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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/89

3:00 p.m., June 28, 1982

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	O. Kabbaj
	C. Taylor
	S. E. Conrado, Temporary
	O. Üçer, Temporary
	P. D. Peroz, Temporary
R. D. Erb	
	S. R. Abiad, Temporary
T. Hirao	T. Yamashita
	R. J. J. Costa, Temporary
	D. I. S. Shaw, Temporary
	J. R. Gabriel-Peña
B. Kharmawan	V. Supinit
	J. A. K. Munthali, Temporary
	G. Winkelmann
	C. P. Caranicas
	C. Bouchard, Temporary
	C. J. Batliwalla, Temporary
	S. El-Khouri, Temporary
	T. de Vries
	B. Legarda
J. Sigurdsson	
Zhang Z.	Tai Q.

L. Van Houtven, Secretary
J. A. Kay, Assistant

Also Present

E. Bevan Waide, IBRD. African Department: O. B. Makalou, Deputy Director; F. d'A. Collings. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; D. K. Palmer, Deputy Director; E. H. Brau, S. Kanesa-Thasan. External Relations Department: P. de Fontnouvelle. Legal Department: J. G. Evans, Jr., Deputy General Counsel. Middle Eastern Department: S. Thayanithy. Western Hemisphere Department: E. W. Robichek, Director. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: G. Jauregui, S.-W. Kwon, F. Yeo T. Y. Assistants to Executive Directors: P. Kohnert, M. J. Kooymans, W. Moerke, V. K. S. Nair, Y. Okubo, J. G. Pedersen, E. Portas, J. Reddy, J. Schuijer, J. C. Williams, J. F. Williams.

1. CONSULTATIVE AND OTHER AID GROUPS

The Executive Directors resumed from the previous meeting (EBM/82/88, 6/28/82) their discussion of a paper on consultative and other aid groups (SM/82/91, 5/6/82).

The Director of the Exchange and Trade Relations Department continued his replies to questions raised by Executive Directors at the morning meeting. On matters of procedure, the staff, like the Executive Directors, hoped that as far as possible the meetings would be organized by others. Apart from the reasons put forward by Executive Directors, the staff's experience had been that meetings were more effective if agencies other than the Fund organized them. The most useful role for Fund representative was to describe the situation in the country concerned, but not from the chair. Only when there was virtually no other alternative did the staff envisage that the Fund would be taking any more active role.

What the staff had meant by the Fund's taking an initiating role, the Director explained, was that when a need for financing had been identified, and there was a prospect from informal talks with Executive Directors that financing might be forthcoming, the staff should try to initiate a meeting. He had in no way meant that the Fund should chair the meeting. The purpose of the initiating action would be to help the member in difficulties to obtain a concentration of resources to help a program to work effectively.

Some speakers had suggested that there was really no difference between a consultative group and a donor-sponsored meeting, the Director observed. In the staff's view, however, there was a difference between a meeting to provide quick-disbursing balance of payments assistance and a meeting of a normal consultative group. The consultative group was focused on the country's development program and on projects. It was a specialized activity devised by the World Bank, and what was required in connection with an adjustment program was often rather different. The Fund needed to see that the balance of payments was redressed as rapidly as possible.

On two further points of procedure, the Director of the Exchange and Trade Relations Department, responding first to suggestions that the reporting of Fund attendance at consultative group meetings could be made more systematic, said that the staff had been looking at that matter. There should be no difficulty in making such reports. Second, so far as providing information on indebtedness and debt service, the staff had been looking into the matter to see how it could assist. While it was difficult to predict the exact outcome at the present time, the staff would certainly make as large an effort in that field as it could.

The Deputy Director of the Exchange and Trade Relations Department, replying to detailed questions, dealt first with the circumstances in which new consultative groups were formed by the World Bank. The first criterion was that there would be substantial aid from several sources, the second that all the major parties to the aid arrangements should agree that the World Bank should be the coordinating agency, the third that there should be a reasonable prospect that the World Bank Group itself would lend resources. As one example, in the early 1970s there had been a considerable range of donors prepared to assist the Government of Burma, but there had been a lack of coordination, and the World Bank had agreed to chair a consultative group. As to the circumstances in which such groups ceased to operate, the World Bank's practice was to examine the criteria that he had mentioned and, when they no longer applied, to consider whether the group should continue to meet. The main questions were whether the donors themselves wished to continue lending, and whether the economic circumstances of the country concerned had changed.

