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To: Members of the Executive Board

From: The Secretary

Subject: Enhanced Structural Adjustment Facility (ESAF) -
Operational Guidelines for the Staff

Attached for the information of the Executive Directors are the operational guidelines to be followed by the staff in implementing the enhanced structural adjustment facility (ESAF).

Mr. Hino (ext. 8379) or Mr. Sheehy (ext. 4508) is available to answer technical or factual questions relating to this paper.

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INTERNATIONAL MONETARY FUND

Enhanced Structural Adjustment Facility (ESAF)--
Operational Guidelines for the Staff

Prepared by the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by L.A. Whittome

July 11, 1988

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Enhanced Structural Adjustment Facility (ESAF) -- Operational Guidelines

I. Introduction

The Enhanced Structural Adjustment Facility (ESAF) was established by the Executive Board on December 18, 1987. Board views on the essential features of operational arrangements are summarized in the Chairman's Summing-Up (87/260, 12/17/87). This note is intended to elaborate on those views in order to provide the staff with operational guidance for the implementation of the new facility.

The ESAF will retain much of the basic operational structure of the SAF. Specifically, the list of eligible members for the ESAF is the same as for the SAF and to qualify for an ESAF arrangement a country must have a protracted balance of payments problem. A commitment of resources under the ESAF will be made upon Board approval of a three-year arrangement in support of a three-year macroeconomic and structural adjustment program. Within the framework of the three-year arrangement, annual arrangements will also be considered by the Board on the basis of a detailed description of the policies to be implemented during the year. The preparation of a policy framework paper (PFP) will be an essential element of the enhanced facility. Finally, ESAF resources will support programs aimed at strengthening the balance of payments position and fostering growth. The formulation of macroeconomic objectives will be guided by the same basic principles as those of the SAF.

Although many aspects of the ESAF will mirror those of the SAF, the ESAF is different and separate from the SAF in several key respects. First, the ESAF is a more flexible instrument than the SAF with regard to the amount of financing. Access to ESAF resources in individual cases will be determined so as to best accommodate the particular circumstances of the borrowing country, subject to the access guidelines established by the Board. In addition, access could be modified at the time of annual reviews in the light of conditions prevailing at that time.

Second, the ESAF provides for semiannual disbursements with monitoring through benchmarks and semiannual performance criteria, supplemented, in most cases, by a midyear review. This permits both more effective monitoring and greater flexibility in the length of the period for which benchmarks must be specified. In principle, all benchmarks in annual programs under SAF arrangements have to be fully specified for a 12-month period. This has given rise to difficulties in a limited but significant number of cases in obtaining coincidence between the program year and the fiscal year, resulting in delays in the initiation of the SAF arrangement or protracted negotiations. The provision for semiannual reviews under ESAF arrangements, while providing greater safeguards for ESAF resources, will also allow the

possibility of starting with a fully specified set of benchmarks and performance criteria for a six-month period, with indicative benchmarks for the subsequent six-month period. A fully specified set of benchmarks for a full annual program would be negotiated at the mid-year review. While helpful in some cases, it would be expected that this procedure would be used sparingly.

Third, the availability of larger resources under the ESAF means that higher domestic expenditure could be maintained during the three-year program period, especially if the ESAF serves effectively to catalyze additional resources from other sources. At the same time, this means that external financing and the current account deficit could be larger in the initial stages of adjustment than otherwise possible. Hence, stronger structural policies will be required to assure a strengthening of the balance of payments over the medium term sufficient to ensure that the larger financing can be repaid when it falls due.

Fourth, ESAF arrangements should provide greater assurance than under the SAF of timely implementation of programmed policy measures. Studies are not an acceptable substitute for actions; measures need to be more frontloaded, possibly including greater use of prior actions in certain cases, than in SAF programs.

These safeguard provisions notwithstanding, satisfactory program implementation will by no means be assured unless the authorities are fully committed to the policies presented in the program. It has been noted on some occasions that PFPs and letters of intent are often perceived as a product of the Fund and/or Bank staff, and that missions tend to work in a time frame that does not allow sufficient time for forging the necessary political consensus within the borrowing country. These observations should be kept in mind in formulating mission work programs and in assisting the authorities in their preparation of program documents. Missions should be able to advise management of the authorities' commitment to the program when they submit a request for ESAF loans, as is the case for other Fund facilities.

