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Concluding Remarks by the Chairman
Developments in Multilateral Debt and Financing
for the Heavily Indebted Poor Countries and Further
Consideration and Possible Modalities for Continued
Fund Involvement in Low-Income Countries, Including
the Most Heavily Indebted Countries, Through the ESAF
Executive Board Meeting 95/39 - 4/12/95

We have had a constructive, though preliminary, discussion. I will attempt to summarize the main points made by Directors and would report to the Interim Committee and, as mandated, to the Development Committee along these lines. Indeed, we will need to return to this topic after the meetings in light of the Committee's guidance.

With regard to the joint Bank/Fund follow-up paper on multilateral debt and financing for the heavily-indebted poor countries, Directors welcomed the additional sensitivity analysis of the impact on the debt burden of alternative assumptions about export growth and the volume and terms of new lending by multilateral institutions. Most Directors agreed with the general thrust of the conclusion that, for the majority of heavily-indebted poor countries, multilateral debt service burdens should be manageable, provided new multilateral lending is on appropriately concessional terms and supports a policy framework, which generates at least modest real export growth. Nevertheless, there are some countries that would face very heavy burdens, and we will seek to better identify the true problems in further analysis, which will be focussed on individual cases.

* There was broad agreement that there would be a need for a continuation of ESAF-type concessional operations. Most also welcomed the prospect, or were ready to explore further the possibility, of a self-sustained ESAF financed through resources that will reflow to the Special Disbursement Account (SDA) from the ESAF Trust Reserve Account, which, under current projections, would begin to become available in the year 2004, or possibly before, as pointed out by some Executive Directors.

Most Directors also welcomed early consideration of possible ways to finance ESAF-type concessional operations in the "interim period," after the full commitment of present ESAF resources and before the SDA resources would become available. I have noted the view that we should not proceed with undue haste and we will not. But the issues are complex and in the view of most a beginning is timely. A number of Directors stressed the considerable uncertainty attached to the likely timing of full commitment of existing ESAF resources. Several Directors, including some representing ESAF creditors, also considered that it would be useful to explore with the present ESAF Trust creditors the possibility of an earlier transfer of resources to the SDA through reducing the coverage of claims on the Trust Loan Account. Slower commitments and/or lower coverage in the Reserve

* For "Directors agreed" read "There was broad agreement"

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Account could reduce funding needs in the interim, and we will explore these possibilities as we move forward. Some Directors also pointed to the need for individual countries to reduce reliance on Fund support over time, in line with the temporary nature of Fund financing, including from ESAF.

For the "loan element", most Directors supported that further consideration be given to a combination of funding alternatives, including the use of the General Resources Account in the framework of extended arrangements, though others did not favor that approach. For the subsidy component, in light of suggestions by some Executive Directors, a few Directors supported the idea that members consider ways to utilize resources refunded to them from the SCA-2 to help fund a continuation of ESAF operations, which could cover up to a third of the projected subsidy requirements in the interim period, or that we seek alternative bilateral sources of financing. Others were opposed to that approach, but were open to exploring bilateral funding. For the remaining subsidies, many Directors thought that the possibility of gold sales should be further pursued, but others were firmly opposed to gold sales. Among those who favored utilization of gold, the prevalent view was to use the investment income from gold sales profits. In this connection, and on the use of gold more generally, Directors expressed interest in a wider discussion of the role of gold in the Fund on the basis of the forthcoming paper by the staff, which I mentioned earlier, would be circulated to Executive Directors before the Interim Committee meeting.

For some of the protracted arrears cases, Directors considered that the debt-service prospects were likely to be so severe that concessional resources would be the most appropriate form of Fund support in the period following clearance of arrears. The timing of possible requirements is particularly uncertain, but we will factor these into our work on needs and funding modalities as well as we can. However, given the magnitude that may be involved, assistance will be needed from the international community as a whole, and not only the Fund.

Directors discussed the question of an extension of maturities for ESAF loans under an "interim ESAF" for a category of ESAF-eligible countries. Most Directors considered that the present terms of the ESAF remained appropriate, and that for those countries that may face continuing heavy debt burdens and balance of payments problems, the Fund could best assist them through the continued availability of ESAF resources on present terms. These Directors generally considered that retaining present terms would better enable the Fund to tailor its financing to the particular situation of each member. That approach would also maintain conditionality and monitoring of members' policies over what may, in a few cases, have to be prolonged periods, avoiding the long periods without such monitoring that could result from an extension of maturities. Nevertheless, a few Directors felt that this approach would not adequately address the problems related to debt "overhangs" and the need of members for assurances that debt service to the Fund would be kept at manageable levels. In their view, further consideration should be given to the possibility of an extension of maturities. The staff will give further attention to this in preparing our next document.