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ROOM C-120 01

SM/84/259
Correction 1

November 30, 1984

To: Members of the Executive Board

From: The Secretary

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

The following correction has been made in SM/84/259 (11/20/84):

Page 13, para. (6), line 5: for "because of normal"
read "because of substantial uncertainties
about major economic trends and normal"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

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

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

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

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

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

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

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