Thus, the ESAF is well suited for countries that have reached the point at which the major structural problems and the policies necessary to address them have been identified and in which the domestic consensus required to see these reforms implemented has been forged. Indeed, the ESAF is an attractive instrument for such countries as it could provide a relatively large amount of concessional resources. The staff should encourage eligible countries to make use of ESAF resources and should make every effort, together with the World Bank, to assist the authorities to complete the preparations necessary for ESAF programs as soon as possible.

II. Objectives and Design of ESAF-Supported Programs

The Chairman's Summing-Up (87/260, 12/17/87) set down the main objectives of ESAF-supported programs as follows:

... the objectives of programs under the enhanced facility should be to promote, in a balanced manner, both balance of payments viability and growth through mobilization of domestic and external resources, improvements in resource allocation, and the removal of structural impediments. Such programs should involve a substantial effort to strengthen the external payments position in a sustainable manner, and in particular to assure substantial progress during the three-year program period toward an overall position and structure of the balance of payments that is consistent with orderly relations with creditors and a reduction in restrictions on trade and payments, while permitting the timely servicing of obligations to the Fund.

a. Macroeconomic objectives

Economic growth

Programs supported by ESAF resources should be directed at creating the conditions to achieve sustained economic growth at or near the country's current potential rate of growth and, indeed, to raise that potential rate over time while ensuring low inflation. It is not appropriate to establish uniform targets for growth performance in ESAF-supported adjustment programs. Rather, the growth objectives of individual programs are likely to vary widely, depending on the circumstances of individual members. The strong growth orientation of ESAF-supported programs should be evident in the strength of policies to eliminate the main structural impediments and other obstacles to growth.

There may, unfortunately, be some cases in which neither a significant improvement in the rate of growth nor an expansion of per capita income can be expected during the program period. In such instances, it would be desirable to explain in the staff papers accompanying the ESAF request the reasons for the slow reaction of the economy and the policy reforms that are being undertaken to enable the economy to achieve higher sustainable growth in the future.

The availability of relatively large concessional financing under the ESAF would affect the staff's assessment of the appropriate macroeconomic balances over the three-year program period and might permit a current account deficit larger than otherwise possible. This could in turn lead to a higher level of investment, which could be an integral part of the growth orientation of the adjustment program. Nevertheless, the ESAF is intended to provide balance of payments support and, in most cases, ESAF loans should be reflected in a

strengthening of the borrowing country's gross reserves by the end of the program period. 1/

Balance of payments

Ideally, adjustment programs supported by the ESAF should aim at attaining by the end of the three-year program period an external current account deficit that can be financed by normal and sustainable capital inflows, i.e., inflows that would not jeopardize the country's external debt or debt service position. Consistent with the objective of fostering orderly relations with creditors, every effort should be made to avoid debt rescheduling or exceptional financing, and in cases when debt rescheduling or other forms of exceptional balance of payments financing are unavoidable, to reduce the amount of such financing steadily and, if possible, eliminate it by the end of the three-year period.

However, in a significant number of cases, it may not be possible to achieve fully these objectives within the three-year program period. In such cases, debt rescheduling and/or exceptional financing (e.g., concerted lending) may have to continue beyond the program period. Nevertheless, ESAF-supported programs in such cases should aim at substantial progress toward these objectives during the three-year program period. To demonstrate such progress, (i) the extent of rescheduling to be sought after the program period should be such that it would not result in an increase in outstanding debt (i.e., the amount rescheduled would not exceed principal falling due), (ii) other forms of exceptional capital inflows after the program period should be limited to grants and highly concessional loans that would not further aggravate the country's external debt position, and (iii) all new borrowing after the beginning of the program period should be serviced on schedule.

