0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/93

10:00 a.m., July 19, 1989

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	C. Enoch
Dai Q.	
	C. S. Warner
	J. Prader
E. T. El Kogali	
E. A. Evans	
E. V. Feldman	
	M. A. Fernández Ordoñez
R. Filosa	
M. Finaish	
M. Fogelholm	
M. R. Ghasimi	
	B. Goos
J. E. Ismael	E. Kiriwat
B. Jalan	L. E. N. Fernando
A. Kafka	
	D. McCormack
Mawakani Samba	
Y. A. Nimatallah	
	D. Marcel
G. A. Posthumus	
K. Yamazaki	S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
B. J. Owen, Assistant

Also Present

European Department: M. Guitian, Deputy Director. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; T. Leddy, Deputy Director; G. R. Kincaid, S. Tiwari. External Relations Department: S. W. Kane. Legal Department: W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; T. M. C. Asser, J. W. Head. Middle Eastern Department: L. Alexander. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; M. N. Bhuiyan, M. P. Blackwell, J. E. Blalock, Z. Farhadian-Lorie, S. J. Fennell, D. Gupta, P. S. Ross. Office of the Managing Director: R. Noë, Internal Auditor; A. K. Sengupta, Special Advisor to the Managing Director; P. Shome. Advisors to Executive Directors: N. Adachi, M. Al-Jasser, M. B. Chatah, W. N. Engert, M. Eran, P. Gorjestani, S. M. Hassan, J. M. Jones, P. O. Montórfano, F. A. Quirós, S. P. Shrestha, R. Wenzel. Assistants to Executive Directors: B. A. Christiansen, Di W., T. T. Do, A. Y. El Mahdi, S. Gurumurthi, M. E. Hansen, A. Hashim, M. Hepp, K. Ichikawa, C. J. Jarvis, M. E. F. Jones, R. Marino, G. Montiel, N. Morshed, J. A. K. Munthali, A. Napky, W. K. Parmena, C. Schioppa, J.-P. Schoder, M. J. Shaffrey, Shao Z., Yang J.

1. OVERDUE FINANCIAL OBLIGATIONS - CENSURE OR DECLARATION OF NONCOOPERATION - LEGAL ASPECTS; ISSUE OF SUSPENSION OF MEMBERSHIP; SIX-MONTHLY REPORT AND REVIEW OF SPECIAL CHARGES

The Executive Directors considered the staff paper on the legal aspects of censure or declaration of noncooperation (EBS 89/128, 6/26/89), a staff paper on the issue of suspension of membership (SM 89/127, 6/28/89), and the six-monthly report on overdue financial obligations to the Fund (EBS/89/133, 6/29/89).

The Treasurer made the following statement:

The six-monthly report on overdue financial obligations to the Fund (EBS/89/133, 6/29/89) proposes the use of communications with certain Governors and heads of international financial institutions as a remedial measure in cases of members with protracted arrears to the Fund. In light of Executive Directors' comments at the informal sessions (IS/89/15 and IS/89/16, 7/5/89), the staff thought it useful to set out the sequence of actions by the Fund including existing procedures for dealing with members with overdue financial obligations. The existing procedures may be divided into three parts. First, procedures designed to prevent the emergence of arrears; second, procedures initiated after the occurrence of arrears; and third, procedures for dealing with members with protracted arrears. The statement concludes with a brief discussion of the staff studies on censure or declaration of noncooperation and suspension of membership rights, on which the Board's guidance is sought with regard to specific points.

The importance of preventing new cases of arrears has been stressed by the Executive Board. To this end, the staff seeks to assess carefully the capacity and willingness of members requesting the use of Fund resources to repay obligations to the Fund. As noted in the past, our best safeguard is the quality of Fund-supported programs and we will continue to seek to ensure that programs of high quality are placed before the Board. In cases identified as involving a risk of arrears, extra safeguards, above and beyond those already incorporated in the Fund's procedures, will be used to obtain maximum assurance that the Fund's resources will be repaid on time, including, inter alia, strengthened conditionality, close scrutiny of associated financing arrangements, and careful attention to access and phasing. In addition, specific procedures developed to prevent new cases of arrears include: an explicit assessment of the member's capacity to repay the Fund in all staff reports supporting requests for the use of Fund resources or enhanced structural adjustment facility resources; in certain cases specific payments or administrative arrangements designed to

ensure that forthcoming obligations to the Fund are settled on time; and in all contacts with members continual stressing of the importance of the Fund's preferred creditor status.

The procedures initiated after a member falls into arrears provide for a sequence of actions by management, the staff, and the Executive Board. As soon as a member fails to settle an obligation on time, the staff sends a cable which is followed up through the office of the Executive Director concerned. When an obligation has been outstanding for two weeks, management sends a communication to the Governor for that member stressing the seriousness of the failure to meet obligations to the Fund and urging full and prompt settlement. It is for consideration whether this communication should also ask the Governor to bring this matter to the attention of his authorities at the highest level. As indicated at the informal session on July 5, 1989, it is also for consideration by the Executive Board whether the Managing Director should at the same time communicate his concern about the arrears situation directly to the head of government of the member concerned. Depending on the circumstances of the individual case, the communication to the Governor would also note that unless payment is received shortly, management would intend to call an informal meeting of Executive Directors to discuss communicating with other Governors concerning the situation. 1/

A report to the Executive Board is normally issued one month after an obligation has become overdue. When the longest overdue obligation has been outstanding for six weeks, management informs the member concerned that unless the overdue obligations are settled shortly a complaint will be issued to the Executive Board. At about the same time, in appropriate cases, management would convene the above-mentioned informal meeting with Executive Directors. The subsequent communication to Governors would express the expectation that they would call to the member's attention the extreme gravity of the arrears for a cooperative institution like the Fund, as well as for the country itself, and would urge them to inform their relevant financial agencies of the situation and the member's failure to fulfill its obligations to the Fund.

1/ See the Managing Director's statement to the Interim Committee on the intensified cooperative approach to overdue financial obligations to the Fund (ICMS/Doc/89/4, 3/24/89). The procedure with regard to communications with Governors shortly after a member has fallen into arrears to the Fund was endorsed at EBM/89/27 (3/3/89). This procedure has not been used so far, as no case has arisen since its adoption in which it would appear productive. Nonetheless such a communication would be prepared and sent in the event it appeared appropriate and productive in the case of a member with newly emerging arrears to the Fund.

If the obligation remains overdue, a complaint by the Managing Director is issued at the two-month point and is given substantive consideration by the Board a month later. At that stage, the Executive Board has usually decided to limit the member's use of the general resources, and if the member has overdue obligations in the SDR Department, to suspend its right to use SDRs, and has provided for a subsequent review of the decision. This and subsequent review periods would normally not exceed three months. Ultimately, if the member persists in its failure to settle its overdue obligations to the Fund, the Board has declared the member ineligible to use the general resources of the Fund.

The procedures for dealing with members with protracted arrears that have been declared ineligible include further reviews at intervals of not more than six months, and for members that are judged not to be cooperating actively with the Fund, the application of remedial measures. The Annual Report and the financial statements will identify those members with overdue obligations outstanding for six months or more. Members not showing a clear willingness to cooperate with the Fund have been informed that in these circumstances the provision of technical assistance would be inappropriate. Further, the Executive Board has expressed its intention to provide that a member must first discharge its overdue financial obligations before it would be permitted to pay for an increase in its quota under the Ninth General Review, and that, in the event the quota payment were not made within a prescribed period, the proposal for the increase in the member's quota would lapse.

A further remedial measure, to be considered by the Executive Board on July 19, would be communications with certain Governors and heads of international financial institutions in cases of protracted arrears. As discussed in EBS/89/133, use of such communications would be raised for the Executive Board's consideration at the time of a post-ineligibility review of the member's arrears. At that time the staff would prepare a draft text of a communication along the lines set out in Attachment III of EBS/89/133, together with a suggested list of addressees.

Following approval of this latter type of communication by the Executive Board on July 19, the staff would intend to propose to send such communications on the occasion of the next post-ineligibility review for members with protracted arrears that are judged not to be cooperating actively with the Fund in efforts to resolve the problem of their overdue financial obligations to the Fund.

On July 19 the Executive Board will also consider the staff papers on censure or declaration of noncooperation - legal aspects (EBS/89/128, 6/26/89), and the issue of suspension of membership (SM/89/127, 6/28/89).

The study on a declaration of censure or noncooperation explains that such a declaration could be adopted, in the case of a member that remains in arrears to the Fund, during the period between a declaration of ineligibility and a resolution on compulsory withdrawal. Alternatives are discussed regarding different aspects of the declaration and guidance is requested in particular with respect to the following elements:

a. Conditions of the declaration: A declaration would be based on an assessment of the member's performance in the settlement of its arrears to the Fund and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Three different tests are described on page 2 of EBS/89/128. Are these tests acceptable to the Executive Board?

b. Content of declaration: (pages 2 and 3 of EBS/89/128) The content is closely related to the tests described under a. In particular, guidance is requested whether a decision on compulsory withdrawal or on the intention to initiate the procedure (after a specified period) should be incorporated, and whether in case of publication, the reference in the second paragraph to the member's policies ("..., and has not adopted policies that would ensure the discharge of its obligation,...") should be included.

c. Timing of the declaration: (page 3 of EBS/89/128) The declaration would be in addition to present post-ineligibility reviews. The communications to Governors after ineligibility would precede the declaration of noncooperation. The length of the period between such communications and the declaration is for consideration; a period of about six months could be contemplated.

d. Competent organ: (page 4 of EBS/89/128) The declaration could be adopted by the Executive Board or the Board of Governors. A Board of Governors decision would be required if it were combined with a decision on compulsory withdrawal.

e. Publication: (pages 4 and 5 of EBS/89/128) Guidance is requested whether the declaration should be published.

The study on the issue of suspension of membership (SM/89/127) concluded that the present Articles of Agreement provide for different forms of limited suspension of membership rights, but that the Fund has no general power to suspend all

membership rights of a member. In order to confer such a power upon the Fund, an amendment of the Articles would be required. The study also outlined a possible amendment with respect to suspension of voting rights. The option of pursuing such an amendment should be retained.

Further remedial actions are being considered by the staff. In this connection, one possibility would be to withhold SDR allocations for members with arrears in the General Department. This measure would require an amendment of the Articles and will be examined further in the next six-monthly report on overdue financial obligations.

Mr. Enoch made the following statement:

The staff has provided three succinct papers on this topic, which we have already considered in informal session. In order not to repeat the statement I made in that discussion, I am circulating a slightly revised version of it in written form for today's meeting. It is important now to reach decisions quickly on how to proceed, and I hope that today's meeting will lead to substantial consensus on the issues before us. Perhaps it may then be possible for the decisions the staff will need to prepare to be circulated for approval on a lapse of time basis.

The need for progress on taking the arrears strategy forward is shown by the six-monthly report, which tells the depressingly familiar story of further deterioration since the last review. Charts 1, 2, and 4 show how the scale of the arrears problem has increased, while Chart 3, when considered against the others, highlights how the problem is concentrated on a few members whose arrears have continued to grow. There are some bright spots. Positive developments include the clearance of Zaire's overdues, the success of the support group for Guyana, the prospects of a support group for Somalia, and the recent actions taken by Zambia as the first moves toward economic adjustment. But the effort involved in moving toward normalization of these countries' relations with the Fund serves to underline the need for an effective arrears strategy.

Looking first at the preventive side of an arrears strategy, I welcome the inclusion in recent staff papers on Fund-supported programs of an assessment of a member's ability to repay the Fund, and of its past track record as an indicator of the member's willingness to repay. I also support in principle a communication from the Board or the Managing Director to Governors, concerning the development of arrears in specific cases before the situation of ineligibility has been reached. However, the Board needs to consider carefully what it aims to achieve in such a communication; Governors already have access

to the information provided by the Fund, although the lines of communication with financial agencies may be less good. I also agree with the point made by Mr. Goos at EBM/89/27 (3/3/89), that the Fund must be careful not to involve the Governors too early and not to treat technical arrears, which in most cases are quickly resolved, as protracted. Therefore such communications must be considered carefully on a case-by-case basis.

A further element in an effective arrears policy comprises remedial measures against those countries which move far into arrears, and especially those whose arrears become protracted. This requires being able to make a distinction between a lack of ability and a lack of willingness to pay; over recent months considerable progress has been made in this assessment, as shown for instance by the various tables provided in recent staff papers on overdue cases. In addition, a number of useful measures have recently been introduced, including the publication of details of long-term arrears, by country, in the Annual Report, and closer consideration of the provision of technical assistance to members in arrears. In some cases the Board has also shortened the period between reviews of the situation. I find these measures appropriate, and I can also reaffirm our support for the proposal not to allow quota increases to be taken up by overdue members until they have cleared their arrears, and to set a deadline by which such clearance must have taken place in order to participate in the current quota review.

The principal formal measures at present available to the Fund in the face of arrears comprise the declaration of ineligibility and the ultimate sanction, the requirement for withdrawal of a member. The staff papers focus mainly on intermediate steps between these two measures, so that the Fund can have additional effective measures beyond ineligibility but short of compulsory withdrawal. These measures include writing to Governors and other financial institutions, declarations of censure, and suspension of a member.

