use the good offices of the Fund to negotiate with the Sudanese authorities in the hope of reaching an amicable solution, the Sudanese authorities had regrettably refused to enter into negotiations in good faith. By approving the final drawing under the previous stand-by arrangement, despite the objection of his chair, the Executive Board had unfortunately given Sudan an implicit added incentive to decline to meet with his authorities.

As the existence and legitimacy of that obligation to the Islamic Republic of Iran had never been disputed by the Sudanese authorities, he considered that Sudan continued to have a financing gap, Mr. Salehkhou said. Under the Fund's established rules and procedures, Sudan's request should not have been presented to the Executive Board until a solution to the problem satisfactory to both parties had been found, preferably through the mediation and good offices of the Fund. He therefore wished to record his strong objection to the proposed decision.

The Deputy Director of the Exchange and Trade Relations Department indicated that the staff would closely monitor developments regarding the settlement of the debt in question. At the time of the review on the progress with respect to bilateral agreements on debt rescheduling, the staff would report to the Board on any progress made in settling the debt owed to the Islamic Republic of Iran.

Mr. Mtei read the following telex from his authorities in Sudan:

> Reference your telex of April 24, 1984, in which you raise the issue of the rescheduling of debit with Iran.
>
> Since our discussions in Washington in March there have been no further developments in the Iranian case. As you know H.E. the Minister of Finance and Economic Planning has already proposed terms for rescheduling of the debit in line with Paris Club agreed minute in his letter of December 15, 1983. The progress of negotiations was however interrupted by reply of H.E. Hossein Namazi, Minister of Economic Affairs and Finance, which stated that the Islamic Republic of Iran was not bound by the terms of the Club of Paris rescheduling agreement.
>
> This is a serious matter as Sudan is bound by the terms of Paris Club and cannot grant more favorable treatment to any other creditor. Our position, as stated in February 29 telex to Mr. Dale, is that a meeting should be arranged between the two sides as soon as possible, provided that we have an assurance that discussions will be conducted under terms and conditions set in the Paris Club agreed minute.
>
> In Board discussion it should be stressed that Sudan does not wish to delay or avoid meeting with Iranian authorities. It should be recognized, however, that there is a binding constraint on Sudan to negotiate within terms of Paris Club;

otherwise, there will be discrimination against other creditors. It may be emphasized that amount of debit is not in dispute, that specific terms have been proposed for rescheduling, and that Sudan wishes to deal with the Iranian case on the same basis as for all other creditors.

The Deputy Managing Director stated that he was prepared to continue the efforts to bring the two parties together to discuss possible terms of a rescheduling agreement.

Mr. Salehkhou replied that the previous effort by Mr. Dale to mediate the agreement had resulted in a telex from the Sudanese authorities regarding the comparable treatment of creditors. It was exactly that issue of comparable treatment that his authorities wished to discuss with the Sudanese authorities. It was unprecedented for a debtor to set conditions prior to a meeting with its creditors. He appreciated the Deputy Managing Director's offer to try and resolve the issue, but in view of the uncovered gap in Sudan's balance of payments financing, he was not convinced that Sudan's request for a stand-by arrangement should be considered by the Executive Board at present.

The Director of the Middle Eastern Department, responding to a question from Mr. Morrell, said that the accounting firm of Peat, Marwick, and Mitchell had calculated that in mid-1982 Sudan had owed the Islamic Republic of Iran about $78 million. Since then, the amount might have increased because of interest charges. In December 1983, the Iranian authorities had calculated that Sudan owed them about $96 million.

The total debt relief assumed by the staff amounted to $563 million, which included Paris Club rescheduling, the Kuwaiti and Saudi Arabian reschedulings, and the rescheduling of debt from other bilateral creditors on the basis of the Paris Club formula, the Director of the Middle Eastern Department indicated. In its calculations, the staff had assumed that the debt to Iran would be rescheduled under the terms of the Paris Club agreement, with the payments to the Islamic Republic of Iran amounting to about $2 million in 1983 and 1984.

Mr. Salehkhou stated that he did not have the exact figures from his authorities, but they would probably be different from those put forward by the Director of the Middle Eastern Department.

The Director of the Middle Eastern Department, responding to a question from Mr. de Vries, stated that Sudan's arrears to the Fund amounted to SDR 21.5 million. If the program were approved, pending the payment of arrears to the Fund by July 25, the authorities would use the time between the present meeting and that date to arrange a bridge loan, with which they would pay the Fund. The bridge loan could be obtained only if the staff could assure commercial banks that the sole condition remaining for Sudan to make drawings under the arrangement was the payment of its arrears to the Fund. If the Executive Board were to postpone the discussion until June 22, 1984, the staff could not make such an assurance to the banks until that date. In addition, further delays would disturb the timing of the proposed reviews.

Mr. Shaw remarked that the Executive Board should not become embroiled in the dispute between Sudan and Iran. The Board would assume that the reschedulings outlined in the papers would take place. In fact, the Paris Club creditors had agreed to specific terms and conditions--except the interest rate--and to a clause referring to comparable treatment of other creditors. The Executive Board should therefore consider Sudan's request for a stand-by arrangement.

Mr. Suraisry agreed that the Executive Board should support the proposed decision at the present meeting. There would be no advantage in postponing the discussion until June 22, as the dispute between the two authorities would take some time to resolve.

Mr. Grosche stated that he too agreed with Mr. Shaw's proposal, but the present case highlighted the necessity to establish an emergency fund, so that resources could be made available in such situations.