Even among these cases, however, there may be some countries in which existing debt obligations are so heavy that it is apparent that rescheduling and new financing on conventional terms would lead to obviously nonserviceable obligations in future periods. In order to help proceed with ESAF loans in such cases, the staff should assist the authorities to make arrangements at the outset of the program period for outstanding debt to be reduced (e.g. by conversion of existing debt to grants), to obtain rescheduling of obligations due during the program period with appropriately long grace periods, and/or to secure financing in the program period in the form of grants and highly concessional loans. It would then be possible to proceed with a request for an ESAF

1/ Presentationally, SAF and ESAF loans are treated as any other Fund credit, namely as (i) a financing item below the line in the balance of payments; (ii) part of net foreign assets of the monetary authorities; and (iii) part of domestic financing from the banking system, to the extent that the funds are used by the government for financing the budget.

loan if the Fund has received reasonable assurances that sufficient exceptional assistance will be available to allow the staff confidently to expect that the minimum program objectives set out in the preceding paragraph could be met and timely repayments to the Fund made. In general, it would be expected that exceptional debt relief would be phased over the three-year ESAF arrangement period in concert with evident progress in the implementation of successive annual programs.

In all cases, ESAF arrangements could be considered by the Board only when assurance can be given that there will be no financing gap in the first year of the program, and there is a reasonable expectation that financing gaps in subsequent years could also be covered.

There have been cases in which 10-year balance of payments projections put seriously in doubt the prospects for timely repayments to the Fund, even recognizing the severe limitations of such quantitative exercises. There have also been recent instances in which the Paris Club creditors, in considering a request for rescheduling by low-income countries, were reluctant to agree to a grace period significantly beyond five years because of the lack of balance of payments projections extending beyond five years that supported the need for such rescheduling terms. In cases in which rescheduling or other forms of exceptional financing are likely to be needed beyond the three-year program period, 10-year balance of payments scenarios should be included in the briefing papers for the use of resources. Such projections, especially in the later years, would be expected to be indicative only of general trends, but would serve to indicate when a major shift in trends and/or adjustment of the debt structure would be required to provide reasonable assurance that repayments of ESAF obligations could be made when they fall due.

Strong structurally oriented adjustment programs of the type that could be supported by the ESAF are likely to be subject to considerable uncertainties with regard to the size and timing of their impact on the economy. Accordingly, there is a need for ESAF-supported adjustment programs to provide for a buildup of international reserves or maintenance of sufficient reserves to facilitate the continued implementation of the program in the event that the impact of policy reforms on the balance of payments was smaller than expected or delayed. Adequate reserve levels would also help strengthen assurances that ESAF repayments can be effected in a timely manner and without undue difficulty.

b. Structural objectives

Structural problems of ESAF-eligible countries may involve a wide range of areas, including bottlenecks in infrastructure, inefficient or unduly complex legislative constraints on business activities and regulations on financial markets, inadequate tax structure and revenue collection machinery, price distortions, inefficient public enterprises, import restrictions, etc. A number of domestic entities are typically

involved in such wide-ranging matters and several multilateral and bilateral agencies may be involved in assisting the authorities to address these problems. Therefore, to identify the most important structural problems and possible solutions, it may in some instances be necessary for the authorities, the Bank, and the Fund, to seek the views of other parties with the requisite technical background.

Structural measures to be monitored under ESAF arrangements will normally cover a subset of the authorities' overall structural program. ESAF arrangements should concentrate on a few of the most serious structural problems that are of most immediate relevance to production and the balance of payments and that are within the area of expertise of the Fund. In the selected areas, the aim should be to eliminate or substantially reduce the structural problem during the program period.

The staff reports accompanying ESAF requests will need to indicate how the problems in the selected critical areas are to be addressed. To this end, it would be useful to provide quantification of the extent of structural measures envisaged. For example, such quantification could be the share in total domestic production of products under quantitative import restrictions. Another example would be the ratio of domestic to international prices of key products under price control. Where such quantification is not feasible, the staff reports should contain a discussion that explains how the measures envisaged would deal with the problem. Also, for the growth and balance of payments objectives in the ESAF-supported program to be viable and realistic, it is necessary to show how other critical areas are being addressed. It would be useful to indicate in staff reports those policy measures for which implementation will be monitored primarily by the Bank and, where applicable, by other institutions, and to describe any known important structural problems that are expected to persist beyond the program period.