Regarding the first of these, I have already indicated my support in principle for writing to Governors before ineligibility. I can go along with the proposal to send a letter after ineligibility, but with a number of caveats. The first rests on the observation that this will be the second letter that some Governors will receive from the Fund on the member concerned, if the original proposal to send a pre-ineligibility letter is maintained. If so, one really would wish to see drafts of the two letters together, to assess what their cumulative effect would be. My second caveat concerns the addressees of such a communication. I would be somewhat wary of the judgmental approach to addressees suggested in the staff paper. While I understand why only selected Governors might receive the first letter, it is difficult to see how the second letter can with

any justification not be sent to all members. This is a cooperative institution and all members are thus creditors; if not in arrears themselves they should all receive such a letter. If this is not to be the case, the Board should prescribe objective general criteria which can be applied in individual cases: these might specify perhaps all members who are creditors for at least 1 percent of the official debt of the country in arrears or who are donors for at least 1 percent of the country's aid.

Insofar as judgment has to be exercised in the choice of addressees, I would have thought that this would be largely a management prerogative. I do not think it appropriate for the Board to become regularly involved in detailed discussions of address lists. It is not difficult to imagine the time that might be spent trying to fine-tune the address list for each specific case. Handling other multilateral institutions may well be more tricky. I note that the staff paper states that the Fund and Bank are working closely together in this field, so that no communication with the Bank would be necessary. It is of course essential that Fund and Bank are in line on this subject. Finally, I do not think the solicitation of recipients' views at the end of the letter as proposed by the staff is necessary or productive. There is unlikely to be much that Governors can usefully add in such a reply to the deliberations of the Board.

Two further intermediate steps are presented for the Board's consideration. Regarding suspension of membership, the staff paper concludes that this step cannot be implemented without an amendment to the Articles. This conclusion seems sound. It would therefore not seem useful to pursue this option any further at present.

Apart from removing the voting power of a member in arrears, the objective of suspension would be to effect public censure. But this latter objective can also be achieved through the alternative means of a declaration of noncooperation. The Legal Department paper on this subject sets out some proposals under which such a declaration can be introduced, and makes the case that declarations of noncooperation can be published. I agree with these conclusions.

As for the timing of these measures, a declaration of noncooperation could come, say, at the second review after ineligibility. This would allow the required reasonable time under Article XXVI, Section 2(b) for an ineligible member to attempt to remedy its position. This leads to questions as to how such a declaration would relate to the proposed post-ineligibility letter to Governors. One possibility would be that the letter to Governors be sent at the time of declaration of noncooperation. A simultaneous declaration of noncooperation and letters

to Governors could be mutually reinforcing as a credible new remedial measure for a member ineligible to use Fund resources. The alternative, which I would tentatively endorse, is that the letter to the Governors could come earlier, perhaps at the time of the first review, warning of the prospect of the declaration of noncooperation, and seeking assistance in ensuring the member avoid it. But in any case, the Board needs to retain flexibility in the timing of its actions. Otherwise, actions taken on a predetermined timetable may occur at inappropriate moments, and perhaps even be counterproductive in their effects.

The form of the declaration of noncooperation proposed by the staff would seem to be broadly appropriate, except for the reference to a timetable for compulsory withdrawal. It would be unhelpful to reduce flexibility for the use of this ultimate sanction; a reference to the intent of the Board to recommend such action to the Governors if evidence of cooperation is not forthcoming is all that is required.

The decision proposed in EBS/89/133 regarding special charges seems to be on the right lines. Although special charges have not yet contributed significantly to the costs incurred by the Fund because of arrears, they will do so if and when each arrears case is resolved. And although it is not conclusive, there is some evidence that special charges have had a role to play in making members more aware of the need to make timely payments to the Fund, even if there is no suggestion that they have yet limited protracted arrears. I note that the special charges levied on overdue payments to the Trust Account still leave such overdue borrowing substantially concessional, and therefore may well not of themselves provide much incentive for timely repayments. This situation should be looked at again by the staff, with a view to presenting a paper to the Board. The concept of penalty charges over and above the special charges has considerable attraction, but in reality could just enlarge and prolong arrears, and ultimately increase the burden borne by participants in support groups.

Finally, as regards the collaborative approach for members in arrears but not declared ineligible, I agree with the staff that it should generally not be available. Such members--and indeed possibly some members already declared ineligible--should generally be able to concentrate on resolving their problems through their own resources, or through other sources, such as with the help of commercial banks.

Responding to some of the points raised in the statement prepared by the staff, Mr. Enoch said that his feeling was that the initial communication to the Governor of a member country that was moving into arrears should be as simple as possible, although he could go along with the

proposal that the Governor be asked to bring the matter to the attention of his authorities at the highest level. On the list of addressees, the staff statement seemed to imply--in the footnote to the third paragraph as well as in the fourth paragraph--that the initial communication would be sent to Governors in general, whereas in a subsequent paragraph reference was made to communications to certain Governors. He wished to reiterate his view that the initial communication should be universal--unless that posed administrative difficulties--or selective, but that the second letter, especially if it concerned members in protracted arrears, should be sent to all Governors as it would be a measure of censure rather than of prevention. In addition, a second letter could be used to inform Governors of the intention to publish a declaration of noncooperation.

Referring to the points made in the staff's statement with respect to that declaration, Mr. Enoch said that he could accept the three tests suggested at the top of page 2 of EBS/89/128. He could also largely agree with the suggested content, although he remained of the view that it was not necessary to specify in advance a rigid interval between a communication and the next stage; for instance, he was not happy with specifying that the stage subsequent to the declaration was the stage of initiating the procedure for compulsory withdrawals. In addition, if statements on the member country's policies would impose a constraint on publishing the declaration of noncooperation, such statements should be excluded. Publication of the declaration was important.

Finally, as withholding SDR allocations from members in arrears to the General Department would also involve amendment to the Articles, it would not be helpful to pursue that idea at the present stage, Mr. Enoch considered. As Mr. Evans had suggested at IS/89/16, possible courses of action that involved amendment of the Articles could be kept in mind and reconsidered if and when the Articles were reviewed at some future date.

Mr. Marcel made the following statement:

> I have little to add to my previous statement on this matter, and I will therefore follow the main outline of the staff statement.
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> I fully agree that our first priority must be to avoid the emergence of arrears in the future. In this respect, it is rather obvious that our best safeguards are undoubtedly to implement Fund-supported programs of high quality as well as to secure adequate financing assurances. However, we should keep in mind that the resolution of this problem is not solely the concern of the Fund. The main shareholders of this institution, in particular, share this great responsibility, and have a crucial role to play in order to forestall the insolvency of countries with which they maintain close ties.

I cannot overemphasize the need to react as promptly as possible when a member falls into arrears. Recent experience has clearly shown that this approach is instrumental in dealing successfully with this problem.

I broadly endorse the sequence of actions that management is to follow after a member falls into arrears. However, I would be reluctant to communicate directly with the head of government of the member concerned, since such an action could raise diplomatic problems and could give the impression that the role of the Governor of the Fund has been by-passed. It seems appropriate to us to let the Governor have the choice of bringing the matter to the attention of his highest authorities. Of course, nothing prevents the Fund's members in general from handling this question with the country concerned on a bilateral basis and at a high political level.

We could go along with addressing a letter to specific countries before the situation of ineligibility materializes. However, I fully agree with Mr. Goos and Mr. Enoch that we should also be very careful not to involve the Governors too early in the process and not to treat technical arrears as protracted ones. Such communications should be envisaged only on a case-by-case basis and after an informal exchange of views between the Managing Director and the Executive Directors has taken place.

We are open to communicating with certain Governors and heads of international financial institutions about countries in protracted arrears.

I agree with Mr. Enoch that, if we decide to send a letter prior to ineligibility, it would be desirable to study drafts of the two letters together in order to assess their cumulative effect. In any case, such a procedure should be applied with caution and on a case-by-case basis. We would prefer that the list of potential addressees be limited. Like Mr. Enoch, we would not like the Board to be actively involved in the fine-tuning of the address list. The choice of addressees should be made by management in close cooperation with the Executive Directors.

On possible forms of censure or declaration of noncooperation, we remain skeptical. We continue to think that we are facing a dilemma: either we run the risk of having our hands tied if we express too explicitly our intention to recommend compulsory withdrawal--and we do not think this is appropriate--or, as suggested by Mr. Enoch, we do not mention any timetable, but then the content of this declaration will not be very specific and in fact will not be so different from the decisions adopted at each review of ineligibility. In any case, if any

declaration of noncooperation were to be adopted, we would prefer the latter formula, even though we are apprehensive about it being a wasted effort. Moreover, we would like this declaration to require a special majority, since such a critical decision requires as large a consensus as possible.

Lastly, on the issue of suspension of membership, my authorities continue to think that such a measure would not really have any effect on countries having already been declared ineligible to use the Fund's resources. As the Board clearly appears unprepared to adopt an amendment to the Articles, it would therefore seem reasonable at this stage not to pursue this measure.

In conclusion, I would like to stress that it is now time to clarify the Board's views on these proposals. Indeed, procedural discussions that are too lengthy could be useless and even counterproductive. While my authorities consider that we should certainly not rule out the use of remedial actions, provided we are fully convinced of their potential effectiveness, they prefer to tackle the arrears problem in a more concrete way, namely, by implementing the cooperative approach with those members that are willing to do so.

Mr. Fernández Ordóñez made the following statement:

The increasing accumulation of arrears reaffirms the importance of today's discussion, which we expect will contribute to the solution of the most important problem faced by this institution. In spite of the fact that overdue financial obligations to the Fund increased during the period under review by 19 percent, progress has been achieved in the context of the intensified cooperative approach in the cases of Guyana and Somalia, apart from Zaire's settlement of its obligations.

We think that most of our effort in solving the arrears problem must be addressed to the emergence of new cases. Corrective measures need to be taken at the beginning, and the solution not left to the end of the process.

Some progress has been achieved in the assessment of the capacity and willingness of members requesting the use of Fund resources to repay their obligations to the Fund. However, in the design of Fund programs, consideration should be given to the inclusion of sensitivity analysis in the estimation of the capacity to repay the Fund. These types of analysis will permit the identification of exogenous variables that could affect a country's debt service capacity and will in turn make easier the determination of the ability and willingness to pay.

Regarding remedial measures, we would like to stress once again the importance of evaluating their effectiveness. In that sense, as this chair has stated in previous discussions, the withdrawal of technical assistance from a member that is considered uncooperative will have no effect on solving the problems of arrears. On the contrary, this measure will close a communication channel which is of paramount importance in the precise situation in which countries have to be convinced to adopt a comprehensive set of adjustment measures to correct the imbalances in their economies. Furthermore, the withdrawal of technical assistance might produce a relapse in the progress already achieved in some areas, especially in the elaboration of reliable statistics, that will impose additional restrictions in the elaboration of an economic program in the future.

Regarding the further remedial measures proposed by the staff, we share the view of Mr. Warner and other Directors relating to the convenience of sending a communication to the Governors prior to a declaration of ineligibility, given the importance of timing in the solution of the problem and the pressure that this action, which might act as an early warning, can have on the member. However, account should be taken of the observations of Mr. Enoch about the cumulative effects of the pre-ineligibility and the ineligibility letters. As for the judgmental approach to addressees suggested by the staff, on the one hand, it might be time consuming for the Board and, on the other, it might not guarantee equal treatment for members. In that respect, it would be preferable for the Board to establish general, even automatic, criteria applicable in every case. I would appreciate it also if a study could be made of the advantages and disadvantages if a press release is done, as was mentioned in the informal meeting.

We are not convinced about the effectiveness of forms of censure or declaration of noncooperation, which we believe will come too late to encourage the member to comply with its obligations.

Finally, as the intensified cooperative approach has begun to bear fruit, it seems premature to amend the Articles of Agreement in order to permit a declaration of suspension of membership rights.

Mr. Feldman made the following statement:

The staff, management, and the Board have been devoting a significant amount of time to the issue of overdue obligations in the recent period. Although some member countries are showing some progress within the intensified collaborative approach, it is clear that much remains to be done. Before

further remedial or punitive measures are considered, we believe that most of our efforts and resources should be concentrated on further strengthening the collaborative approach.

As I mentioned in the last informal meeting (IS/89/15 and IS/89/16) I still believe that the present approach cannot provide an appropriate framework for dealing successfully with the largest cases of protracted arrears. Once the country has embarked on appropriate adjustment policies, the present strategy can produce at most a stabilization of arrears, but I do not see how it can lead to the regularization of a large stock of arrears. For the four countries with the most protracted overdue obligations, the stock of arrears represents 265 percent of their quotas. A case-by-case solution, looking at each country's specifics without ruling out some form of rescheduling once the country has initiated a convincing adjustment program, should not be ruled out. Of course, the precondition is the debtor country's commitment to a strong adjustment program, which is more crucial as the period under arrears becomes more extended in time. In sum, the intensified collaborative strategy has proved to be useful in tackling the arrears situation of some of the not so large cases, but to be successful in the largest cases, the approach needs to be enhanced further and provide for enough flexibility when the countries in arrears show a clear commitment to implement a comprehensive economic program of adjustment and structural reforms.

