INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/130

10:00 a.m., October 30, 1992

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
	L. E. N. Fernando
Che P.	Wei B.
C. S. Clark	G. C. Noonan
	J. Jamnik, Temporary
T. C. Dawson	Q. M. Krosby
	J. M. Abbott, Temporary
	J. Prader
	R. L. Knight
R. Filosa	J. Papadakis
M. Finaish	
I. Fridriksson	J. A. Solheim
	N. Tabata
	S. Shimizu, Temporary
B. Goos	B. Esdar
J. E. Ismael	T. Sirivedhin
A. Kafka	J. C. Jaramillo
	I. Martel
A. Mirakhor	O. Kabbaj
L. B. Monyake	L. J. Mwananshiku
D. Peretz	J. Dorrington
G. A. Posthumus	Z. Trbojevic
C. V. Santos	
A. Torres	R. Marino
A. Végh	

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant

Also Present

IBRD: J. De Leede, Africa Regional Office. African Department: M. Touré, Counsellor and Director; G. E. Gondwe, Deputy Director; P. Beaugrand, C. Brachet, J. A. Clément, M. T. Hadjimichael, J. Kakoza, J. Ntamatungiro, S. Thiam. European I Department: L. J. Lipschitz, S. Nolan, P. M. Thomsen. Legal Department: F. P. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; P. L. Francotte, H. Elizalde, J. M. Ogoola. Policy Development and Review Department: J. T. Boorman, Director; J. Ferrán, Deputy Director; T. Leddy, Deputy Director; A. Basu, V. Galbis, G. R. Kincaid, J. P. Pujol. Secretary's Department: J. W. Lang, Deputy Secretary; C. P. Clarke, A. M. Dennison, R. S. Franklin, B. R. Hughes, A. Jbili, A. Leipold, S. L. Yeager. Southeast Asia and Pacific Department: Y. Byeon. Treasurer's Department: G. Wittich, Deputy Director; L. Aylward, J. E. Blalock, J. C. Corr, Z. Farhadian-Lorie, D. Gupta, C. A. Hatch, P. R. Menon. Western Hemisphere Department: S. T. Beza, Counsellor and Director; O. Gronlie, R. M. Reichmann, S. Sheybani. Personal Assistant to the Managing Director: R. Saunders. Advisors to Executive Directors: M. A. Ahmed, L. E. Breuer, M. B. Chatah, S. K. Fayyad, B. R. Fuleihan, J. M. Jones, Y.-H. Lee, E. Martínez-Alas, M. J. Mojarrad, M. Nakagawa, Y. Patel, F. A. Quirós, A. Raza, B. Szombati, N. Toé. Assistants to Executive Directors: S. Al-Huseini, M. C. B. Arraes, D. A. Barr, T. Berrihun, G. Bindley-Taylor, G. M. Blome, J. A. Costa, H. Dognin, K. M. Heinonen, O. A. Himani, J. Jonas, T. Kanada, J. Mafararikwa, G. J. Matthews, L. J. Morelli, R. K. W. Powell, P. L. Rubianes, L. Tase, T. P. Thomas, R. Thorne, Tin Win, J. W. van der Kaaij.

1. HAITI, SOMALIA, AND YUGOSLAVIA - CERTAIN ASPECTS OF FUND RELATIONS

The Executive Directors considered a staff paper on aspects of the Fund's relations with Haiti, Somalia, and Yugoslavia (EBD/92/242, 10/9/92). They also had before them a letter to the Managing Director dated October 29, 1992, from the Governor of the National Bank of Yugoslavia (Annex I).

Mr. Dawson commented that the three cases under discussion were difficult ones, and the staff recommendations for dealing with each of them were consistent and principled. In the case of Haiti, the staff's recommendation was, frankly speaking, inevitable, as well as logical and appropriate, given the recommendations that the Joint Procedures Committee and the Chairman of the Board of Governors had implicitly endorsed at the 1992 Annual Meetings.

In a sense, the cases of Somalia and Yugoslavia were not as difficult, because the Fund had faced and dealt with such cases in the past--although cases like that of Yugoslavia somewhat less so, Mr. Dawson continued. In that connection, the idea in effect was whether to continue to deal with a fiscal agent when a particular government was no longer in power or a country's existence was in some sense in question. The proposals for dealing with the Yugoslav and Somali cases were appropriate.

Mr. Kafka stated that he agreed with Mr. Dawson.