An Executive Director had enquired whether consultative group activity had any effect on lessening the tying of aid, the Deputy Director went on. While the World Bank regarded the lessening of tying of aid as one purpose of the consultative groups, it was not a major one. There were in fact nine objectives for consultative groups, and only one of them related to lessening the tying of aid.

Discussing the effects of shortfalls in foreign assistance, the Deputy Director agreed that such shortfalls could cause difficulties for the countries concerned. As had been reported to the Executive Board earlier, in roughly half the stand-by arrangements approved in 1978 and 1979, the improvement in the capital account had been less than expected. The staff had been learning from that experience, and in the most recent report--that on stand-by arrangements for 1980--less than one third of the programs had experienced capital flows that had not lived up to expectations. In many of those cases, the programs had not been interrupted either because the shortfalls had been minor or because other factors had offset them. The consultative group certainly offered one way of trying to obtain more realistic forecasts of capital inflows.

Speaking of the reaction of Executive Directors to the staff remarks about updating reports on recent economic developments, the Deputy Director assured the Executive Board that the staff did not see this as a major problem. In a few instances, reports on recent economic developments had been so out of date that it had been judged not worthwhile to send them to consultative groups. In such cases, an attempt might be made to update the existing report. In general, however, the contact between the Fund and the country concerned was usually close enough to enable the staff representative in his prepared statement to the consultative group to give a fairly detailed account of recent events without the burden of additional travel.

Regarding the rate of disbursement from ad hoc meetings, the Deputy Director remarked that there had been so few such meetings that it was difficult to make any generalization. Where major donors were concerned, the amounts promised at ad hoc meetings often did come forward exactly as scheduled. In some other cases, the disbursements were rather slower. The delays might be due to the need to provide specific commodities requested by the recipient country. Translating a certain dollar value into particular imports of spare parts, for instance, might take some considerable time.

Directors had asked specifically why, for Uganda and Sudan, it had been felt necessary to organize a donor-sponsored meeting rather than to use a consultative group, the Deputy Director mentioned. As for Uganda, when the program was being negotiated with the Fund in mid-1981, the Ugandan authorities had taken sweeping action in connection with the exchange rate and other matters. At that time, Uganda had not had a full plan for economic growth and development. A consultative group, whose work was related mainly to development, was not scheduled to meet until 1982; in fact, it had just done so. In the circumstances of 1981, it had been clear that additional funds would have to be found if the program was to be regarded as viable. It was for that reason that the staff had tried to find out whether there were any donors that might come forward with the additional funds required.

Rather similar circumstances had prevailed for Sudan, the Deputy Director of the Exchange and Trade Relations Department recalled. In late 1981 and early 1982, strong action had been taken by the authorities, but there was still a fairly large unfinanced balance of payments gap. Again, a consultative group was not expected to meet until mid-1982, and there had been a consensus that it was not possible to postpone the Fund's program until the meeting of the consultative group. The World Bank's position on the use of consultative groups was that as a practical matter it would not be appropriate in the World Bank to use the consultative group as a technique for gathering balance of payments support. Consultative groups were designed to coordinate concessional assistance associated with rather broad development plans. The balance of payments support had implications for a shorter period; it involved different institutions from those brought together in a consultative group. Regarding Madagascar, the meeting recently held in Paris had been an aid coordination conference, whose sole purpose had been to seek pledges of balance of payments support to be disbursed in 1982. The World Bank had chaired the meeting because major donors had not wished to do so on that occasion, on the understanding that a consultative group would be formed in due course.