The communication to Governors should be considered as a preventive measure, and not as a remedial action. Consequently, I am in favor of a relatively early communication to Governors, namely, some time after the emergence of arrears, and if possible before the declaration of ineligibility. I am referring obviously to the eventuality of new cases in which countries in arrears are approaching a situation of being declared ineligible. Otherwise, the communication should be sent to countries that have been already declared as such. The earlier the communication is sent, the more preventive its character will be, and the later it is sent, the more remedial in nature it becomes. In other words, to be effective, it is essential that the Fund be active at an early stage of the emergence of arrears.

On the substance of the communication, we agree on the proposal to seek the assistance of governors and other institutions. We have noted that in the draft letter included in Attachment III to the six-monthly report, only the financial burden upon creditor members is explicitly mentioned, while the burden upon other debtors in the form of higher charges is not made explicit. We believe that for the sake of symmetry, the burden that a member's overdue obligations places on the rest of the debtors and on all creditor members of the Fund should be

made explicit. I have suggested to the staff that perhaps line three of the third paragraph of the letter could read: "...members, including the other debtors and the creditor members, in the form of higher rates of charge and reduced [rates of] remuneration, respectively, in order to compensate for the lower income received by the Fund."

Regarding the potential addressees of the communication, I think that all governors and multilateral creditors should be included, since it would be very difficult and time consuming to try to elaborate a tailor-made list for each case. After all, the question of arrears affects the entire membership, creditor and debtor countries; all of them should be kept informed and all may help to resolve the arrears problem.

On the system of special charges on overdue obligations, the staff notes that only a relatively small proportion of the special charges has been paid. In our view, this raises serious doubts about the effectiveness of the system, and also raises the question of whether the existence of these charges is not just an additional complication at a moment when the country is normalizing its payments situation with the Fund.

On the issue of suspension of membership, since there is no legal basis, without an amendment of the Articles, for suspending membership, we think that it is not useful to pursue the matter further at this stage, when all efforts should be concentrated on the collaborative approach to resolving the arrears problem.

Finally, on censure or declaration of noncooperation, I still believe that the approach is not convincing and will not help to resolve the problem of arrears. Furthermore, I think that such declarations would overlap somewhat the communications sent to Governors and that they would not add much to the declaration of ineligibility.

Mr. Yamazaki made the following statement:

At the outset, I must emphasize that my authorities have not yet finalized their views, partly because the staff statement came out only the day before yesterday. My authorities are willing to take today's Board discussion into account when defining their views on the proposed measures to deal with members with overdue financial obligations to the Fund. Nonetheless, since the staff's statement raises a number of issues for the Board's consideration, I would like to present my authorities' views, even though they are still primarily tentative.

Before addressing the specific issues, let me begin with some general remarks.

The situation of members in arrears to the Fund varies significantly from one country to another. There have also been cases of members in arrears to the Fund having reversed course rapidly. Therefore, the Board should retain a flexible, case-by-case approach in order to take effective and timely measures to redress the arrears to the Fund. In this context, we welcome the frequent oral reports on member countries in arrears to the Fund which the staff has started to make to the Board whenever significant developments have occurred. Similarly, it is also relevant, in our view, that the means taken by the Fund to redress arrears should reflect the particular situations of the member countries with overdue obligations to the Fund.

This chair is concerned about the increase in political pressure. We recall cases in which undue political pressures have outweighed economic considerations and contributed to members incurring arrears to the Fund. Therefore, the measures to deal with arrears to the Fund should be taken in an institutional setting that would discourage members from exerting undue political pressure on other member countries.

With these remarks, let me turn to the specific issues raised in the staff paper.

First, we have already expressed our basic support for the Managing Director's communication with Governors. We are willing to go along with the procedure suggested in the staff statement on the condition that the content of the letter will fully reflect the particular situation of the member country concerned. With respect to the timing of the communication, we prefer not to be rigid in order to make the communication effective; however, the schedule provided in the staff statement is acceptable to us as a rule of thumb. As to the addressees of the communication, we also prefer not to be inflexible; nonetheless, we think that Mr. Enoch's proposal would be appropriate as a rule of thumb.

With respect to contacts with the highest level of government of the member concerned, we believe that the Managing Director may undertake them if such contact is judged to be conducive to resolving the problem.

Second, we have also indicated our support for a declaration of noncooperation as an intermediate measure after a declaration of ineligibility. As to the conditions of the declaration, we endorse the staff's view. Needless to say, the Board should be cautious in assessing a member's cooperation with the Fund. On the content of the declaration, we remain of

the view that rigid linking of the declaration with compulsory withdrawal might be counterproductive. Regarding the timing of the declaration, and in particular, the sequence of the declaration and the communication to the Governors, we do not have strong views. We believe that the Board would be the appropriate organ to issue the declaration. Heavy involvement of the Governors might give rise to the possibility that a member country would bring undue political pressure to bear on other members and that uniformity of treatment among members might be jeopardized. Moreover, the Board would be in a better position than the Governors to exercise flexibility.

Finally, on publication, we are concerned that publication of the declaration might send the outside world the wrong signal about the Fund's ability to address its problem of arrears. However, we do not have strong views on this issue.

Mr. Kafka made the following statement:

I am grateful to the staff for its statement on the subjects to be discussed today, and I have also benefited from Mr. Enoch's statement; there is much in that statement with which I agree. I could not agree, however, to adopting any decisions that we might reach today on a lapse of time basis. We cannot allow such important decisions to be adopted without approval, word by word, by the Board.

Our attitude remains as it was at our last meeting. Before restating it and attempting to answer the specific questions which are asked by the staff, I would like to repeat that we feel that the solution to the problem of overdue obligations lies essentially in our collaborative approach. This approach has so far been put into effect only in one case--that of Guyana. We all know that the success of this collaborative approach is presently threatened. The threat does not proceed from any present action or omission on the part of Guyana but form the failure of others to come up with the minimum amounts of money which are required until the end of the year in order to get the Guyanese economy going again. It would be a real tragedy for Guyana and for the international community if this sole present instance of the collaborative approach failed.

On the general question of overdue obligations and the three stages in which we deal with them, first, we have no problem with the preventive measures being applied at present before overdue obligations appear. I would like to know more, however, about the "specific payments or administrative arrangements" that are mentioned in the staff statement and designed to ensure that forthcoming obligations to the Fund are settled on

time. I would like to be sure that these phrases refer only to matters which have been explicitly approved by the Board.

Second, regarding the stage after arrears have appeared but before they have become protracted, again, we have no problem with present procedures. However, the staff's suggestions, or questions, regarding possible new procedures strike us as imprudent in the extreme. One question is whether the Managing Director, in communicating with the Governor of the country in arrears, two weeks after their appearance, should ask him to bring the matter to the attention of his authorities at the highest level. I can only say that I think such a suggestion would be irritating, just as it would be irritating for the Managing Director to communicate directly with the respective head of state. There are established channels of communication, and it would be improper and imprudent to disregard them. Communications with heads of state, moreover, in my experience, can be counterproductive, for obvious reasons. We have no problem, on the other hand, if a communication to the Governor by management would note the intention to call an informal meeting of Executive Directors to discuss communicating with other Governors concerning the situation. I would mention, in passing, that I am not at all sure to what decision taken at EBM/89/27 of March 3, 1989, the footnote to the staff statement refers. Again, this is a question on which I would be grateful to the staff for an answer today. The informal meeting could very well, as we have indicated, ask each Executive Director to communicate, in a special communication, with all his Governors on the situation which has arisen, stressing the gravity with which it is regarded by the entire Executive Board. Such a communication should not, however, attempt to suggest what the Governor addressed should do. For reasons which we have already made clear on other occasions, we do not feel that such a communication should be sent by management. Such a communication is almost bound to leak and, therefore, to cause irritation and prove counterproductive. Suaviter in modo, fortiter in re is still, after 2,000 years, a very sound principle.

Regarding protracted arrears, we have no problem regarding the withdrawal of technical assistance from members that show clear unwillingness to cooperate with the Fund in liquidating their arrears, but obviously the Fund will not want to cut off its nose for the sole purpose of spiting its face by refusing to provide technical assistance where it could be helpful. We have difficulties, as we have always had, with the proposal that under the Ninth General Review a country would not be allowed to pay for its quota increase before it had cleared its arrears and that if it did not pay its subscription within a certain time, the proposal for the increase in the member's quota would lapse. This might very well turn out to be another case of cutting off our nose to spite our face. I think this whole

matter of depriving a country of access to a quota increase calls for carefully circumscribed conditions and periods which will have to be discussed in considerable detail, before any decision can be taken.

Finally, we see no point in a post-ineligibility communication sent by management, for reasons already stated. Again, a special communication by Executive Directors to their own Governors would be appropriate, and its stress should be on the collaborative approach. Communications should not be sent to other international institutions. The Fund must not be misinterpreted as trying to organize a lynch mob, however serious the offense. Also, we might once again be cutting off our nose to spite our face, if we try to prevent other international organizations from giving credit to a country which has fallen into arrears with us.

On the question of a declaration of noncooperation, we have already stated our views. We cannot endorse such an idea. Such declarations would, as the staff says, have no legal effects. They would be pure irritants. The publication of such a declaration--as formulated in EBS/89/128--raises complicated problems. Since such declarations would refer to policy, their publication requires, in our view, a decision by 70 percent of the voting power.

We agree that suspension of membership would require an amendment of the Articles, and we do not agree that it would be appropriate at the moment to proceed with such an amendment.

Finally, we do not favor penalty charges over and above the present special charges.

Mr. McCormack said that he had been struck by Mr. Kafka's reference to "gently in manner, strongly in deed," and would agree that the worst of all possible worlds was to be strong in manner and gentle in deed.

His chair had addressed in broad terms the relevant issues during the informal sessions, Mr. McCormack continued. Although its position had not changed since, he wished simply to clarify certain aspects of its views by addressing the points set out in the staff's statement.

First, with respect to censure, his authorities remained unconvinced that the approach presented in the paper would be helpful. The most important factor underlying their reservations in that connection was the proposal to combine the declaration with a decision or an intention to require the member to withdraw. In that regard, his authorities would be willing to support the use of censure as a measure in its own right but would prefer that a compulsory decision to withdraw should not be incorporated in the declaration.

As for the conditions for the declaration, the three tests described on page 2 of EBS/89/128 were acceptable, Mr. McCormack stated. He agreed that the declaration could be published and that the reference to the member's policies could be included.

With respect to the timing of the declaration, a period of about six months between communications to Governors after ineligibility and the declaration seemed reasonable.

Finally, the declaration should be adopted by the Executive Board and not the Board of Governors.

On the issue of suspension of membership, he agreed with the staff that the Fund had no general power to suspend all membership rights of a member and that in order to confer such a power an amendment of the Articles would be required, Mr. McCormack stated. While the option of pursuing such an amendment could be retained--indeed, it was always available to the Fund to initiate a process of amendment--we feel that it should not be pursued at the present time, nor, for practical reasons, should it be done in isolation from other possible amendments.

Turning to the six-monthly report on overdue obligations, my authorities would view communications to Governors and heads of other international financial institutions as a remedial measure, which could be raised for the Board's consideration in specific cases at the time of a post-ineligibility review, Mr. McCormack observed. Generally speaking, his authorities would be prepared to support the staff's suggestions on the timing and substance of a communication, and potential addressees. However, like other speakers, they felt that judgmental considerations and detailed Board involvement should be minimized.

As noted during the informal session, his chair agreed that the intensified collaborative approach would not be appropriate for members that had not been declared ineligible to use the Fund's general resources, Mr. McCormack recalled. Moreover, the system of special charges on overdue obligations should be continued without change, as suggested by the staff.

Finally, Mr. McCormack observed that it was mentioned in the staff's statement that "when an obligation has been outstanding for two weeks, management send a communication to the Governor for that member...." In connection with that communication, the Governor should not be asked to bring the matter to the attention of its authorities at the highest level, for the reasons that others had mentioned. At the same time, the Managing Director should have the ability to communicate his concern about the arrears situation directly to the head of government of the relevant member, although again with the exercise of an element of judgment by management as to when and in what conditions that would be helpful at that particular stage.

Mr. Ismael made the following statement:

Let me start my intervention by underscoring the importance of preventing cases of arrears from occurring. In this regard, I fully agree with the staff that the best safeguard is to place only programs of high quality before the Board. I also support the staff's view that in cases identified as involving a risk of arrears, extra safeguards will have to be used to ensure the timely repayment of Fund resources. To prevent new cases of arrears from occurring, I welcome the inclusion of an explicit assessment of a member's ability to repay the Fund in all staff papers supporting requests for the use of Fund resources or those of the enhanced structural adjustment facility.

The staff proposes three intermediate steps to be taken between the declaration of ineligibility and the requirement for withdrawal of a member--namely, sending communications to Governors and other financial institutions, issuance of a declaration of censure or noncooperation, and suspension of membership.

I am not in favor of sending separate pre-ineligibility and post-ineligibility messages to Governors. If a letter has to be sent at all, the letter to Governors should be sent at the time of the declaration of ineligibility in order to achieve the maximum effect sought by such a declaration.