While ESAF-supported programs are to cover structural problems within the Fund's area of expertise, identification and prioritization of the critical structural problems would be accomplished jointly by the authorities, the Fund staff, and the Bank staff. The Fund and Bank staff will bear the responsibility for assessing the adequacy of policies and monitoring developments within their respective areas of expertise. There are large areas of common interest, and it would be necessary to agree on the division of labor on a case-by-case basis, guided by the established principles on Fund-Bank collaboration, involvement in the areas concerned in the context of past or ongoing technical assistance or other programs, and the availability of staff resources with the necessary technical skill.

ESAF-supported adjustment programs should embody a relatively ambitious approach both in the magnitude of the planned adjustment measures and in the timing of their adoption. Given the uncertainties involved, estimates of the short-run macroeconomic impact of structural measures should be made on a conservative basis. Moreover, in order to

make a confident beginning to a long and, perhaps, difficult adjustment process, programs should aim at a frontloading of structural policy reforms, including in some cases through prior actions, bearing in mind the long gestation period before the impact of many structural measures can be realized. Preparation of studies and the elaboration of policy plans should not be regarded as a substitute for measures, particularly in the key structural policy areas.

III. Monitoring Under ESAF Arrangements

Main features of monitoring arrangements under the ESAF are summarized in the Chairman's Summing-Up (87/260, 12/17/87) as follows:

... monitoring of enhanced programs supported by arrangements under the enhanced facility will be conducted through benchmarks. Most Directors favored the establishment of quarterly quantitative benchmarks for the key financial variables, and the use of structural benchmarks to monitor implementation of the most important structural policy measures. Most Directors supported the establishment of some benchmarks, including, where appropriate, some structural benchmarks, as semiannual performance criteria in all cases. In addition, midyear reviews will also be required in most cases. ... (semiannual) performance criteria will be limited in number and will generally involve only a subset of the benchmarks. Similarly, prior actions will be required sparingly, but when necessary to lay the basis for a long or difficult adjustment process, and particularly where arrangements involve a frontloading of disbursements.

a. Benchmarks

Quarterly quantitative benchmarks will be established for the key financial variables, normally for the period covered by the annual arrangement. In some cases, if necessary to enable a better coincidence between the fiscal year and the program period, or in the event of major uncertainties, some of the benchmarks could be specified for a six-month period only. Structural benchmarks should be formulated in terms that are as objective and verifiable as possible in order to avoid subsequent problems of interpretation in assessing whether or not they have been met. Structural benchmarks need not be quarterly, but would in some cases cover the full three-year period of the arrangement. The number of benchmarks will be limited to those necessary to monitor the main developments under the ESAF arrangement. A major departure from the benchmarks would create the presumption that substantial policy change would be required in order to complete a mid-year review or reach understandings on subsequent annual programs, or could indicate the need for a consultation between the authorities and the Managing Director of the Fund. Although the benchmarks for the end of an annual program would not be specified as performance criteria, developments with

respect to the benchmarks would be major inputs in the elaboration of policies to be pursued under the subsequent annual arrangement.

b. Mid-year reviews

Mid-year reviews will be established as performance criteria in all cases except those in which there is a strong past record of successful policy implementation and the arrangement provides for a relatively small amount of resources. Mid-year reviews are required in addition to quantitative and other performance criteria, because such performance criteria sometimes do not adequately monitor macroeconomic developments owing to data weaknesses or because monitoring of the implementation of certain critical structural reforms cannot be accomplished adequately through performance criteria due to the nature of the reform to be pursued.

Reviews would be conducted on the basis of the benchmarks and performance criteria. The review would also cover any other specific policy issues that had been identified for discussion at that time. In the absence of a major change in external circumstances or departures from the benchmarks and performance criteria, it is not expected that reviews would result in a fundamental re-evaluation of the major objectives or strategy of the programs. In such cases, provided that other policies were generally regarded as satisfactory, reviews could be completed on a lapse-of-time basis without Board discussion.

c. Performance criteria

All ESAF arrangements will include a limited number of semiannual performance criteria. In addition to a few structural measures, performance criteria would normally cover appropriate domestic bank credit and fiscal targets; and, where appropriate, a balance of payments test, external borrowing, and/or other important variables.