Mr. Dorrington made the following statement:

> In my remarks I will make references to precedents. I hope no one will take as a precedent my view that the staff paper in front of us is too short. The paper raises a number of complex issues, and, as of now, I for one am not confident that I understand the full implications of the proposals in front of us, nor indeed what alternatives we might have. I will set out my concerns under three headings: first, matters concerning the interrelationship between the three decisions we are asked to consider; second, matters relating to Somalia and Yugoslavia; and third, matters relating to Haiti. I will then make some concluding remarks.
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> My concern about the interrelationship is quite simple, at least on the face of it. As I see it, we are asked in the case of Haiti to believe that if we accept the credentials of a government for one purpose, then we are obliged to conduct relationships with that government and its agents as if the situation were normal in every way regardless of the actual situation on the ground. In other words, it is all or nothing. However, in the case of Yugoslavia, it is stated at the top of page 3 of the staff paper that "it was open for the Fund to decide on specific aspects of that relationship."

While I am certainly not a legal expert, and I know that, in logic, if A implies B, it is not necessarily the case that B implies A, I must say I find this apparent contradiction difficult to comprehend. Indeed, if common sense is not a good guide to the consequences of our decisions, then this reinforces my argument that we need to have the full consequences of proposed decisions spelled out for us before we reach any judgment.

This leads me to the cases of Somalia and Yugoslavia. I would like to be totally clear whether or not the decisions we are asked to take, and actions that might follow from them, could in any way prejudge any aspect of future Fund relationships. Such actions could include the fiscal agent of Somalia and/or the former Yugoslavia paying the quota increase and then drawing down its reserve tranche position.

I am also concerned that the proposed recommendation for Yugoslavia should not in any way prejudice the Board's consideration of the status of Yugoslavia in the Fund, scheduled for discussion on November 13. If such assurances cannot be given unambiguously, then on these grounds alone there is a case for delay until a supplementary paper has been produced and examined. The letter that has been put in front of us this morning reinforces that. We certainly have not had time to consider whether it alters our considerations.

I now turn to Haiti. I should make it absolutely clear at the outset that the United Kingdom firmly supports recognition of the Aristide Government as the legitimate Government in Haiti, and in no way should any of my comments be interpreted as seeking to undermine the decision of the Governors at the 1992 Annual Meetings following the recommendation of the Joint Procedures Committee. Rather, as I hope I made clear in my earlier note to the Secretary, my main concern is that the full implications of the precedent we could be setting have not been discussed in the paper.

Indeed, irrespective of the possible implications for the Fund, I wonder whether it is helpful to President Aristide to expect his Government to assume and exercise the full range of responsibilities for Haitian relations with the Fund in the current circumstances.

What I mean should become clear if I elaborate a little on some of the implications not mentioned in the paper. The paper does not explain that one of the consequences of President Aristide being asked to designate a fiscal agency and a depository would be that his Government would presumably be expected, in the interests of Haiti, to pay the Haitian quota increase. To do this, they would presumably have to borrow the portion of the quota to be paid in SDRs, and it is difficult to see how such a loan could be repaid without making a reserve tranche drawing. But President Aristide's fiscal agent would have to assert a balance of payments need in order to make a reserve tranche drawing, which would clearly be of no fundamental benefit to the Haitian balance of payments. I think that such a set of circumstances would put President Aristide in an awkward position and would set a dangerous precedent for the Fund in future. President Aristide would have to provide, and the Fund would have to accept from him, promissory notes for the domestic currency portion of the quota increase; such notes would be of debatable value to the Fund.

It is of course for President Aristide to judge what is in his own best interests. My point is that it is not clear that the decision in front of us is in the best interests of President Aristide; and his interests and those of the Fund are not necessarily in conflict, even if the fears I am about to expand on are justified.

My main concern is, however, not the specific case in front of us, but rather the implications for some purely hypothetical future case. Imagine a case of a country that had not drawn down its reserve tranche experiencing a change in government in a way that led to the Fund continuing to recognize the old government that went into exile. (It is immaterial why this decision is taken.) The old government then appoints a fiscal agent and a depository and makes a reserve tranche drawing. Eventually the new government is recognized by the Fund (again the reasons for this are not important), and the new government does not accept responsibility for withdrawal of the reserve tranche by the old regime. In these circumstances, the Fund's assets would therefore be put at risk.

Let me say immediately that this example is purely hypothetical, and the only relevance of today's proposed decision is that it may be used as a precedent in such a case. Others with more imagination than I may be able to think of other scenarios that could place the Fund at risk, and perhaps the most dangerous cases are those none of us can think of in advance.

Personally, I can see no means of effectively "ring-fencing" this particular decision to avoid setting a precedent that might be used in such circumstances.