Mr. Bevan Waide, Director, Country Policy Department, IBRD, commented that consultative groups were expensive instruments in terms of staff time. The World Bank was quite selective in deciding for which countries new groups should be formed. Nevertheless, there was a consultative group for virtually every country in South and East Asia, and there was likely to be an increasing number of consultative groups for countries in sub-Saharan Africa. There were some economies of scale in that it became possible on issues as aid tying, or turning pledges into commitments, or converting commitments into disbursements to deal with them in the presence not only of bilateral donors but also of multilateral donors that attended as observers. Nevertheless, consultative groups were flexible instruments with respect to the timing of meetings. Sometimes meetings were held on regular schedules, as with India, Pakistan, and Bangladesh; at other times they were only held when it seemed likely that a meeting would be successful. One point that might be of interest was that while aid groups comprised donors represented by their Ministries of Finance or Development--and on occasion of offices concerned with export credits--increasingly, groups of commercial bankers tended to meet in the same cities at the same time. Their meetings were often chaired by the receiving country itself, often with the help of an advisory group, so that those participating in the aid group could hear whatever news was available about the short-run situation in the course of the meeting.

Mr. Erb inquired whether, for countries with a Fund program involving structural changes in the exchange rate and domestic prices requiring, for example, the reallocation of resources, aid group meetings would be carried out in such a way that would focus on the ways that bilateral assistance could complement the structural adjustments being made under a Fund program. Second, there were occasions when the Fund forecast that there would be a balance of payments gap of a given size and donors met to make pledges to fill that gap. He would be interested to know what happened if in fact the financing gap was not as large as anticipated. Was there any procedure for making adjustments in the aid flows or in the Fund's financing?

The Director of the Exchange and Trade Relations Department, replying to Mr. Erb's second question, remarked that there were no cases in which ad hoc assistance had been received in such large quantities that it had been necessary to adjust the program. In most cases, other adjustments could be made that did not require a return to the Executive Board. For instance, imports could be liberalized more quickly, or arrears could be reduced more quickly. More generally, Mr. Erb seemed to be implying that the drawings on the Fund could perhaps be forgone. While in principle such an arrangement might be possible, the cases where ad hoc support had been obtained had been so difficult that in practice the situation had not arisen. A pragmatic approach should be taken. In that area the Fund was dealing with extreme cases, in which it was most desirable that the balance of payments situation should return to normal as rapidly as possible.

Mr. Bevan Waide, replying to Mr. Erb's question about the allocation of resources to support medium-term adjustment programs, explained that the role of the World Bank was to try to ensure that the program that a government submitted to an aid group did indeed reflect the priorities that were contained in any particular adjustment program. The World Bank found an opportunity to review the proposed program with the authorities before the aid group meeting took place. The World Bank also did whatever it could to ensure that the pattern of financing did correspond to the needs of the program.

Mr. El-Khouri commented that the Director of the Exchange and Trade Relations Department had said that it would be possible to adjust drawings from the Fund if a balance of payments turned out to be better than expected. His understanding was that once a country had an arrangement, it could draw all the resources provided under the arrangement if it met the performance criteria, regardless of the balance of payments outcome.

The Director of the Exchange and Trade Relations Department remarked that in most cases where a consultative group existed for a country, the country would have a stand-by arrangement with the Fund, and there would be a balance of payments need. However, in connection with the discussion on India, Mr. Erb had raised the possibility that the balance of payments would improve so greatly that there would be no need. In that case, there would at least be a moral obligation on a country to use other sources of financing if they proved adequate. That was however not a usual situation.

The Deputy Managing Director recalled that there were a few cases, of which Ivory Coast was one, in which the program contained a formula for adjusting the Fund's assistance in the event that external aid turned out to be either larger or smaller than anticipated. Such an arrangement gave the Government some certainty of what it needed to do if it received more or less aid than had been built into the program. In the case of Madagascar, the authorities had included a "tranche optionnelle" in the investment program, and it was understood that if the external resources turned out to be less than planned, the Government would reduce the investment program to the extent of that "tranche." In practice, external assistance for Madagascar for calendar year 1982 seemed to be assured at slightly above the level anticipated.

The Chairman added that, in the arrangement with Turkey, provision had been made for the possibility that balance of payments inflows would be larger than actually forecast. In certain countries, the programs had contained a provision to the effect that when foreign assistance was larger than had been assumed, a proportion of the additional assistance might be allowed to feed into the monetary aggregates of the country, while the rest would be frozen.

Mr. Erb explained that part of his reason for raising the question was to indicate that in some cases where bilateral donors had made special contributions in the course of a year, the actual disbursement might be influenced in part by whether the outcome was worse or better than had been projected. Consequently, it might be that when disbursements turned out to be less than had been pledged, all that was taking place was a rephasing of the bilateral aid flows in response to a shift in the underlying financial situation of the country.