Mr. Salehkhou remarked that the Paris Club agreement's reference to comparable treatment of creditors was based on the assumption that the debt to other creditors was of comparable maturity, a fact that the authorities involved had yet to establish.

Mr. Shaw noted that the Paris Club rescheduled debt service due within the consolidation period was medium term in nature. If, in fact, the debt to Iran was of a short-term nature, it might be outside the parameters of the Paris Club agreement. Could the staff elaborate on that issue?

The Director of the Middle Eastern Department stated that, according to the Chairman of the Paris Club, the debt to the Islamic Republic of Iran was similar to that due to Paris Club participants. Hence, in line with the Paris Club agreement, Sudan would not be expected to give more favorable treatment to the Islamic Republic of Iran than to Paris Club participants.

Mr. de Vries noted that no procedure existed for dealing with such situations. Given the urgency of the request, the Executive Board should perhaps approve the proposed decision at the present meeting.

The Deputy Director of the Exchange and Trade Relations Department indicated that the staff would take up the matter of Sudan's debt to the Islamic Republic of Iran at the time of the review. He hoped that by then there would be some guidelines on the role of the Fund in the settlement of disputes between members relating to external financial obligations, an issue to be discussed by the Executive Board in the near future.

Ms. Bush stated that, like other speakers, she favored adopting the proposed decision. Both Mr. Salehkhou and Mr. Mtei had indicated that their authorities were interested in negotiating and settling the dispute. Furthermore, the Deputy Managing Director had offered his good offices, and the staff had stated that it would review the issue in July 1984.

Mr. Salehkhou inquired whether, given the continued financing gap, the Executive Board could adopt the proposed decision.

The Chairman remarked that a number of aspects of the financing of the proposed program were not yet finalized. For example, a number of bilateral agreements had to be worked out between Sudan and its creditors. Given the debt to the Islamic Republic of Iran, the stand-by arrangement requested by Sudan was not fully financed.

The Director of the Middle Eastern Department indicated that the staff had based its calculations on the most reasonable assumption available to it, namely, that the terms of the Paris Club agreement would be applied to creditor countries outside the Paris Club, except Kuwait and Saudi Arabia, which had offered Sudan more generous terms than the Paris Club. Given that assumption, it was likely that the balance of payments gap would be closed; the $10-20 million shortfall was within the margin of error and included payments to the Islamic Republic of Iran of $4 million, based on the Paris Club formula.

The Chairman remarked that the staff had not treated Sudan's debt to the Islamic Republic of Iran on a cash basis. If the total debt of $78 million were considered a financing requirement, Sudan's balance of payments gap would not be closed. However, the Fund could only assume that Sudan's debt to the Islamic Republic of Iran would be rescheduled under the terms of the Paris Club agreement.

Mr. Salehkhou asked whether he was correct in assuming that, until the Sudanese and Iranian authorities had agreed on a settlement, the program could not be approved.

The Deputy Director of the Exchange and Trade Relations Department indicated that it was up to the Executive Board to decide whether the program could be approved on the basis of the proposed decision.

Mr. Orleans-Lindsay stated that, given the problems that might arise if a decision were not taken at the present meeting, his chair could support its adoption forthwith.

Mr. Morrell remarked that in some circumstances it might be possible to include an extra condition in the decision requiring the two parties to negotiate by a certain date. However, in the present case, such a condition might be inappropriate, as it would hold up the implementation of the adjustment program. Perhaps the Executive Board should take Sudan's agreement with the Paris Club as a sufficient condition for the program to be approved.

Mr. Blandin recalled that, at the previous discussion of Sudan (EBM/84/27 and EBM/84/28, 2/22/84), his chair had expressed the view that the staff should avoid last-minute actions. He regretted that the Executive Board had to discuss the case of Sudan without having had enough time to appreciate fully the implications of the situation. He understood the staff to say that there were no real alternatives but to agree at the present meeting on the proposed decision. Therefore, he could not but accept that decision.

Mr. Clark stated that his position was the same as that of Mr. Blandin.

The Chairman remarked that the role of the Fund in the settlement of disputes would be discussed soon. He proposed that the decision on Sudan's stand-by arrangement should be approved, but that the staff should examine closely the question of Sudan's debt to Iran at the time of the scheduled review.

Mr. Mtei indicated that his authorities were prepared to negotiate with the Iranian authorities to resolve the issue. However, his authorities could not give more favorable terms to the Islamic Republic of Iran than those prescribed in the Paris Club agreement.

Mr. Salehkhou stated that the issue of comparability of treatment had been the main stumbling block in the negotiations thus far. It was inappropriate for a debtor to set the conditions for a meeting with its creditors. The Iranian authorities had yet to accept the agreement of the Paris Club, which was not an official body.

The Chairman suggested that the Executive Board should take the decision on Sudan at the present meeting. However, the Executive Board would expect that the two parties would meet to discuss the dispute prior to the scheduled review.

The Executive Board then took the following decision:

Stand-By Arrangement - Effective Date

1. The Fund notes the arrangements to finance the uncovered gap in Sudan's balance of payments in 1984, as described in EBS/84/83, Supplement 5 (6/15/84).

2. The stand-by arrangement for Sudan in EBS/84/83, Supplement 2 (5/11/84) shall enter into effect on the date, not later than June 25, 1984, on which Sudan has no overdue financial obligations to the Fund.

Decision No. 7729-(84/94), adopted
June 15, 1984

APPROVED: January 29, 1985

LEO VAN HOUTVEN
Secretary