I now come to the conclusions I draw from all this. If the potential dangers I foresee are real, even if very unlikely, I think we should consider very carefully the implications of the decision we are asked to take before so doing. Furthermore, we should consider whether there is some alternative open to us under which we would continue unambiguously to recognize President Aristide's Government as the legitimate Government for Haiti, but without forcing him into a difficult position and the Fund into a risky precedent.

These are complex issues in front of us, and they are politically charged. I have attempted to be totally objective in my statement today. My concerns are with the protection of this institution, and we all share that responsibility. We should not take decisions that could threaten the institution, however hypothetical or unlikely that threat might be, without being fully aware of the implications of what we are doing.

If I can be fully and unambiguously assured on all these points, I would be happy to support all the proposed decisions. In those circumstances, I would, however, strongly request that the staff provide us as soon as possible, and preferably on November 2, 1992, a written confirmation of the arguments and reassurances that have been put in front of us today. I hope that would be possible.

However, if doubt remains in our minds, even if only because we need time to absorb and consider what has been said today, and it is a complex issue, I think that we should defer this decision, especially as I am not convinced that there is an urgent operational need to take this decision today. In this case, I would like to see a supplementary paper examining these points, and setting out the Legal Department's views, on which we can reflect further and consult with our authorities.

Mr. Posthumus said that he, too, wondered whether the approval of the staff proposal concerning Yugoslavia at the present meeting would in any way make it more complicated to take a decision during the scheduled discussion on Yugoslavia on November 13, 1992, which would itself already be quite complicated. If it was not necessary to act at the present meeting, the proposal concerning Haiti in the staff paper could be taken up on November 13.

As to Haiti, he recognized how difficult it was to discuss that case without discussing the main issue, namely, the decision of the Board of Governors on the status of the Aristide Government, Mr. Posthumus commented. Still, the questions that Mr. Dorrington had posed were legitimate; it would be helpful for Directors to reflect on possible precedents that might be set with the approval of the proposals in the staff paper.

Mr. Kafka said that he was not convinced by Mr. Dorrington's arguments. As Mr. Dorrington himself recognized, the Aristide Government--the Government recognized by the Fund--and not the Fund itself, must judge what was in the best interests of Haiti. If the Fund tried to deal simultaneously with two governments for Haiti, each for particular purposes, the result would be total confusion. At the same time, there would be no danger to the Fund's financial integrity even if Haiti should decide to draw on the Fund's resources in order to be able to pay its reserve tranche; as that was the only purpose to which Haiti could put those resources, there was no risk that the money would be in any way misused. Haiti should be treated in the manner proposed by the staff.

Mr. Dorrington said that it should be clearly understood that none of his remarks should be interpreted as implying that he thought that any case could be made for the Fund dealing with any government for Haiti other than President Aristide's Government, which his authorities continued to recognize as the legitimate Government.

Mr. Dawson considered that the Fund was right in continuing to deal with the present fiscal agent for Haiti. For operational reasons--for instance, to communicate a decision on a member's arrears--the Fund needed to communicate with the fiscal agent. It was easy to imagine hypothetical cases like the ones that Mr. Dorrington had described, but it was difficult to imagine any of them actually materializing. As an arrears country, Haiti could not pay for its quota increase under the Ninth General Review.

Mr. Dorrington remarked that there were several logical possibilities. The two contending governments could each claim to appoint a fiscal agent. In addition, the Board could decide that it would not recognize any fiscal agent for Haiti. His main point was that Directors should be concerned about fully understanding the implications of the proposals they were being asked to approved. Mr. Dawson considered that there was no financial risk for the Fund in the case of Haiti, and he himself did not necessarily wish to dispute that. His own concern was the use of the case of Haiti as a precedent in the future.

Mr. Dawson noted that the financial resources available to President Aristide's Government had in effect already been blocked. The U. S. Government had from the beginning recognized the Aristide Government as the legitimate Government of Haiti. Haiti's funds in the New York Federal Reserve Bank were blocked, and the Aristide Government was allowed to make a withdrawal only for approved purposes. Therefore, in practice, the kind of financial risk that had been mentioned would not arise.

The Chairman commented that conceivably the Aristide Government could use the financial resources to clear Haiti's arrears to the Fund.

Mr. Dawson responded that that possibility could not be considered at the moment, because the Fund was, in the opinion of his authorities, dealing with the wrong fiscal agent for Haiti.

The Chairman said that the possibility of paying the Fund might arise once the Fund was dealing with the right fiscal agent.

Mr. Dawson remarked that management could certainly make that case to his authorities. Until now, that case could not be made, because the fiscal agent being dealt with by the Fund was, in his authorities' view, illegitimate.