The proposal for issuance of a declaration of censure or noncooperation is, in my opinion, inappropriate. It is essentially premature, given that the intensified cooperative approach is still novel and should, therefore, be given time to succeed before further punitive action is considered. In addition, the proposal comes at an inopportune time, when the Fund is encouraging commercial banks to accept debt reduction as part of the new global debt strategy, while on the other hand, it is proposing to take a hard line of censure toward its own members. It also differs little from the present procedures for declaring a member ineligible, thereby making this proposal rather redundant. Based on these considerations, it is, therefore, irrelevant for me to comment on the issues of a declaration's conditions; content; timing; competent issuing organ; and publication.

The staff rightly points out that there are currently no legal grounds for suspending Fund membership. Suspension can only be achieved via an amendment of the Articles of Agreement, which would require an 85 percent majority vote of the membership. I agree with Mr. Enoch that the complexity of an amendment does not make it useful to pursue the matter further at present.

Finally, the staff proposes a decision regarding special charges. I am in favor of maintaining the existing system of special charges. Like Mr. Enoch, I am of the opinion that penalty charges over and above the special charges could just increase overdues, and consequently the burden that has to be borne by participants in support groups.

In concluding, let me make the following appeals. First, rather than spending too much time and energy on additional punitive measures, thereby sending confusing signals to the membership and the international financial community at large, we should be more concerned with ways and means to strengthen the intensified collaborative approach. Second, the intensified collaborative approach should be implemented sincerely; no roadblocks should be informally set up to its implementation, among others, by objecting to the formation of a support group, unnecessarily delaying discussions of a suggested Fund-monitored program until a more "opportune time," and preventing the conversion of a Fund-monitored program into a Fund-supported program right after clearance of arrears to the Fund. Third, let us discuss the issues of overdue obligations to the Fund on their own merits, and not link them with other issues that are still under discussion by the Board or to be discussed by the Board, such as the quota increase, the global debt strategy, and the policy on enlarged access limits.

Mr. Nimatallah considered that the Fund should remember that it had two basic objectives: first, to nip in the bud any potential falling into arrears by its members; and second, following a situation of prolonged arrears for a certain country that was not cooperating with the institution, to bring that country back into the fold. That twofold objective must be understood as benevolent; it was not intended to penalize. The purpose was to work toward the elimination of the problem of arrears, whether at the early stages or at the difficult, later stages.

Thus, if the international community was to be involved in that effort to eliminate the arrears problem, two kinds of communication could be considered, Mr. Nimatallah continued. The early communication would represent the preventive approach. Certainly, the Fund should do its utmost, particularly the management and staff, to help countries avoid falling into arrears. Second, if the stage had been reached at which countries had fallen into arrears, were not making payments, not adopting comprehensive measures, and not engaging in a process of communication with the institution and its membership, the whole community needed to take a collective approach. It was at that stage that it would be important to send another letter to Governors, which by the way he would prefer to send before a declaration of noncooperation was issued. Furthermore, he would like the second letter to indicate that, following such a declaration of noncooperation, there was the possibility of forced withdrawal.

In the intervening period, the objective was to seek the help of Governors in putting pressure on the member to return to the Fund's fold and to stop damaging the membership.

Some months ago, he had decided not to speak on overdue payments until he had seen more of an awareness by the membership of the magnitude and the seriousness of the problem, Mr. Nimatallah observed. He felt that such awareness was improving. Briefly, his view was that everybody should do the utmost to resolve the problem of overdue payments to the Fund as quickly as possible, and he would support any means leading to that objective.

On the issue of suspension of membership, he agreed with the staff proposal to retain the option of pursuing that issue later, if necessary, Mr. Nimatallah said.

As far as the six-monthly report and the staff paper on the declaration on noncooperation were concerned, he was satisfied with the preventive measures that the Fund had taken so far, Mr. Nimatallah noted. He supported an early letter to Governors, at the appearance of overdues, on a case-by-case basis. The content of the letter should be left to the discretion of management. The question of remedial measures was the focal point of the present discussions. The staff was right to have listed the four measures agreed upon by the Board and to seek its agreement on three additional measures. He reconfirmed that he agreed with those four measures--more publicity, no technical assistance, no quota increase, and compulsory withdrawal as a last resort. He also reconfirmed his agreement on the other three measures in cases of noncooperation with the Fund--involving the international financial community, imposing censure in the form of a declaration of noncooperation, and imposing penalty charges.

The involvement of the international financial community could be achieved partly through a letter to Governors, as proposed by the staff in Attachment III to the six-monthly report, Mr. Nimatallah stated. He could go along with the proposed draft. However, it would be more effective if there were two kinds of letters: one preceding the declaration of noncooperation by a certain period of time, to be followed later by another letter after the declaration of noncooperation, as one of the steps toward compulsory withdrawal. If that approach was agreeable, he would suggest that the third paragraph of the proposed letter in Attachment III be amended as follows:

> So far [member] has not availed itself of this opportunity. If that attitude continues for [ ] months and the member gives no indication of cooperation with the Fund towards that objective, it is likely that this country be declared noncooperative and possibly face steps for its eventual compulsory withdrawal. The Fund requests you to encourage [member] to take the actions necessary to avail itself of this collaborative approach which would lead, inter alia, to the settlement of its overdue obligations to the Fund.

The Fund would request hope that your [Government/institution]...

He also asked the staff to suggest another draft for the second letter to follow the declaration of noncooperation. He had an open mind on the length of the list of Governors to whom the letter should be sent.

The conditions and tests for a declaration of noncooperation proposed by the staff in EBS/89/128 were acceptable to him, Mr. Nimatallah observed. He also agreed with the content of the declaration as proposed in that document, with perhaps minor modifications, including the addition of three new subparagraphs so that the three main reasons for the declaration would be stated separately. The last sentence of the second paragraph of the declaration would become the third and fourth paragraphs of the declaration, which would read as follows:

Notes that the member has not adopted comprehensive reform policies that would ensure the discharge of its obligations;

Thus finds the member failing to cooperate with the Fund."

The third paragraph of the declaration as formulated in EBS/89/128 could, Mr. Nimatallah considered, omit the reference to urging the member to discharge its obligations promptly, because that was not the issue at that stage of the procedure; rather, it should simply be stated that the member was urged to cooperate with the Fund. It seemed to him that it was much more important to work out ways and means of settling the arrears. Similarly, the fifth paragraph of the declaration as proposed in the staff paper should refer to informing the member that, unless cooperation with the Fund was restored by a specified date, the procedure for compulsory withdrawal would be initiated. The reference to fully settling the arrears by a specified date was inappropriate.

On the timing of the declaration, he agreed that it would be in addition to existing post-ineligibility reviews, and that it would precede the declaration of noncooperation, Mr. Nimatallah said. The length of time between the communication with Governors and the declaration should not exceed three months in cases like those of Peru, Liberia, and Sierra Leone. The declaration of noncooperation should be within the competence of the Executive Board, to be followed, when appropriate, by a recommendation to the Board of Governors to approve compulsory withdrawal.

On publication, he found it necessary to publish declarations of noncooperation, Mr. Nimatallah stated.

Finally, Mr. Nimatallah said that he commended the staff for taking the initiative to propose new remedial measures, instead of waiting for the Board to act. In addition, he supported the staff's proposal to withhold SDR allocations from members with arrears in the General Department. As in the case of denial of quota increases, the withholding should be for a specific period, after which the right of those members to

participate in the SDR allocation would cease. He would like the staff to consider the question of withholding SDR allocations in its next six-monthly review of overdue financial obligations.

Mr. Prader made the following statement:

I would like to go directly to the issues. On the possibility of censure or declaration of noncooperation, I took a rather skeptical view during our informal discussion. The reasons for my reluctance to go along with this notion included: first, the dubious effectiveness of such a move in terms of speeding up the clearance of arrears. Can we expect with any reasonable degree of certainty that this procedural step will induce a member in arrears to the Fund to accelerate its repayments? Let me add, in passing, that even some of the speakers who support the adoption of such a declaration question the efficacy of censure. More specifically, to make this new instrument effective, it would be necessary to attach to it severe sanctions. It is only in cases where we are dealing with unwillingness--as opposed to inability--of members to repay the Fund that this measure's effectiveness could actually be increased by presenting it as an intermediate step before compulsory withdrawal. By the same token, a failure to link censure to compulsory withdrawal would weaken its usefulness. Moreover, a number of chairs have already indicated their opposition to compulsory withdrawal, and we too hesitate to give favorable consideration to such extremely punitive measures.

Second, a declaration of noncooperation would add little of substance to what is already contained in the declaration of ineligibility, since the latter already states the member's failure to cooperate with the Fund in the areas of payments, the adoption of appropriate measures for dealing with the problem, discrimination against the Fund, and disregard of the Fund's preferred creditor status.

I wonder whether we are really aware how many procedural steps are already included in our collaborative approach. The staff paper enumerates some ten different steps preceding the proposed declaration of noncooperation. And if, on the other hand, the purpose is to exert pressure on members by making public the Fund's disapproval of a member's policy concerning repayments to the Fund, this too is an objective which would already have been attained inasmuch as the declaration of ineligibility is published.

My third reason is the possible adverse reflection on the cooperative image of the Fund.

A fourth reason is the absence of any legal effect. Moreover, it is still unclear whether a simple majority would

suffice to sustain such a declaration; and if a large majority were required to publish it, the requisite support might in some cases be difficult to muster.

At this stage of our discussion, we can imagine issuing a declaration of noncooperation only in exceptional cases where we could see a reasonable chance that attempting via procedural steps to increase the pressure on a member would actually have the desired effect.

If the main idea behind our new remedial measures is to make clear the dramatic economic and political consequences of ineligibility and noncooperation, in order to prevent national leaders from being protected against the knowledge that their country will face being cut off from official aid and other sources of finance, then perhaps we should seek some means of making clear the disastrous effects of noncooperation with the Fund. It seems essential that the communication outlining these negative effects be made before the damage to the member's economy and finances has actually occurred, which would probably be before the declaration of ineligibility is made. From this point of view, a warning to the leaders of a country about the negative consequences only at the stage of the proposed declaration of noncooperation might come too late to alter their course. In any event, it was not clear to me whether the Managing Director was referring to direct communication with heads of state after the country had fallen into arrears, as the staff's preliminary statement indicates, or at some later stage, such as the declaration of noncooperation. The best approach would probably be to communicate in this manner directly with the member concerned right after it has fallen into arrears, because timely action could still be effective against the relatively small amount of arrears involved at this early stage.

Another issue to be settled is that of addressees in the countries in arrears: that is to say, whether the Fund should actually be communicating with heads of state or other leaders rather than with monetary and fiscal authorities, as it has done so far. In my view, communications of this kind should be used very infrequently in a few special cases because they have the sensitive implication that heads of government are not kept sufficiently informed by their Executive Directors, Governors, or other representatives of their monetary authorities.

Further, on the use of communications with Fund Governors and heads of international financial institutions as a remedial measure, we share the views of those who argued that we should have recourse to such communications only in exceptional cases identified on the basis of objective criteria. The list of addressees, which should be put together by the management and the staff, should not be limited to a very small number of

creditors. Here I would very much agree with Mr. Enoch that the list should be sent to all Fund members because both creditors and debtors will be affected by this action. On the substance of such a letter, we could agree with the version suggested in Attachment III, but feel it should be more concrete in its description of the financial and economic consequences outlined by the Managing Director in his intervention during our last informal discussion. Such a communication could be sent following either the first or second review of a country's declaration of ineligibility.

On the suspension of membership, we share the reasoning of the staff. Suspension might be an effective instrument for bringing recalcitrant members back into line, but it is to be feared that amending the Articles of Agreement for this single purpose would be inadvisable unless we are willing to face an array of demands for amendments for other objectives. Of course, this position does not rule out reconsidering the amendment option at a later date.

On special charges, we support the proposed decision.

Mr. Goos said that it was not necessary for him to elaborate on his authorities' grave concern about overdue obligations to the Fund, in respect to both the financial integrity and functioning of the institution and the serious repercussions for the members themselves. His authorities, therefore, fully subscribed to the search for additional effective measures for dealing with the arrears problem. Nonetheless, because the bulk of the overdue obligations continued to be concentrated on the eight ineligible members, while the average number of overdue members had remained virtually unchanged, it appeared that the situation should not be overdramatized. Above all, it would be shortsighted if the conditions for access to the Fund's resources were allowed to be dictated by the implicit or explicit threat that a member might fall into arrears.

The most efficient preventive action was a thorough examination of the capacity and willingness of members requesting the use of Fund resources to repay the Fund on time, and the insistence on effective conditionality, Mr. Goos stated. Apart from that, as others had mentioned also, the intensified collaborative approach, while certainly no panacea, offered the hope that the Fund might come to grips at least with some protracted arrears cases.