Mr. Caranicas asked for an interpretation of two phrases used in SM/82/91. First, he wondered what was meant by the term "operational effect," as in "further efforts to develop the operational effect of the Fund's role and function." Second, he wondered what was meant by "minimizing the misspecification of aid flows."

The Deputy Director of the Exchange and Trade Relations Department, replying to the first question, explained that on the basis of the Executive Board's reaction at the present meeting, the staff would hold conversations with staff members in the World Bank, including the chairmen of individual groups, to see in what way it would be appropriate to provide assistance in those cases where it was felt necessary to do so.

The Director of the Exchange and Trade Relations Department added that what the Fund was trying to do in a program was to describe the actions required by a country to avoid getting into arrears; for that purpose it was desirable to have a precise definition of the external support that was likely to be available. The Fund staff had learned that it did not always obtain as accurate an account as it would like from donor representatives. In other words, the staff would like to obtain better data on the aid that was likely to be available.

Mr. Taylor commented that there seemed to be some gap between the responsibilities of the two institutions as the staff saw them. On the one hand, the Fund was not to take the lead in cases where concessional financial aid was likely to be available. On the other hand, the World Bank staff seemed to feel that the Bank should not take the lead in cases where finance was needed for general balance of payments support. He therefore wondered which of the two institutions was responsible when there was a need for general balance of payments support and the only sort of finance was concessional.

The Director of the Exchange and Trade Relations Department said in the few cases in question the Fund needed to take the initial steps to ensure that the financing problems would be managed appropriately. The Fund staff had found that in certain cases there was an external resource gap and that action was required; the Fund staff would initiate that action. The Fund's course would be first to check with the World Bank to see whether it was prepared to initiate a meeting. If it was not, the Fund staff would talk to the members concerned; if there was a donor prepared to sponsor a meeting, the Fund staff would be happy with the outcome. The Fund itself would not chair the meeting.

Mr. Bevan Waide remarked that there had been numerous aid group meetings in which short-term balance of payments problems had been discussed, particularly concerning countries whose external gaps had to be financed almost exclusively by concessional aid. If there was a need for quick-disbursing concessional funds to enable a development program to proceed, the World Bank would urge the participants in an aid group to consider that type of financing. Although his colleagues in the World Bank did not regard it as their responsibility to initiate aid groups to consider short-term financing, there had been a number of occasions--Madagascar being the most recent--when no other chairman of such a group could be found, and the World Bank had agreed to chair the meeting in consequence. That was likely to continue to be the case.

The Chairman made the following summing up:

Directors generally agreed with the broad thrust of the staff paper.

Consultative groups

Directors felt that Fund participation in consultative groups has generally been effective, and they considered that the continuation and the strengthening of present practices was warranted. It was considered particularly important to have close collaboration within consultative groups for members with which the Fund has a financial arrangement.

The information regarding projects and project lending provided at consultative group meetings should be of value in helping to determine the likely flows of foreign financing for members with a Fund adjustment program. Directors stressed that the Fund should continue to concentrate on the aggregate balance of payments aspect of the work of consultative groups and should not become involved in the World Bank's functions in the development field. There should be no duplication of the activities of the Bank in this respect.

The Fund's role will be discussed further with members of the Bank staff, including those directly responsible for individual consultative groups, and I am happy that the Board has had the opportunity to hear the representative of the World Bank on the matter.

For countries without a Fund program, the Fund should also provide consultative groups with appropriate information on the economic and financial positions and prospects of the countries in question; the Fund should benefit in turn from the flow of information from the consultative groups, and particularly from the Bank and donors, in understanding those aspects of the balance of payments and policy questions that are of special concern to it.

Donor-sponsored meetings

The term "donor-sponsored meetings" describes multilateral meetings designed to gather additional balance of payments support of a quickly disbursable nature in the context of adjustment programs. As Directors noted, there have been a few cases in the past in which it became clear in the course of negotiations that it was unrealistic or even impossible for a member to adopt additional orderly adjustment measures on a sufficient scale to close the external resource gap in the program period. Assuming that the usual sources of balance of payments support had been fully taken into account, the question had then arisen whether special ad hoc support could be mobilized. The Fund could, of course, not agree to a financial program involving an unfinanced gap.