d. Prior actions

Prior actions will be required in a limited number of cases in which financial imbalances and structural distortions are particularly severe, or the record of policy implementation under previous Fund-supported arrangements or in prior years of the ESAF arrangement has been unsatisfactory. Prior actions will also generally be indicated when arrangements provide for a frontloading of disbursements, or access under the arrangement is relatively large. Prior actions will be directed only to those key policy measures considered essential to the eventual success of the adjustment program.

e. Review of experience

Developments under an ESAF-supported adjustment program will be reviewed in the staff papers accompanying requests for second- and third-year arrangements and in the staff report for the first Article IV

consultation after the arrangement has expired. Such reviews will include a detailed assessment of the overall progress that has been made toward achieving the growth and balance of payments objectives of the program.

IV. Access to ESAF Resources

To qualify for the use of the ESAF a member has to have a protracted balance of payments problem.^{1/} The assessment regarding this criterion should involve considerable flexibility and should not be based on the mechanical application of statistical indicators.

a. Access levels

The framework of access policy under the ESAF is summarized in the Chairman's Summing-Up (87/260, 12/17/87) as follows:

... access to the resources of the enhanced facility will be differentiated according to the strength of the member's adjustment program and its financing need. The structure of the member's external debt and its prospective debt service burden, along with the expected evolution of other macroeconomic aggregates, will be important elements in this assessment. . . . access will be subject to a maximum limit of 250 percent of quota. . . . the access limits do not constitute entitlements, and . . . access should normally be below the maximum and the guidelines should be applied so that the rate of access for all qualifying members would average about 150 percent of quota. . . . in highly exceptional circumstances, the maximum could be exceeded, but it was not envisaged that access would exceed 350 percent of quota even in these cases.

Given the limitation on available resources, and the expectation that there will be some large ESAF loans (including the possibility that ESAF loans to a very few members may exceed 250 percent of quota), the average amount of three-year access under ESAF arrangements is expected to be near 150 percent of quota. For operational efficiency, it would be useful to consider that a majority of ESAF arrangements will involve three-year access of about 140-160 percent of quota. This level of access is, of course, subject to the existence of financing need and requires that the ESAF-supported program be sufficiently strong to meet the standards set out above.

^{1/} The considerations involved in the determination of the existence of a protracted balance of payments problem are summarized in "Structural Adjustment Facility--Review of Experience" (EBS/87/46, 2/27/87) page 14, footnote 1.

Access substantially below 140 percent of quota would be appropriate for cases in which the financing need did not justify a larger amount or in which the country could reasonably be expected to obtain most of its financing requirements from other sources, including borrowing on market-related terms, provided that such financing was consistent with the debt-servicing capacity of the member.

Access in the range of 160-250 percent of quota could be envisaged for programs in which the specific policy measures being implemented were concentrated in areas involving possible high short-term external costs (e.g., trade liberalization, exchange system reform). Such a level of access could also be justified for cases in which, even after an appropriately strong policy effort, the financing need was especially large (including the need to eliminate payments arrears and normalize relations with creditors) and sources other than the Fund were covering an appropriate part of the financing gap.

In a few highly exceptional cases, consideration could be given to access of up to 350 percent of quota. This exception has been specified, *inter alia*, to assist certain countries that have unusually large financing requirements, including those arising from arrears to the Fund, to embark upon major policy reforms. Such a level of access could only be envisaged when an exceptionally strong policy effort is implemented with a substantial element of frontloading, including prior actions. The exceptional access would be appropriate only when other donors and creditors were providing exceptional assistance, as discussed above, and, when necessary, financing to help clear the arrears to the Fund.

Because access under the ESAF can vary widely, it would facilitate the preparation of the adjustment program if the level of access is determined at an early stage. ESAF resources are limited and have to be equitably allocated among competing needs. Therefore, in cases involving access above 160 percent of quota, when area departments find it useful, the concerned area department may wish to consult well in advance with ETR and TRE to examine whether the resources are available and whether the envisaged access is consistent with that of countries in a similar situation. Such consultations would be facilitated by a table on key macroeconomic variables over the three-year program period (the usual key indicators table) and a brief note on the key objectives of structural reform to be pursued under the program. In any event, for all cases involving access above 160 percent of quota, the draft briefing paper would be circulated sufficiently in advance of the regular schedule to allow time to make any modifications to the proposed program that may become necessary if the initially proposed access level is changed.