On the specific issues for discussion, and referring first to the communications with Governors, Mr. Goos considered that it was necessary to clarify, first of all, the content of the two kinds of communications that were being contemplated. He advised against sending two identical letters in pre- and post-ineligibility situations. In fact, his authorities went so far as to feel that communications should be limited to pre-ineligibility cases, as had originally been proposed in the Interim

Committee. They feared that too frequent an application of such an instrument would tend to undermine its effectiveness because the responsiveness of Governors would be likely to decline. That was perhaps precisely the reason that had prompted the Managing Director, at the April meeting of the Interim Committee, to express the hope that steps to involve Governors directly would never have to be taken. His authorities therefore believed that in cases of protracted arrears, the declaration of noncooperation would be the more appropriate, and for the time being, adequate approach. However, two possible ways of meeting the difficulties he had mentioned had however been put forward by Mr. Enoch, who had suggested changing the post-ineligibility letter to warn Governors of the prospect of a declaration of noncooperation, combined with a general request for their assistance, and Mr. Nimatallah, who had suggested enumerating the possible further steps.

On the timing of pre-ineligibility communications, Mr. Goos continued, his authorities continued to feel that they should take place only after the Board had had an opportunity of thoroughly and formally reviewing the newly arisen arrears, for the reasons reiterated by Mr. Enoch. He had been surprised to note from the staff statement that the issue had allegedly been settled already in favor of sending a letter shortly after the issuance of a complaint and after only an informal meeting with Executive Directors. A further explanation of when such a decision had been taken would be appreciated.

As for the substance of the pre-ineligibility communication, Mr. Goos considered that the draft letter proposed by the staff would need to omit reference to the intensified collaborative approach, which should be reserved for cases of protracted arrears only, for the reasons given by the staff. Moreover, like Mr. Enoch, he recommended that the last sentence of the draft letter, requesting the views of Governors on the matter, be dropped and that even less specific mention should be made of the specific actions being requested from the Governors. In general, the draft letter was overburdened with requests--virtually every paragraph contained a request to Governors to do something. He wondered whether the Fund should not limit itself to a general request to Governors for assistance, in one paragraph, and certainly without spelling out any possible actions Governors might take relating to their own aid agencies. It seemed to him that it would be sufficient to begin by describing the actual situation--the arrears, and the repercussions for the member and the institution--as was actually proposed in the draft letter. Subsequently, the possible further steps the Fund might take could be spelled out, including the ultimate step of compulsory withdrawal, as Mr. Nimatallah had indicated. There would then be a paragraph in which the Fund simply requested Governors to do everything they could to help the member and the Fund to avoid that ultimate outcome. To reiterate, the main objective of the letter should be to inform Governors about developments in a pointed manner, but without too many specific requests, which would run the risk of eliciting no response and of depriving the whole procedure of credibility.

All communications, both the pre- and the post-ineligibility letters, should be sent to the Governors of all member countries that were current with the Fund as well as to the heads of international financial institutions, for two reasons, Mr. Goos went on. The first reason was the practical one of avoiding cumbersome discussions over appropriate selective lists and to avoid the use of arbitrary selective criteria. The second reason was that the major remedial effect of communications, as he saw it, consisted in the potential embarrassment of overdue members in having their noncompliance brought to international attention. The latter effect would be strengthened if the communications were universal.

Concerning the letter that was sent to the Governors of a member shortly after it fell into arrears, Mr. Goos considered that for the Managing Director to send simultaneously a separate message to the head of state would be redundant and possibly construed by the Governor as an expression of mistrust in his meeting the request from the Fund to bring the matter to the attention of his own authorities. Only one such communication was needed, which one was a matter that could be left to the discretion of the Managing Director.

On the system of special charges, Mr. Goos said that he concurred with the staff's conclusions, and could therefore endorse the proposed decision.

He agreed with Mr. Enoch's conclusions on the suspension of membership, although the option of further pursuing the necessary amendment of the Articles should be retained, as proposed in the staff statement, Mr. Goos continued. As for the declaration of noncooperation, the test should be based on a few objective and unambiguous criteria in order to ensure equal treatment of members and avoid protracted discussions complicated by political considerations. In that respect, he agreed with Mr. Fernández Ordóñez. Noncooperation should be more or less automatically assumed if, within the prescribed period of, say, 12 months after the declaration of ineligibility the member had still not adopted a Fund-monitored program, as envisaged under the cooperative approach, and if the member had failed to make substantial payments on its arrears to the Fund. In contrast, neither the size of the arrears nor payment to other creditors would necessarily be indicative of the willingness of a member to cooperate. Certainly, that point applied to the size of the arrears to the Fund. As to the payment or nonpayment to other creditors, the Fund might run into difficulties in identifying such payments and in assessing the actual existence of discrimination against the Fund. What was important was that payments were being made to the Fund, and that a Fund-monitored program was either already in place or strong efforts to implement an adjustment program were being made.

On the content of the declaration, he could endorse the views expressed by Mr. Enoch, in particular that there should be no preset date for compulsory withdrawal and that it would suffice to indicate the possibility of the Board initiating such action, Mr. Goos said. Mr. Nimatallah's proposed text was perhaps a little too specific in

conveying the indication that such a step would be initiated. At the same time, he had no difficulty with the proposed reference to the member's economic policies in the event of publication of the declaration. If the Board took a contrary view, he would follow Mr. Enoch's position of preferring to drop the reference but aim at publication. He could accept the staff's proposal on the timing of the declaration.

On the withholding of SDR allocations, he again found himself in agreement with Mr. Enoch, namely, it made no sense to pursue the matter further because of the need for an amendment to the Articles, Mr. Goos concluded. He saw no readiness or willingness on the part of the Board to amend the Articles to achieve that purpose only.

Mr. Ghasimi made the following statement:

> At the outset, we would like to reiterate our deepest concern regarding the accumulation of arrears to the Fund which have continued to increase unabated since our previous reviews. We would like to indicate, once again, that we fully support the objectives of the collaborative approach and are pleased with the efforts made by the management and the staff to assist countries in difficulties and to seek appropriate solutions so as to preserve the financial integrity of the Fund. Despite all these efforts, the amount of overdue financial obligations continues to rise, and as we have already maintained on several occasions, this situation has placed an undue and exogenous burden on those debtor members that continue earnestly to discharge their financial obligations to the Fund in an orderly manner, and sometimes under very difficult conditions.
>
> Having said that, we would like to make some general comments and to express our views on the issues raised in the staff papers before us today.
>
> As for the general comments, while we are well aware of the danger of increasing overdue obligations to the Fund, we welcome the progress which has been made in the right direction by some countries that have managed to become current with their overdue financial obligations to the Fund.
>
> We are of the view that countries with overdue financial obligations to the Fund need to implement rather comprehensive and deep adjustment programs so as to overcome the existing economic and financial difficulties that have hampered attainment of a creditworthy condition, and enabling them to become current with the Fund as soon as possible. We are indeed encouraged by the initial efforts which have been made by the Fund to implement the collaborative approach. We hope the Fund will be able to resolve the remaining issues in a timely fashion in order to make this approach more effective.

Concerning the remedial measures, it should be noted that it is indeed rather unfortunate to envisage adoption of such actions in the context of a cooperative institution like the International Monetary Fund. We firmly believe that all members in arrears should have the opportunity to grow out of their difficulties through the implementation of the collaborative approach before imposition of any remedial measures is considered. In this respect, we have a preference for the enhanced collaborative approach, with firm commitment to appropriate adjustment policies by countries in arrears within the framework of the proper supportive financial assistance from the international community.

We can go along with the measures aimed at providing additional information on countries with overdue obligations in the annual report, but we are not certain about the effectiveness of the publicity aimed at informing financial agencies of such matters.

We also have no difficulty in principle with a communication by the Managing Director or the Board to Governors concerning a member with overdue obligations to the Fund. However, we believe that a more cautious approach is needed because of the political implications. The Board needs to decide carefully and on a case-by-case basis if such a communication is to be disseminated before and after ineligibility. In this connection, the staff's suggestions on the substance, the potential addressees and the occasions on which such communications should be sent, need to be considered on a case-by-case basis, and on a judgmental basis, even if this involves the Board in detailed discussions. In this connection, it is of paramount importance to avoid consideration of technical or temporary arrears and instead concentrate on deep-rooted and protracted cases.

On technical assistance, we still feel that it is rather doubtful that the withdrawal of such assistance will be productive. It is vital for the Fund to maintain close relations with member countries in arrears that are willing to cooperate, so as to be informed accurately and, much more important, to be able to assist them in resolving existing economic difficulties and recovering the overdue payments.

As far as the special charges are concerned, the staff recognizes that the system is not having all the full results that were foreseen. Given the prevailing situation with regard to overdue obligations, and taking into consideration the need to preserve the financial integrity of the Fund, we can support the proposed decision on the review of special charges.

As to the question of suspension, the staff paper correctly acknowledges that conferring a legal power upon the Fund for

suspending a member would require an amendment of the Articles of Agreement. We believe that it would not be useful to pursue such an amendment.

On the question of censure, we feel that a declaration of noncooperation does not seem to impose any further obligations on the member countries than those that derive from a declaration of ineligibility. Furthermore, given that the cooperative approach to resolving the problem of arrears is still evolving, we believe that at this stage, every effort should be made to enhance the effectiveness and to broaden the scope of this approach, which is indeed more in line with the cooperative character of the institution. A declaration of noncooperation sounds somewhat punitive, and we have the feeling that it may generate more heat than light in member countries' relations with the Fund.

In conclusion, we believe that a solution to the problem of overdue financial obligations to the Fund is in the interest of the whole membership. In this respect, this chair is willing to support and approve any initiatives which will lead to improving the economic situation of the member countries with arrears. We also approve of any solutions which will contribute to the consolidation of the financial position of the Fund, enhancement of its support to member countries, and alleviation of the burden sharing associated with arrears. We have a strong faith in corrective measures rather than punitive ones; that is why we found the collaborative approach extremely attractive and capable of resolving the problem of arrears. This approach, which is still new and in the process of being evolved as the main vehicle for resolving the arrears problem, should also aim at preventing the emergence of new overdue obligations. It is important that the Board be associated with support groups in designing ways and means to resolve this delicate problem in order to restore external viability and assist in the resumption of economic growth in the countries concerned.

Mr. El Kogali made the following statement:

I would begin by assuring the Board that this chair is doing all it can to encourage members to work constructively with the Fund and to stress the importance of economic reform as the prerequisite for long-term economic growth and improved living standards. In other words, one cannot query the emphasis that the collaborative initiative places on the need for countries with protracted arrears to implement comprehensive corrective policies. I should also add that the progress that is being made with some of the countries in arrears should be an encouragement to others. If I might say so, I believe that the Zambian case demonstrates that patience and flexibility are

important attributes that can break the ground in circumstances calling for delicate negotiations. I think we can learn from that experience in dealing with other countries.

Our chair has already commented in some detail on the issues raised in the staff papers during the informal meetings on July 5. We reiterate our position of supporting preventive measures to the fullest extent, but we are still very skeptical of any punitive measures. At the time, we intended to convey three basic points which remain relevant to today's discussions. First, that the countries in my constituency with protracted arrears to the Fund are experiencing this problem because of their extremely difficult foreign exchange situation, which translates into an inability to honor their obligations. It is now generally recognized that debtors' inability to pay is the basic reason for the current debt crisis, prompting the efforts under way, with the participation of the Fund, to reduce the stock of debt and debt service payments of countries with heavy debt burdens. Second, that my authorities feel that the Fund should avoid moving too fast in emphasizing punitive action, and that we should allow enough time to find ways to make the collaborative initiative more productive. Third, that serious difficulties remain with the criteria suggested for distinguishing between members willing to cooperate with the Fund and those that are not. We stressed that from a practical point of view, a country might be forced to divert resources that might have otherwise been used to pay the Fund to other uses, like paying for food and medicines. Taking such a decision is not at all simply a question of giving lower priority to the Fund; sometimes it is a question of meeting basic needs and national survival. In such circumstances, I would urge the Board to ensure that some patience and understanding is exercised by the Fund to demonstrate recognition of the desperate situation that poorer members are facing. I am aware that some might point to the inappropriateness of domestic policies as contributing to the present state of some of these economies. However, what is important now is to recognize that they have a serious problem and that the Fund, given its central role, should work with the authorities to design programs that take this situation into account.

We are now at a stage when the answer to the problem of large and protracted arrears can only come about by exceptional effort and cooperation on the part of the members concerned and the Fund. This is a shared responsibility, and we do not believe that much can be gained by communicating with other international financial institutions and certain Fund Governors in a manner which might be taken as suggesting additional pressure on a member, or at the worst, even indirectly advocating the cessation of assistance to a member. In any event, if this measure is approved, I would like to know whether some time

should be given to countries that are likely to be affected before the decision is implemented. Sierra Leone, for instance, has taken a number of significant measures in the right direction, and the Governor of the Bank of Sierra Leone had recently visited the Fund to indicate to the Managing Director his country's willingness to enhance cooperation with the Fund in the context of the collaborative initiative, and to strengthen its adjustment efforts. Sudan now has a new Government which has already expressed its willingness to work with the Fund. Our contacts with Liberia indicate that the authorities expect to hold substantive discussions with the staff during the Article IV consultations in mid-August. The application of further remedial measures at the time of the post-ineligibility review before these efforts run their course, might send the wrong signal. As for the declaration of censure, I do not think that it will in and of itself produce meaningful results. In any case, I am not convinced about the legal basis for publishing the declaration of non-cooperation, and any such decision to publish would be an issue serious enough that it would require a special majority.