Directors considered that the pragmatic approaches taken in the past were on the whole appropriate, and they encouraged management and staff to continue to proceed cautiously in this field. It was the general feeling that the mechanism offered by the World Bank's consultative group approach could continue to be used, subject naturally to the wishes of the Bank. While the consultative group approach might thus be considered the norm, Directors remarked that in some particular circumstances other techniques could be used. A member might, for instance, be taking comprehensive action with respect to exchange rates, pricing, and domestic financial policies; urgent support might still be called for, and there might be an unfinanced balance of payments gap. But there might be no consultative group in existence, as in the recent case of Madagascar, or a meeting of a consultative group could not be scheduled at a sufficiently early date.

Directors agreed that in such situations the Fund would at times have to make the necessary soundings, in close collaboration with the World Bank, in order to understand whether donors were ready to provide additional balance of payments support to help close the remaining gap. The Fund should not be seen as playing the role of what some Directors called a "development aid mobilizer." What the Fund should be doing in those circumstances was to explain the adjustment policies that were being undertaken or were on the verge of being undertaken by a country. It should indicate the magnitude of the remaining external financial gaps and see whether this could be covered by additional aid. Then, it should explain clearly to potential donors the alternative adjustment policies that would have to be resorted to if the residual gap were not covered by additional assistance.

In no case should the Fund chair such meetings, or give the impression that it was offering the participants a "take-it-or-leave-it" proposal. Nor should the Fund give the impression that a lack of supplementary assistance from the aid group would lead to a relaxation of the Fund program. It should explain the consequences of a lack of supplementary assistance without suggesting that a disappointing outcome might lead to the granting of waivers of certain conditions, or flexibility in the program, unless such action was warranted by the Fund's policies.

Directors made it plain that the Fund should play this role in as few cases as possible. Other avenues should be explored carefully before the Fund came to the conclusion that it had to take some action.

As in the past, I will continue to consult closely with Directors when such exceptional situations arise. Experience has shown the great value of such prior informal consultations on those occasions when special sources of finance seem to be needed in particularly difficult cases. I have been gratified by the willingness of some donor countries to assign a senior official to chair ad hoc meetings when they are necessary. The cautious attitude adopted by Directors is entirely consistent with the adjustment function of the Fund. There are clearly cases in which a country is making vigorous adjustment efforts, going as far as would be tolerable under the social and political system in force, and yet there might still be a need for additional foreign assistance.

It is important in those cases that the international community should be in a position to understand the complexities of the situation and the policy dilemmas facing the country.

One thing was clear, however: in those circumstances, the Fund should not increase access to its resources or relax the existing program. Either the rules would not permit increased access or the additional debt burden might make it unwise for a country to incur too much indebtedness to the Fund. Relaxing the program would immediately create an unfinanced gap, thus worsening an already difficult situation. The Fund has a long standing policy not to approve any program that included an unfinanceable gap. It had adopted such a policy because the ultimate result of not doing so was unfailingly the creation of arrears and the collapse of the program.

There are thus some cases in which all the Fund can do is to explain the situation to the international community. In so doing, it should show what types of additional assistance would be helpful in supporting a program, indicate the possible consequences of a lack of support, and provide any information that might help donors to take their decisions.

The existence of aid groups, and particularly consultative groups, should contribute to a better understanding of the situation. They should also make it easier to reach a solution by helping to adjust the quantity and quality of bilateral assistance to the needs of the countries in question. Working with such groups should not be allowed to change the direction of the Fund's work or weaken its criteria. Management will continue to deal with these matters in a pragmatic and prudent fashion. It has no intention of creating a "new window" in the Fund or a new type of activity.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/82/88 (6/28/82) and EBM/82/89 (6/28/82).

2. MALI - TECHNICAL ASSISTANCE

In response to a request from Mali for technical assistance, the Executive Board approves the proposal set forth in EBD/82/157 (6/23/82).

Adopted June 28, 1982

3. MOROCCO - TECHNICAL ASSISTANCE

In response to a request from Mali for technical assistance, the Executive Board approves the proposal set forth in EBD/82/158 (6/23/82).

Adopted June 28, 1982

APPROVED: November 24, 1982

LEO VAN HOUTVEN
Secretary