Staff reports presenting requests for ESAF loans should indicate how the resources requested fit within the overall financing flows to the country. It would not normally be expected that ESAF resources would be the principal means to close financing gaps; rather, the ESAF

resources should be seen as a catalyst to increase the flow of financing from other sources. In cases where the external debt burden is substantial, the staff reports should also indicate the importance of debt service in the assessment of the financing need of the country.

b. Annual review of access in individual cases

The amount of resources committed under a three-year ESAF arrangement and the amounts for the second- and third-year arrangements will be reviewed at the time of the consideration of each annual program. The amounts committed to a member are subject to the availability of resources. Resource commitments would not normally be reduced at the time of reviews because of developments in the member's balance of payments. However, in the event that exogenous developments had resulted in a marked improvement in the balance of payments, it would be suggested that the member reduce voluntarily its use of ESAF resources, either by requesting lower access at the time of approval of an annual arrangement or by foregoing all or part of a midyear disbursement. The amount of resources committed to a member could be increased at the time of consideration of second- and third-year annual programs, if it becomes clear that the availability of ESAF resources can support such an increase and a higher level of access is justified according to the principles set out above.

c. Phasing

Access to ESAF resources will normally be phased uniformly over the three-year period of the arrangement in six equal semiannual disbursements. ^{1/} In cases in which initial financing needs are especially large, some frontloading of disbursements could be permitted. When frontloading is involved, first-year disbursements should not exceed 40 percent of the total amount to be made available under the three-year ESAF arrangement, although frontloading of disbursements in excess of 40 percent of the total amount could be considered in highly exceptional situations. Within the annual amount stipulated, some frontloading of the first semiannual disbursement could be envisaged, if justified by the circumstances of the member. Backloading of ESAF disbursements could also be envisaged in cases in which the member has access to other types of Fund credit.

^{1/} The SAF is financed entirely by the resources of the Special Disbursement Account. The ESAF is financed mainly by the resources of the ESAF Trust, but resources from the SDA will also be provided under ESAF loans up to the amount that would have been available to the member under the SAF. Annual disbursements will need to be not less than the amounts that can be disbursed from the Special Disbursement Account.

d. Disbursements

Under an ESAF arrangement, two semiannual disbursements would be scheduled for each of the three annual arrangements, except in the special circumstances discussed below. The first semiannual disbursement in each year would be made upon approval of an annual arrangement.

The period covered by the program year and the period covered by the annual arrangement should not differ substantially (i.e., a divergence of more than three months). Annual programs and arrangements need not necessarily be contiguous. In the event of delays in negotiating a second- or third-year arrangement, the period of the last annual arrangement could extend beyond the end of the initial three-year commitment. The amount of the arrangement would be reassessed in light of the financing need corresponding to the annual program period resulting from any such delay, and the amounts and phasing of disbursements to be made available under subsequent annual arrangements may need to be revised to correspond with the expected evolution of financing requirements in those periods.

The mid-year disbursement in each year would be made upon observance of the relevant performance criteria and, where applicable, completion of a mid-year review with the Fund. When the performance criteria were not observed, they would have to be waived before the disbursement in question. In the event that a waiver of nonobservance of performance criteria is not granted, the affected disbursement could be rescheduled for a later date under an extension of the last annual arrangement. Disbursements missed because of the failure to complete the mid-year review would be treated similarly.

In cases of substantial delay in the completion of the mid-year review and the corresponding disbursement, the next annual arrangement would need to be shifted to avoid a bunching of disbursements (e.g., two disbursements within three months should be avoided).