Regarding the issue of suspension of membership, I agree with the view that the Fund has no legal right to suspend a member's right over and above what is prescribed in the Articles, and I do not think that the Board should pursue the matter further. We should be careful about amending the Articles; it could open a Pandora's box which we had better let alone.

As for the policy of special charges, it is obvious that it has not contributed much, if anything at all, to resolving the problem of protracted arrears to the Fund, and it is unlikely to do so.

Regarding the issue of the Managing Director communicating directly with the head of government or head of state of a member in arrears, I wonder whether this is politically advisable as it might be seen to undermine the authority of the official designated by the government to be the Governor of the Fund. Besides, I would like to know if there are any legal implications.

Referring to the timing of the implementation of whatever decision the Board took on further remedial measures, Mr. El Kogali said that he agreed with Mr. Fogelholm that countries likely to be affected should be served notice before any additional remedial action was taken. That point was crucial because some of the countries that had been deemed to be noncooperating were beginning to send signals that they were willing to work within the framework of the collaborative initiative.

The perception in the minds of some that some of the countries in his constituency were doing nothing about their arrears problem was inaccurate, Mr. El Kogali added. As he had indicated in his statement, his office was taking an active role in encouraging countries to avail themselves of the collaborative initiative, and all of them had shown awareness of the benefits to be derived. Therefore, he urged that time be given for those developments to run their course before precipitate action was taken.

He agreed with those who had questioned the advisability of the Managing Director communicating directly with the heads of government or heads of state or members in arrears, Mr. El Kogali concluded.

Mr. Filosa made the following statement:

The staff statement, issued two days ago, gives a clear summary of the procedure to be adopted to prevent the emergence of arrears, to deal with cases of arrears that occur, and to be initiated in cases of protracted arrears that have been discussed in the paper.

I will start with brief comments on remedial action to be adopted after the emergence of arrears and I will then concentrate on the procedure regarding the cases of protracted arrears.

In its statement, the staff raises the question as to whether it is appropriate to ask the Governor of the member falling into arrears to bring the matter to the attention of its authorities at the highest level. Since we are envisaging the possibility of a communication to the Governors of the Fund, it seems to me that it is appropriate to give an affirmative answer to this question. In some cases it might also be appropriate for the Managing Director, after having consulted with the Executive Board, to communicate his concern directly to the head of government of the member.

As to the question of the communication to the Governors of the Fund, I have already expressed my support for this initiative. However, as we are envisaging the possibility of a second communication to the Governors, I see, like Mr. Enoch, the need to have different wording for the two letters and to be more selective in the choice of addressees. This choice should be made on a case-by-case basis and after the Executive Board has been consulted.

Coming now to the procedure for dealing with members with prolonged arrears, I believe it is important to establish escalating steps in our remedial actions that would allow us to meet progressively worsening situations with progressively stronger remedial actions. In the structure of such steps, the

double instrument of communication to the Governors and the declaration of noncooperation can mark different degrees of remedial action, emphasizing to the country in question the need to forestall further remedial actions, like the suspension of membership or compulsory withdrawal that represent ultimate measures, to which we hope not to resort.

To give an overview of what seems to be an appropriate temporal sequence for the remedial steps, the use of the communication of Governors should be raised for the Executive Board's consideration, say, at the time of the first or second post-ineligibility review and before the declaration of noncooperation. This would allow the country in arrears some reasonable time to take actions to remedy its position after it has been declared ineligible.

At that time, if it is so decided, the communication should be sent to selected major creditors. In this respect, I share the view that we should avoid fine-tuning the list of addressees of the communication on each occasion. Therefore, we should apply general criteria that are, at the same time, automatic and selective. One possibility is to decide to send the communication to all creditors who account individually for a significant share of the total outstanding debt. Maybe the 3 percent threshold suggested by the staff, or a 5 percent threshold, would be appropriate.

Regarding the proposal to send this kind of communication to other international financial institutions, I believe it is worth considering that, since the objectives of these institutions are, at least in part, different from those of the Fund, it might be difficult to get their support for such a concerted effort. It is also probable that such support would necessitate some reciprocity for which it is not recommendable that the Fund be liable.

As far as the text of the communication is concerned, I am in broad agreement with the proposed language. However, we should add a sentence saying that should the noncooperative behavior of the country continue, further remedial action would be adopted, although any precise reference to the type of action that might be adopted should be avoided. Other possible remedial actions that might be adopted before resorting to compulsory withdrawal, for example, the suspension of membership and the possibility of withholding SDR allocations, still have to be examined further. Both measures, as I have said, could be adopted as intermediate steps before compulsory withdrawal.

After the communication to the Governors has been sent, I do not believe that it would be appropriate to set a fixed period of time to issue the declaration of noncooperation. On

the one hand, we have to give enough time to the country to react to the communication of the Governors; on the other hand, we should avoid too long an interval which could slow the momentum of the remedial process. A period of about six months between the communication to the Governors and the declaration of noncooperation might be appropriate in some instances, but we have to decide on a case-by-case basis.

As to the question of which organ should issue the declaration, it seems to me that in order to enhance the impact of this measure it would be better to have the declaration adopted by the Board of Governors on the recommendation of the Executive Board. As a follow-up to the communication by Governors, if such a declaration were to be issued by the Executive Board, it would have somewhat less impact than if it were to be issued by the highest organ of the Fund. Moreover, I do not see that the cooperation of the Governors would be difficult to secure on this matter since their intervention would already have been set in motion on the occasion of the communication.

I do not think we should incorporate in the declaration of noncooperation the intention to initiate the procedure of compulsory withdrawal after a specific period of time. However, we should express the intention either to initiate, in the future, the procedure for compulsory withdrawal as a further intermediate step, or to take a vote on the matter, if the country concerned continues to refuse to cooperate, its arrears continue to pile up, and its actions indicate that it does not respect the preferred creditor status of the Fund.

Publicizing the declaration of noncooperation is appropriate treatment, I believe, provided that the reference to the economic policies followed by the country is not disclosed, since this, of course, would be a breach of confidentiality. In effect, the noncooperative attitude of the member in arrears is implicit in the declaration of noncooperation.

As far as the tests of noncooperation are concerned, it seems to me that we should produce evidence that, since the first occurrence of arrears, the member has consistently, or almost consistently, displayed discriminatory behavior toward the Fund, and, at the same time, has not adopted major economic reforms to address the problem of arrears.

Regarding the suspension of members, such an action carries a number of legal and political complications, since it alters the essential balance of rights and obligations of the member, unlike compulsory withdrawal. In principle, such a provision could be useful as an alternative to compulsory withdrawal. Thus, it would take on an intermediate role in the progression of final sanctions toward extreme cases of overdue obligations

to the Fund. However, since the measure of suspension entails the lengthy duration of, and complications in obtaining, a majority to proceed with amending the Articles of Agreement, it would behoove us to carefully study the matter further, here in the Fund as well as in our capitals, before starting a formal procedure.

As to special charges, we can go along with the staff proposal. We are in favor of retaining the present system, although its effectiveness is rather limited.

Mr. Mawakani made the following statement:

The latest report on overdue obligations to the Fund is a mixture of encouraging and discouraging developments. The discouraging developments relate to the continued rise in the amount of arrears to the Fund since our last review. Like others, we are concerned about this development and its adverse effect on the financial integrity of the Fund. The statistical information and charts in the report amply underscore our concerns.

To preserve the Fund's financial integrity and to ensure the revolving character of the Fund's resources, we are anxious to see that the number of countries that are likely to fall into arrears does not increase further. In this connection, it is important for the Board to ensure that the preventive measures that we adopt are realistic if they are to be effective. The encouraging developments that have taken place recently, and which we welcome, relate to the progress that is being made at different stages under the intensified collaborative approach by some of the members in protracted arrears toward a resolution of the problem of overdue obligations to the Fund. Some of these members have adopted policy measures to reduce domestic and external economic imbalances and have fully settled their obligations, while others have resumed payments or increased the amount of such payments to the Fund.

Most encouraging of all is the expression of intention to cooperate with the Fund, and the actual cooperation that is taking place as reflected in the implementation of comprehensive economic programs monitored by the Fund in the context of support group arrangements. Here I recall the case of Guyana, perhaps Somalia, also.

As I have just stated, preventive actions are needed to contain the number of overdue cases. Such measures are proving effective, and I wish to reiterate our view that the best preventive action to guarantee against the emergence of overdue

obligations is the continued improvement in the design of Fund-supported programs that are growth oriented.

Having said that, I will turn now to the remedial measures. The procedures in place to deal with cases of members in arrears to the Fund are well recorded in the staff statement of July 17, 1989. We do not favor proposed remedial actions additional to those that have already received the Board's support for implementation.

I see no need for communicating with Fund Governors, or certain governors and heads of financial institutions, because the Governor of the Fund for the member country in arrears is appointed by the highest authorities of the country. High authorities in member countries regularly have the opportunity to receive communications from the Fund on relations between the Fund and the country in arrears. The Board is supposed to have all available information about member countries in protracted arrears to the Fund. The major creditors of the Fund also receive the Fund's report on overdue obligations under the agreement with the Paris Club. The collaborative approach to overdue obligations to the Fund has been established recently, and we need more time to evaluate the progress that can be attained under it before taking further preventive measures.

In sum, we are of the view that preventive measures must be taken in order to avoid the emergence of new cases of overdue obligations. The procedures that have been implemented since 1982 seem to us to remain relevant, and we do not think that additional action is necessary at this time.

Concerning the special charge related to overdue obligations to the Fund, I have no difficulty with the proposed decision, which I can endorse.

On the specific cases raised by the staff on suspension of membership, and censure or declaration of noncooperation, as I have stated before, the Fund has established a collaborative approach, which we should follow. In that respect, I fully support and am of the view expressed by Mr. Marcel, Mr. Ismael, and Mr. Ghasimi. The collaborative approach is new, and we have to make our best effort to implement it fully. Only in that way can we help a country in protracted arrears to the Fund to settle those arrears. He maintained the position he had taken in the informal meeting that the Fund was moving too fast; it must implement the collaborative approach before taking other measures to deal with the problem.

Mr. Dai made the following statement:

Our position remains the same. I have just two brief remarks to make, following the principal lines of my statement at the informal session.

First, on remedial measures in general, I remain skeptical about the appropriateness and effectiveness of the general application of such measures as a solution to the overdue obligations problem. I still believe that the causes of member countries' protracted arrears to the Fund are complex and deep-rooted. There may be exceptions, but in most cases arrears of a protracted nature are not due to deliberate noncooperation by the authorities concerned. Hence, it is difficult to make a straight distinction between a lack of ability and a lack of willingness to pay. Given the complex and difficult task we are facing, I would like to stress once again that the application of remedial measures should be considered on a case-by-case basis and be strictly limited to extreme situations, with cautious consideration being given to the circumstances of the individual case.

Second, turning to the specific measures of communication to Governors and declarations of noncooperation, there may be certain justification for alternative measures or intermediate steps to be taken before the Fund has to resort to the compulsory withdrawal of a member, which may be used as additional pressure on the member in arrears. However, the productiveness and effectiveness of additional measures--either preventive or remedial--appear doubtful.

As a preventive measure, the pre-ineligibility communication to Governors was proposed by the staff to be sent at about the sixth week in the sequence of actions after the emergence of arrears. Since Governors can be kept informed of new arrears cases through their regular channels with the Fund, the involvement of Governors at too early a stage may not serve the purpose for which such action was originally proposed, unless recipient Governors are obliged to initiate certain actions against the member country on a bilateral basis. This would have political ramifications for the relationship between the member countries concerned.

In my statement at the informal session, I questioned the effectiveness of both communications to Governors and further declarations of noncooperation as remedial measures. In my view, these measures could become repetitions of similar instruments because they are in many ways similar to declaration of a member's ineligibility, which is itself essentially an implicit declaration of noncooperation. Except for increasing pressure on the member country, I cannot see the meaningfulness of these

measures. However, if a country continues to be unable to settle its overdue obligations to the Fund after the declaration of its ineligibility, it is doubtful that repeated declarations and pressures can be an effective instrument to solve the problems of such a country.

In sum, in principle I am not in favor of the proposed further remedial measures. While maintaining our concern and reservations with regard to the effectiveness and implications of these measures, I have also noted the anxiety expressed by a number of Directors to push ahead with the intensified collaborative approach and would associate myself with their views. If the Fund were to decide to proceed with these measures, I must reiterate our concern about the political implications involved, and would maintain that: (1) the proposed communication should not recommend specific actions to be taken by recipient countries; (2) the potential addressee should be consulted and selected on a voluntary basis; and (3) the application of both measures should be confined to extreme cases, but careful consideration should still be given to the circumstances of each individual case.

Finally, I have no further comments on suspension of membership.

Mr. Fogelholm made the following statement:

Much to the concern of this chair, the total amount of arrears to the Fund has grown steadily and will most likely continue to grow, even in the absence of new arrears cases. In such a situation it is, of course, of the utmost importance that the Fund succeed in preventing new cases. In this connection, I would like to agree with the staff's conclusion that the best safeguard is the quality of Fund-supported programs, and in addition, as Mr. Marcel has remarked, that adequate financing is secured for the programs.