Mr. Kafka said that he agreed with Mr. Dawson. The Fund had recognized the Aristide Government and should deal with Haiti on the basis of that recognition.

Mr. Jamnik said that he had considerable sympathy for the institutional concerns expressed by Mr. Dorrington. Those concerns were not entirely specific to the current case of Haiti. The fact that Haiti could not draw on the Fund because of the country's arrears was a Haiti-specific fact. The Board should consider the concerns that Mr. Dorrington had expressed in a more general sense, and he looked forward to the staff's response to them.

Mr. Knight commented that, from a practical viewpoint, he, too, shared some of the concerns that Mr. Dorrington had expressed. It would be useful to have some clarification about the urgency of dealing with the cases under discussion at the present stage. The letter to the Managing Director from the Governor of the National Bank of Yugoslavia supported his feeling that it might be wise to pause a while longer before accepting the staff's proposals.

Mrs. Martel said that she tended to agree with the position of Mr. Dawson. The staff proposals were the logical follow-up of the decisions by the Chairman of the Board of Governors at the 1992 Annual Meetings. The Board should take a position at the present stage for technical reasons--for example, to expedite the Governors' vote on the Resolution on the Administrative Tribunal and the entry into force of the Third Amendment and quota increases under the Ninth General Review.

Maintaining a fiscal agent and a depository for the three countries under discussion was important for the continuity of financial relations between those countries and the Fund, Mrs. Martel remarked. In the case of Haiti, the approach proposed by the staff was consistent with the decision of the Chairman of the Board of Governors, on the advice of the Joint Procedures Committee--in other words, with the broad support of the Fund's membership. There might be some theoretical problems with the staff proposals, and some had been mentioned by Mr. Dorrington. But the Board's approach should be case by case, and she doubted whether acceptance of the staff proposals would create precedents. Therefore, she agreed with the staff recommendations for dealing with Haiti, Somalia, and Yugoslavia.

Mr. Finaish said that, while, broadly speaking, the staff's recommendations seemed to be consistent with the sentiment of the membership as expressed during the 1992 Annual Meetings in the context of the credentials question, he felt somewhat uneasy about the manner in which the matter was being decided, and about the potential implications for similar cases in the future. He would have thought that the authority to decide on matters such as the designation of Governors lay with the Board of Governors itself. The staff paper, however, indicated on page 1 that it was the Executive Board that should decide "pursuant to the general delegation by the Board of Governors." In the case of Haiti, the issue was in a way more fundamental, as it concerned the totality of the Fund's relations with the country. He found it odd that the Executive Board was deciding on a matter that had previously been handled by the Joint Procedures Committee. A decision to recognize one government instead of another should be based on some explicit criteria and, in any event, should be made by the Fund's highest authority. He would welcome staff comment on those issues.

As he understood it, in dealing with cases involving the choice of government with which the Fund should deal, the Fund had always given important weight to the question of who was in control of the territory of the member, Mr. Finaish continued. Presumably that was because a government needed to maintain that control if it was to fulfill the obligations of membership. Some clarification by the staff was needed. Given that the Government in exile--the Aristide Government--was obviously not in control of the territory of Haiti, was the staff recommending implicitly that Haiti be absolved from fulfilling its obligations under the Articles?

He, like other speakers, found it somewhat awkward that, in the case of Somalia in particular, the Fund would be retaining the effectiveness of the fiscal agent and depository while at the same time stating that there was no Government with which the Fund could deal, Mr. Finaish said. Presumably that was necessary in order to protect the Fund's claims on the country. The staff's confirmation of that point would be useful.

His remarks at the present meeting did not reflect any particular views with respect to the countries or governments in question, Mr. Finaish said. His intention was simply to ensure that due process was being adhered to, and that the approval of the staff recommendations would not set unintended precedents for the future.

Mr. Goos stated that he shared most of the concerns that had been raised by Mr. Dorrington and Mr. Finaish. Those concerns should be respected, and particularly the wish to receive further information to give Directors a better basis on which to take a decision on the issues under discussion. He, too, was concerned that acceptance of the staff proposals would create precedents; for the time being, on the basis of the information currently available, Directors could not foresee all the possible implications.

He was struck by the fact that the acceptance of the staff proposals would clearly deviate from the existing practice with respect to dealing with members, Mr. Goos continued. That practice was clear cut and had served the Fund well thus far. In the case of Haiti, the staff proposals would have the Board deviate completely from that practice. In that event, what would be the Fund's new approach to dealing with such matters in the future? Lacking a clear-cut policy for the future, would the Board be opening the door to politicization of the Fund? What were the consequences, in particular, for the Fund's financial integrity?