Three-year ESAF arrangements must be approved by November 30, 1989. Although the last annual arrangement under the three-year arrangement can extend beyond the third anniversary of the date of the Board approval of the three-year arrangement, the Board approval of an annual arrangement must occur within the initial three year arrangement period. The last disbursement in any case must take place before June 30, 1992 (the current termination date for commitments by creditors to the ESAF Trust). In the event of substantial delays that would otherwise result in disbursements after that date, the amount of the arrangement may have to be reduced. There would thus be more flexibility to accommodate delays under arrangements approved earlier in the commitment period.

e. Members with overdue obligations

Existing policies relating to use of SAF resources by members with overdue financial obligations to the Fund will apply to the ESAF. The staff should be prepared to discuss with a member in arrears to the Fund policies aimed at improving the member's economic position and facilitating clearance of the arrears. These discussions might well involve the formulation of a PFP, which could then be used as a basis for efforts to mobilize financial support for the member's program, including resources that could be used to clear the arrears to the Fund.

V. Relationship with Other Fund Facilities

a. Relation with the SAF

The SAF will continue to be available on the same terms and conditions as in the past to eligible members that already have arrangements under the facility as well as to those that have not yet requested an arrangement. Members that have an arrangement under the SAF will have the option of continuing their current arrangement to its conclusion or of requesting a new three-year arrangement under the ESAF. However, a member may not have simultaneous arrangements under both facilities.

If a member that currently has a SAF arrangement chooses to request an arrangement under the ESAF, that request should normally be made at the time of expiration of an annual arrangement under the SAF. Earlier replacement of a SAF arrangement by a new three-year ESAF arrangement could be considered in some cases, such as, for example, cases in which an earlier replacement would permit a better coincidence between the arrangement year and the authorities' budget planning period, or cases in which a country is faced with a significant change in the balance of payments need. An early replacement could be considered also in cases where the country had undertaken a policy program under the existing SAF in which expenditure had been sharply curtailed because of severe external financing constraints; or where a decision to proceed with an arrangement under the SAF was taken because the ESAF had not yet become operational, although all of the requirements for an ESAF arrangement could have been met. Access by the member to ESAF resources could be reduced to take into account disbursements it may have received under the SAF in respect of an annual arrangement period overlapping that under the ESAF.

As elaborated above, the ESAF requires a clear articulation of key structural problems and specification of measures to address them at the outset of the program period. Although the staff is encouraged to assist the authorities to complete the necessary preparations as soon as possible, it may not be feasible in some cases to enter into an ESAF arrangement for some time. The SAF could be an appropriate instrument for those countries that are at a relatively early stage of policy

reform, where some of the important structural measures to be adopted may not yet have been fully articulated but significant progress is being made in certain areas and there is no doubt about the authorities' commitment to policy reforms. As the preparatory work is completed and the momentum of policy implementation picks up, the possibility of requesting a full three-year arrangement under the ESAF could be considered.

b. Use of Fund general resources

The interest rate and repayment terms of ESAF loans are more favorable for the borrower than those of stand-by or extended arrangements. Moreover, it could be presumed that for most ESAF-eligible countries, new external borrowing on market-related terms is not desirable. Therefore, most financing by the Fund to ESAF eligible countries should ordinarily be provided from the ESAF. In certain such countries, existing arrangements could be cancelled and replaced by an ESAF arrangement. Such replacement could not be automatic, however, as the structural content of programs supported by a stand-by arrangement and the time frame of programmed policy reform would not necessarily be the same as for a program supported by the ESAF. In those cases in which borrowing on market-related terms is both possible and appropriate, Fund financing could be provided by a mix of ESAF resources and Fund general resources.

There may be cases in which structural policy reform has not advanced sufficiently to form a basis for a program to be supported by the SAF or ESAF, yet immediate financial support by the Fund is thought desirable. In such cases, the possibility of a stand-by arrangement could be considered on a case-by-case basis, in accordance with the existing policies on the use of Fund general resources.

VI. The Policy Framework Paper

As noted, PFPs will continue to be essential elements of requests for ESAF arrangements. The content and procedural aspects of PFPs were discussed extensively by the Executive Boards of the Fund and the Bank in early May 1988. The guidelines on content of PFPs will be revised in the light of these discussions.

Until that time, the PFPs prepared in connection with the ESAF will be similar in format and content to those prepared in connection with the SAF and will be guided by the Chairman's Summing Up of the June 1987 review of the first year of operations under the SAF, the guidelines mentioned above, and the Chairman's Summing Up of the May 1988 discussion of the PFP. Procedures for preparation and clearance of PFPs will be the same as those under the SAF.