For members already in arrears to the Fund, the enhanced collaborative approach was recently established. This strategy has the support of the Nordic countries. Owing to the limited implementation and hence experience of the strategy to date, it is too early to make a final judgment about its eventual success. However, at this point in time, there are signs that some of the overdue countries have started to show an increased responsiveness and have begun fulfilling certain of their responsibilities with respect to the Fund.

I agree with the staff's view that the Fund should do its utmost to influence positively the attitudes and economic policies of the noncooperating countries. However, the success

of these efforts will depend largely upon the donors' willingness to support the adjustment efforts of the cooperating countries, which inter alia implies financing to clear the arrears of these countries. Combined with the remedial measures already agreed upon--namely, nonpayment of quota shares and limitation of technical assistance--the impact should be a preventive one, in particular, if the overdue countries pay due attention to the benefits they receive as members of the Fund.

It is, nevertheless, doubtful whether these measures alone will be sufficient to motivate the noncooperative countries to change their policies. Thus one could argue in favor of further sanctions. Nonetheless, my authorities are of the opinion that before starting to implement new sanctions, a careful assessment should be made of whether the sanctions to be imposed are indeed likely to bring about the anticipated results. However, such results may be difficult to measure. In certain instances, the intention might just be to convey the discontent of the membership at large. In other instances, the use of remedial measures could be based on the desire to safeguard the financial position of the Fund.

All in all, the extent to which the present strategy should be complemented by further sanctions should be considered in light of the progress attained in the elimination of the arrears.

As to the suggestions before us, and turning first to the procedures with respect to members which have just fallen into arrears, I find the idea of the Managing Director communicating directly with the head of state of the member concerned worth pursuing. In order to avoid possible diplomatic problems, this communication should perhaps go via the Governors. I agree with other Directors that this avenue should be used only sparingly and on an ad hoc basis.

As regards the proposals for further remedial actions against members with protracted arrears, let me first comment on the communication to Governors. As you know, this chair has had some reservations concerning the proliferation of various types of communications. We have, in particular, been against communications addressed to other than member governments. If, however, it is decided to exert further pressure on overdue countries by sending a letter from the Managing Director to Governors, such a communication should be cautiously drafted, without mentioning the private institutions involved in the countries concerned. It should, of course, be up to the Governors to decide what actions, if any, should be undertaken as a follow-up to such a letter. In order to achieve optimal results, I believe that the letter should be sent before an eventual declaration of ineligibility, as one could at least

hope that the possible threat of actions by creditor countries would persuade the member country in question to resume its payments to the Fund. I am more doubtful about the efficiency of such a communication after the declaration of ineligibility. Finally, on this point, I believe that, at the most, one letter should be sent to Governors and that this letter should be sent to all Governors.

The other proposals--the declaration of noncooperation and suspension of membership--can both be considered intermediate sanctions to be applied before the ultimate punitive measure, compulsory withdrawal. The possibility of such measures should be kept open, in particular if it turns out that the collaborative approach does not work out satisfactorily. However, as suspension of membership in practice will require a revision of the Fund's Articles, the method would appear to be inapplicable in the foreseeable future. In contrast, a declaration of noncooperation could be used as a method to distinguish between cooperating and noncooperating countries. We are of the opinion that if such a declaration is adopted, it should be published immediately. However, in order to ensure flexibility for the Fund we cannot, at this stage, accept any linkage between a declaration of noncooperation and compulsory withdrawal.

Let me end my comments on further remedial measures by stressing that if an enhancement of the Fund's arsenal of preventive measures and sanctions is approved by the Board, the Nordic countries would not like to start implementing these measures without prior and due notice. The Managing Director should first inform, in writing, countries in arrears about the introduction of such new measures, as well as about the date when they become effective.

To conclude, we can endorse the staff conclusion with respect to special charges as well as the proposed decision.

Mr. Nimatallah observed that much had been said about sending only one letter to Governors. It might well be the case that only one letter would be required, but there should be no difficulty in sending more than one if the circumstances called for it. For instance, if an isolated case of arrears persisted for a number of years, and the member showed no signs of cooperating with the Fund, a second letter--and even possibly a third--following the declaration of noncooperation would bring additional pressure to bear on the member. After all, it was simply a matter of informing the member and the community that the membership at large was being adversely affected, and to restrict the number of communications to one would seem to tie the hands of management.

Mr. Fogelholm said that he agreed with Mr. Nimatallah that any number of letters could be sent if the Fund reached the happy stage at which,

say, only one country remained in arrears. But as a general rule, he would not wish to involve the Governors unnecessarily in the process of dealing with members' overdue obligations.

Mr. Warner made the following statement:

It has been very helpful to me to make my few points somewhat later in the discussion--usually the United States speaks early and forcefully on this issue, but this is not to suggest that what we say will be any less substantive. By listening carefully to the statements of my colleagues, it is apparent that, on balance, the vast majority of member countries are very sensitive to this issue, and have developed some strong views that have contributed measurably to the dialogue we are having today. Importantly, I am hearing very similar observations supporting sound practices for our arrears management system from both developing country members and developed country members. I sense we are getting to the point of a measurable consensus of views as to what we should do to rectify this most serious problem.

I think that the remarks from this chair at our previous meeting respond to most of the questions posed in the staff paper. However, I have some views on the staff statement, and also some observations on remarks by previous speakers.

Basically, I believe the statement by the staff is excellent. It is very responsive to the discussion we had here several weeks back. I am particularly pleased with its treatment of the "ability and willingness" issue. Most importantly, many speakers this morning have placed great emphasis on the preventive stage of our arrears management system, which should in many respects be the most significant, and the one that offers the greatest opportunities to us. I was very impressed with Mr. Mawakani's observations in this regard. It is very pleasing to recognize that so many member countries understand that prevention is the key to containing this problem.

It is important, under the procedures of the staff, that we understand the status of a member well in advance of an arrears problem. We have often referred to this as an early-warning system. When we get into the determination of cooperation, which is a complex question, it is important for us to know the cause and nature of the arrears to the best degree possible. This information will provide us with better guidelines as to what actions we take and when.

Turning now to the collaborative approach, I still sense that many member countries overemphasize the collaborative approach, which certainly is very appealing, since we operate as a cooperative. As a cooperative, we would like to think that

we have the attention and cooperation of all our members on a consistent basis. And yet, when we look back at the arrears cases that we have on our books today, the moral hazard issue that many chairs have emphasized in the past is still with us. I and others, including Mr. Goos and Mr. Enoch, have discussed the moral hazard issue with the Board, and I do not think our concerns have diminished in that regard. I think we have to make a distinction in applying the collaborative approach. In sum, the collaborative approach should remain focused on the eight countries that are ineligible right now. Mr. Goos made this point very adequately a few moments ago when he said that intensified collaboration should remain focused on the present list of arrears cases, and not be offered as an olive branch to less serious arrears cases that perhaps can be resolved by other methods.

Importantly, I think the Board has focused on remedial actions today, the most difficult area of our discussion. Let me take some of the points that have been developed already, and try to remove some of the doubts that seem to remain in the minds of a number of Directors as to whether we can realistically pursue remedial actions and achieve results.

My first observation is that unless we try a number of the measures that we have discussed extensively and are reviewing today, we will never know what their effectiveness might be. We understand the political sensitivity of it, but we cannot overpoliticize the process. As a financial institution, we must pursue a sound arrears management system.

With regard to letters to Governors, I agree that there is a hazard in having too many communications and making these communications complicated by requesting action by the Governors. We do not want them to feel remote. We want them to feel informed, and there are some key actions they can take. But we have to be selective in what we say and what we request. In this respect, even though the Managing Director has communicated with a member in arrears through the issuance of a complaint, there is a rationale for a letter to Governors preparatory to the Board moving toward a declaration of ineligibility. I do not think we want to burden that communication with too many requests. But having lived through the long and unfortunately painful exercise of many reviews of arrears before reaching the point of ineligibility, if such a letter can help us, we must try it. I realize that it has the characteristic of a trial balloon, but I think it is a worthwhile tool until proven otherwise.

The communication with Governors regarding noncooperation also has significant value. The Governors, I think, should be brought into the matter to the fullest extent possible. One

might argue that this will overcomplicate the issue. That is a risk. But we believe there are greater risks in not being serious about our arrears management system. The letter proposed by the staff is perfectly adequate, although a number of suggestions made by Mr. Enoch and supported by Mr. Goos are worthy of further consideration in the context of our continuing discussion of the composition of these communications.

We have spoken earlier on the question of suspension and the complication of amending the Articles. Therefore, I will not dwell on it. I join other speakers in embracing Mr. Enoch's approach. That is, suspension should be recognized as a very worthwhile tool for further consideration, and should we enter into an amendment process of the Articles at some future date, it should be given the highest consideration.

Keeping in mind that everything we do within the arrears management system is treated on a case-by-case basis, our guidelines for the arrears management system should be well known and transparent to all members. We need to avoid uneven or unclear treatment. The Governors now have a higher level of sensitivity as to the operation of our system and how we intend to manage it. Quite clearly, the Board is seeking the right balance between preventive action and remedial measures. The collaborative approach is an element that lends itself well to a cooperative. The Board has been tempered in its approach thus far and there is reasonable hope for success. Accordingly, we continue to emphasize preventive action, and the necessity of seeking appropriate remedial measures.

But we also have the political reality that a perpetuation of arrears brings forward a difficult subject that has been in the back of the minds of all Directors in the course of our discussions today, and that is burden sharing. The continued stressful arrangements for burden sharing could, I fear, do serious damage to this organization. Without getting into the broader area of financial integrity that we have addressed on previous occasions when we have discussed burden sharing and quotas, overdue financial obligations constitute a malignancy in our system. I am now thinking seriously of the effect of burden sharing on developing country members that are paying a very high price for the arrears brought on principally by noncooperation. I think that we must recall these conditions in weighing the merits of remedial actions. I know that, from the standpoint of major creditor countries, the concern is growing. What I do sense, now, is that developing countries are taking a more serious view of arrears, and I dare say that the burden sharing influence is a major propellant for their interest.

In closing, I must raise a point that has been noted in the course of several of our earlier discussions and deserves

emphasis today, particularly because I have not heard it mentioned in previous statements. We are in an era of very scarce resources. We are sensitive to this in proceeding with our concurrent support group operations. Therefore, we should understand that what resources are available should be accorded to those members that offer cooperation, and demonstrate that they are able to manage their economies.

Mr. Evans said that like the staff and all previous speakers, either at the present or in the earlier informal sessions, he agreed that the best preventive measure was the quality of Fund-supported programs. While that statement was endorsed by everyone as a matter of basic principle, to put it into effect in Fund operations, it was necessary to acknowledge both the responsibility of the staff and of the member country in developing those programs and equally of the Board in approving and, moreover, in monitoring them. That was clearly where the problems arose, as was indicated by the growth of arrears. For that reason, he wished to support once again Mr. Warner's suggestion for a better early warning system to make the Board more effective in its monitoring. He did not know precisely what form that system should take. The avenues that already existed apparently left it to the staff to make an implicit judgment as to whether or not the Board could be of assistance in circumstances in which arrears were emerging. It seemed to him that it would be wise for member countries to be aware, when they were considering a decision to initially enter into arrears, that not only the member but the Board would be interested because it was not only a matter of the prospects of the country itself but of placing other members' funds at risk.

On the question of remedies, and consistent with the comments he had made, Mr. Evans said that he wished once again to stress the importance of all remedies having within them a strong preventive element. It was for that reason that he had referred to the importance of the suspension of membership as a tool that might be better understood by member countries than the proliferation of other steps that the Fund took and was developing. The issue of suspension would be of significance in pointing at an early stage to the implications of actions by members that were falling into arrears. For that reason, the suspension issue should be kept under consideration.

As for the specific remedies under discussion, Mr. Evans stated that he supported sending letters to Governors, preferably to all Governors, in the basic form set out in Attachment III to EBS/89/133, subject of course to a final look before decisions were taken. He agreed with those who stressed that it was the first letter--the one that would be sent prior to the declaration of ineligibility--that would be the most productive. While he shared the concern that a second letter might not be an effective addition to the Fund's existing armory of weapons, he took Mr. Nimatallah's point, namely, that circumstances of countries did

change, including their relationships with other countries. Thus, the possibility that a second letter--after the declaration of ineligibility--might be useful could not be ruled out.

At the present stage, he shared the misgivings expressed by Mr. Prader with respect to declarations of noncooperation, Mr. Evans concluded. Should the Board decide to add that particular measure to the Fund's armory, he would join the consensus, but he did not believe that it had yet been demonstrated that issuing such declarations would be a positive step. In his view, Mr. Prader's reservations carried weight.

