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SM/84/217
Correction 1

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INFORMATION

September 28, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Approval in Principle of Fund Arrangements

The following corrections have been made in SM/84/217 (9/25/84):

Page 7, footnote 1, line 8: for "page 22" read "page 23"

Page 13, Table 4, column 2, line 10: for "15-month" read "15-month SBA"

Page 31, para. No. 6: for "(415 percent of quota)" read "(414 percent of quota), excluding projected net use of Fund credit."

Page 32, para. b: revised to read: "Consolidated short-term...the consolidated loan."

para. d, lines 3 and 4: for "payments of...with the banks."
read "payments into...would be made."

Page 33, para. No. 3: for "Effective (Board discussion)" read "Effective (lapse of time)"

Page 34, para. a: add as last sentence: "One half...to the consolidated loan."

Corrected pages are attached.

Att: (6)

Other Distribution:
Department Heads



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

3. Specific issues related to approval in principle

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

a. Phasing and performance criteria

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

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

^{1/} Delays in the coming into effect of these arrangements resulted in bunching of the first and second purchases in the case of Ecuador and of the first three purchases in the case of Madagascar. In the case of Ivory Coast, the delay in the entry into effect of the arrangement allowed the first two purchases under the arrangement to be made together. At the time of the first review of the arrangement for Ivory Coast the phasing under the arrangement was modified (see Appendix page 23). In the absence of this modification, 75 percent of purchase under the arrangement would have been available in the first three months of the arrangement.

Table 3. Phasing of Purchases Under Arrangements Approved in Principle

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

Source: Appendix.

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

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

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

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

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

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

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

8. Important external finance

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

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

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

Consolidated short-term debt and already rescheduled debt as follows: all arrears as of end-1982 and all payments falling due in 1983 were consolidated into a 16-year loan with 6 1/2 years' grace. One half of the interest on the consolidated amount was to be paid in 1983 and the other half to be capitalized as part of the consolidated loan.

c. Oil exporting countries

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

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

Sudan indicated willingness to pay banks US\$30 million (out of US\$279 million due in 1983) during 1983 and to begin making periodic payments into an escrow account from which this payment would be made.

Sudan--1984

1. Type of arrangement: One-year stand-by
2. Amount: SDR 90 million (53 percent of quota)
3. Date of approval: In principle Effective (lapse of time)
April 30, 1984 June 25, 1984
4. Condition(s) for arrangement to become effective

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

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

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

6. Financing gap: SDR 619 million 1/ (365 percent of quota)
7. Reasons for using approval-in-principle procedure

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

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

8. Important external finance

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

The meeting agreed to consolidate into a single loan (with a repayment period of 16 years including a six-year grace period) 100 percent of principal and interest on (a) loans and commercial credits with original maturity exceeding one year contracted before January 1, 1984; and (b) Paris Club reschedulings of November 1979 and March 1982. One half the amount due under the Paris Club rescheduling of February 1983 and one half the interest on the 1984 consolidated loan were to be paid in 1984, with the other half being capitalized and added to the consolidated loan.

b. Other bilateral official creditors

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

c. Commercial banks

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

d. Additional nonproject aid

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

9. Problems

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