Mr. Jalan said that he shared the general anxiety about the need to take the toughest possible measures to recover arrears and to ensure that arrears did not occur. As pointed out by Mr. Warner, the developing countries too were paying a heavy price for the existence of arrears. Therefore, in the past, his chair had supported the collaborative approach as well as other actions proposed by the Managing Director in the attempt to recover arrears and to take preventive measures. The Fund must be sure that in judging what further action should be taken, it introduced measures that were effective in reducing arrears or in recovering past arrears. It also had to be remembered that the Fund was an intergovernmental institution, that relationships among governments were seldom only technical or financial, and that either bilateral or even group actions inevitably became politicized. Therefore, unlike Mr. Warner, he believed that action calling for governments, or a group of governments, to intervene in relation to any other member government or group of governments would become political. And that fact had to be taken into account in judging what further action the Fund should take. Having listened carefully to the debate so far, he was happy to note, like Mr. Warner, a shared sense of concern among both developing and developed countries, all of whom wanted the problem solved.

As to the specific action, his judgment, which had been further strengthened as the debate proceeded, was that none of the measures suggested would be effective, Mr. Jalan continued. For instance, a large number of Directors had felt that the issue of the suspension of membership should not be pursued further. Apart from the important legal obstacle relating to the amendment of the Articles, the suspension of membership would have to be based uniformly on objective criteria rather than on the duration or the size of arrears. The Fund could not make a decision to suspend membership based on an assessment of willingness or ability to pay because the decision would be a judgmental one. Nor could the Fund suspend one of two countries that had been in arrears for the same period of time in the same amount and not the other. Those were the type of considerations that must be kept in view and that led him not to favor any further consideration of the issue at the present time. The issue of suspension could be considered in some other context, but he strongly advised against it on legal, political, as well as practical grounds.

He also felt that declarations of censure would not add to the effectiveness of the measures that were being taken, Mr. Jalan stated, and he did not therefore support such a step.

On the matter of the letter from the Managing Director, Mr. Jalan recalled the extensive discussions of the Board prior to the Interim Committee, during which some sort of consensus had been arrived at on addressing the letter first to the governors, informing them of the arrears, and then to creditor countries or other selected countries that might have a legitimate interest in the particular country's problem. However, since the April Committee Meeting, there had been important developments that needed to be taken into account. The first was of course Fund-Bank support for the debt reduction strategy, under which the two institutions were not only providing assistance for debt reduction to those countries in arrears to commercial banks--and without making any judgment on whether or not it was the fault of the country--but were also trying to persuade commercial banks to forgive part of the debt.

The second important development was the greater collaboration between the Bank and the Fund on the issue of arrears and the greater awareness of their impact on other sources of assistance, Mr. Jalan added. He recalled that there had been fears that the Bank might provide assistance to countries that were in arrears to the Fund, but that issue was being resolved. There was also much greater awareness of the problem of arrears affecting assistance from bilateral donors and from commercial banks. Consequently, there should be hardly a single country that would not willingly pay its dues to the Fund. The implications of not paying the Fund were becoming clearer and clearer because of the discussions in the Board and the Interim Committee, and because of the action taken by the Fund, Bank, and bilateral donors as well as commercial banks.

The third development was the personal initiative of the Managing Director and his team in trying to persuade members in arrears to return to the fold, Mr. Jalan went on, with some success, moreover. In that connection, his fear was that a letter from the Managing Director to Governors asking them to inform financial agencies that because a certain country was in arrears the Fund would not be providing it with any more assistance, would be tantamount to saying that it would be advisable if those financial agencies also did not provide assistance. Yet if at the same time the Fund was able to persuade the country to benefit from the collaborative approach, it would have been asking those same agencies to provide more assistance and more money. An inconsistency would be introduced into the whole process because in the first instance, finance ministers would have been asked to tell agencies not to provide aid and subsequently to provide it, thereby politicizing the issue further. It would be more productive to build on the initiatives that were already being taken, and that were resulting in some progress, rather than to launch new initiatives which might complicate the process.

If, as Mr. Nimatallah had mentioned, a letter needed to be written to Governors because one case of arrears remained outstanding, the matter

could surely be considered on its merits, and not as a matter of general policy, Mr. Jalan remarked. Once a general policy was laid down, its application would have to be uniform in some sense. If the Fund had abandoned hope of being repaid by a specific member, there would be no reason why Governors could not be informed of that situation, but based on the exercise of judgment at that point of time. Again, it seemed wiser not to complicate existing procedures by introducing a new initiative at the present stage.

Mr. Nimatallah said that of course he agreed with Mr. Jalan's comments that the Board should be taking the opportunity to look for effective measures. At the same time, whether or not the Fund's membership was one of governments, in the end, it was still a financial institution that had to be well managed. It was the Executive Board that had the responsibility for managing the organization, and if there were factors leading to a depletion of its resources or burdening its members with unwarranted costs, the Board, as the institution's manager, should look for ways and means to eliminate those factors. The Executive Board had been trying to find appropriate ways and means for the past five years or more, and was continuing to do so. Apparently, as Mr. Warner had put it, the Fund needed to find early warning procedures to protect members from falling unnecessarily into arrears. But at the end of the line, there were members that were stubbornly not taking any action. It seemed fairer to him to set rules in general that would be applicable to such different stages of countries' arrears situations. In dealing with the final stages of arrears, the rules that were set should be stated in clear, general, uniform terms, even if they applied to only one or two or a few member countries. It was not a matter of waiting until a particular case emerged and taking an ad hoc decision. Criteria had to be established to identify members that were failing to make payments, to cooperate, or to introduce the comprehensive measures or shadow programs that were supposed to be taken under the collaborative approach. Such members were hurting their own people, the membership at large, and the entire system. It was the Board's duty to speak out and set down rules, thereby safeguarding the best interests of the financial institution that was the Fund.

Mr. Jalan said that he fully agreed with Mr. Nimatallah that the Board had to manage the institution so as to decrease arrears and prevent their occurrence in future. The action to be taken to that end was a question of judgment. His own judgment was that there was nothing to prevent an Executive Director from informing his authorities of the financial consequences of arrears to the Fund: the Fund itself would not lend the member in arrears, neither would the Bank; the commercial banks would not extend loans; and there would be no debt rescheduling. Countries were becoming more and more aware of those consequences, especially as a result of the exercises undertaken during the past six months or so, and it was the responsibility of each Executive Director to make sure that the countries in his constituency knew of them. It could not be the responsibility of management. The set of actions under consideration did not add anything by way of financial consequences to the Fund's armory. Of course, if the Managing Director's letter to other Governors was likely

to make a country pay the Fund or realize the consequences of not doing so, it should be considered. At the same time, it should be borne in mind that the Board had recently considered one or two cases of countries in arrears where favorable developments had been reported. If, six months previously, the Managing Director had written a letter to Governors, who would have told interested agencies not to help such a country, it would seem unfortunate as appropriate progress began to be made to expect the Managing Director to write to the same Governors asking their agencies to provide assistance. Should negotiations break down, and the progress not fully materialize, the Managing Director would have to write to Governors again. The whole procedure would become very complicated. The recent new developments and the progress that was beginning to be made in conveying the right message to countries in arrears had suggested to him that it was not the time to introduce even more new procedures. But if the Board's judgment was that it would be effective in a certain case, he would have no hesitation in sending any number of letters.

Mr. Nimatallah said that it was indeed a matter of judgment. At the present stage, there was no reason not to send the communications to see whether they would work; if they did not, the search for some other measures would have to continue. But the Fund could not simply let one or two or three stubborn members remain in arrears without taking any additional measures so as to let the world know that it was trying to manage the institution as well as it could. The idea was to involve Governors in some way, and to indicate that just as the Fund could catalyze financial resources for a member, so could it decatalyze them. After all, every country had friends and associates in other countries' governments, who could add to the pressure on the overdue member to take action to deal with a worsening situation that could unleash a process of decatalyzation against that country. No country should be given an indefinite time to face up to its difficulties; the rules should be in place, and they should be applied when necessary. Financial resources were scarce, the burden of arrears was mounting, and it was the Fund's duty to act.

Mr. Jalan remarked that in fact the Fund was already decatalyzing assistance to countries in arrears. The only additional point that was being made was apparently that it should be declaring that that was what it was doing. Yet it was universally known that the World Bank could not lend, that there could be no Paris Club rescheduling, and that commercial banks would not lend to a country that remained in arrears to the Fund. His question was why the existing procedures should not be strengthened through bilateral contacts or the good offices of the Managing Director. His own considered judgment was that writing formal letters would not increase the effectiveness of those procedures.

Mr. Finaish made the following statement:

> We share the view that in the case of the overdue obligations problem, as with most other problems, prevention is better than a cure. Therefore, we can support the efforts to reduce the likelihood of members falling into arrears. Obviously, the

risks cannot be eliminated completely unless the Fund stops lending altogether. Even then one could argue that the risk of arrears by members with outstanding obligations would be greater. So one has to take a balanced approach which does not allow the problem of arrears to impede the Fund's discharge of its functions in an effective way.

Second, on the question of the communication by the Managing Director to the member in arrears, I am not sure it would be appropriate to address the head of government two weeks after the emergence of arrears. Perhaps the staff could indicate how many episodes of arrears of two weeks or more occurred in 1988. But in general I continue to share the views of many other Directors, in particular, Mr. Kafka, on following the normal channels of communication.

Third, on the current procedures for reporting new arrears cases to the Board and the issuance of complaints, I am a little unclear about which procedures are applied in all cases and which require a case-by-case judgment to be made. For example, the staff states that a report to the Executive Board is normally issued one month after an obligation has become overdue. Does this mean that this procedure is not applied uniformly in all cases? In describing the procedure for issuing the complaint, the staff does not seem to give room for any leeway about the timing of the complaint. Perhaps the staff can clarify this issue.

Fourth, although the question of quota subscriptions by members in arrears has already been agreed by the Board, I would like to emphasize again that in our view, it would be important to provide members sufficient time to become current before denying them the right to pay the quota subscription. This is particularly relevant in protracted arrears cases where the full settlement under the intensified collaborative approach can take place only after a relatively long process.

Fifth, on the suggested communication by the Managing Director to Governors and other institutions regarding noncooperating members, we are prepared to join the majority view although we share the doubts expressed by a number of speakers. In any event, however, we would not favor a routine or quasi-routine procedure. If the communication is to be effective at all it has to be used only very sparingly. We would also favor bringing the matter to the Board before applying this procedure in individual cases, although I agree that fine-tuning the address list by the Board would not be productive. I am not sure that fixed rules on the timing of the procedure would be useful, but certainly communications should not take place before other positive avenues are fully explored with the member.

We do not have strong views on the text of the communication by the staff, particularly as it relates to Governors of the Fund. However, the possibility of including other multilateral institutions on the list raises a number of questions, including reciprocal treatment, which I am not sure have been fully considered.

On the question of criteria for judging a member as noncooperative, I agree with the staff that the record of payment to the Fund relative to payments to other creditors is a relevant consideration. This would require the staff documents on individual cases to provide more complete information on the member's debt service record and not only a short table showing gross debt service flows to various creditors. Even if one does not dispute the principle of the Fund's preferred creditor status, before the Board judges a member as noncooperative, it has to be informed of the circumstances behind that member's debt service behavior, including the amounts and type of outflows as well as inflows from various creditors.

On declarations of noncooperation, we continue to have doubts about their effectiveness. As a matter of principle, however, we believe that if such declarations are judged as useful, they should be made by the Executive Board and should be kept separate from statements of intentions about compulsory withdrawal, which is a far more radical step.

As to whether the declarations of noncooperation should be published or not, we do not have strong feelings, but if they are to be published, then the deletion of the reference to the member's policies would seem to be more consistent with the requirements of the Articles.

On the question of suspension, as explained by the staff, suspension affects only the voting rights of the member and requires an amendment of the Articles. I do not think the matter should be pursued at this stage.

Finally, let me stress that in our view the measure of the effectiveness of any remedial actions should be the extent to which they can contribute to bringing the noncooperative members into the fold of the intensified collaborative approach. Therefore, I share the views expressed this morning by Mr. Kafka and Mr. Ismael on the importance of demonstrating to members that cooperation will indeed lead to the desired result. And there can be no clearer demonstration of that than the Fund's success in implementing the collaborative approach.

The Executive Directors agreed to resume their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/89/92 (7/17/89) and EBM/89/93 (7/19/89).

2. SUDAN - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINT UNDER RULE S-1

1. The complaint of the Managing Director in accordance with Rule S-1 of the Fund's Rules and Regulations dated July 10, 1989 in EBS/89/139 (7/10/89) is noted. It shall be placed on the agenda of the Executive Board for July 26, 1989, the same date as the 1989 Article IV consultation with Sudan.

2. The Fund urges Sudan to become current in its financial obligations to the Fund with respect to SDRs promptly and to avoid thereby the need for the Fund to take remedial action.

3. Consideration of the complaint under Rule S-1 particularly affects Sudan. The member shall be informed by rapid means of communication of this matter and of its right to present its views through an appropriately authorized representative at the meeting at which the complaint is considered and at such subsequent meetings as the Executive Board may hold on the subject matter of the complaint.

Decision No. 9214-(89/93) S, adopted
July 17, 1989

3. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 89/2 through 89/4 are approved. (EBD/89/214, 7/12/89)

Adopted July 18, 1989

APPROVED: March 5, 1990

LEO VAN HOUTVEN
Secretary