As Mr. Finaish had noted, Mr. Goos continued, there seemed to be an inconsistency in the legal reasoning behind the staff's proposals for dealing with Yugoslavia and Somalia: the Fund would not recognize a government for either country, but the Fund would be able to deal with the fiscal agent and depository of each country. Logically, one would assume that, if no government existed, there could not be a fiscal agent with which to communicate. The legitimacy of the fiscal agent and depository naturally flowed from the decision on the existence, or lack of existence, of a government. That issue needed to be clarified.

He, like previous speakers, wished it to be clearly understood that his concerns had nothing to do with the issue of the legitimacy of the Haitian Government, Mr. Goos said. His authorities, too, had recognized the Aristide Government as the legitimate Government of Haiti.

The General Counsel made the following statement:

Introduction

> The proposals concerning the Fund's relations with Haiti, Somalia and Yugoslavia in EBD/92/242 (10/9/92), which were approved by the Executive Board on October 30, 1992 (EBM/92/130), were made in the light of the decisions taken by the Chairman of the Board of Governors at the 1992 Annual Meetings on the credentials of the delegations of Haiti, Somalia and Yugoslavia. 1/ These decisions must be regarded as expressing the position of the Fund's membership. While the situation created by these decisions was limited to a particular aspect of the Fund's relations with these countries, it was necessary for the Executive Board to examine, without delay, the implications of these decisions for the broader relations between the Fund and these members.
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> The matter had to be addressed as soon as possible for two reasons. First, delays in clarifying the issue of the fiscal agents and depositories of these members could only lead to a further accumulation of arrears to the Fund by these three

1/ The Chairman of the Board of Governors, following the recommendations of the Joint Procedures Committee, had decided: for Haiti, to accept the credentials of the delegation appointed by the Government in exile of President Jean-Bertrand Aristide, thus denying the credentials of the delegation appointed by the de facto government in Port-au-Prince; and for Somalia and Yugoslavia, to deny all credentials and, in particular, with respect to Yugoslavia, the credentials issued by the government of the Federal Republic of Yugoslavia (Serbia/Montenegro).

members, all of which are already in arrears. Secondly, the failure to settle the question of the existence and identity of the Governors of the Fund for these countries was delaying the submission of the proposed resolution on the administrative tribunal to the Board of Governors for a vote by mail.

Principles Underlying the Staff's Proposals

The proposals made by the staff in EBD/92/242 were based on two basic principles: the principle of the unity of government and the principle of maintenance of relations with members. These are principles that have been applied consistently by the Fund in the past and, therefore, their application by the Executive Board in the cases at hand did not create a precedent departing from existing Fund policies or practice, but rather was an application of them.

Pursuant to the principle of the unity of government, which is generally accepted in international practice, when there are competing governments for a member and the Fund decides to deal with one of them for one purpose, it should not deal with another government for another purpose.

As for the principle of maintenance of relations with members, it underscores the importance for the Fund, as a financial institution, of avoiding a complete discontinuation of relations with a member, whenever possible. In this respect, it is important to clarify the respective responsibilities of the organs selected by the member (Governor of the Fund, fiscal agent, and depository) that are involved in the relations between the Fund and the member. The Governor of the Fund for the member is an official of the Fund, whose responsibility is to cast the number of votes allotted to the member in decisions of the Board of Governors and elections of Executive Directors. The fiscal agent of the member is responsible for the financial relations with the Fund and in particular gives and receives instructions for payments to the Fund. The depository of the member keeps the Fund's holdings of the member's currency, which are assets of the Fund. The purpose of the principle of maintenance of relations with the member is to avoid putting the Fund's claims and other assets at risk; they would be particularly put at risk if there was no fiscal agent or depository of the member.

Application in the cases of Haiti, Somalia and Yugoslavia

The cases of Haiti, on the one hand, and of Somalia and Yugoslavia, on the other hand, need to be distinguished, as they correspond to two totally different situations in the Fund's relations with member countries: substitution of one government for another as representative of the member (Haiti), and finding that there is no government in control (Somalia) or no government regarded as representative of the member (Yugoslavia).

(a) In the case of Haiti, the Fund had dealt with the de facto government in Haiti in accordance with the practice of the Fund of dealing with governments that are in effective control. The effective control criterion is used in international practice to avoid being involved in a country's internal affairs and, in particular, to avoid having to determine whether a government is lawfully established. In exceptional cases, however, the international community decides not to apply that criterion, especially in cases of temporary seizure of power by insurgents or invaders.

During the Annual Meetings, the Chairman of the Board of Governors decided to deny the credentials of the delegation of the de facto government in Haiti; instead he accepted the appointment of a Governor by the Government of President Aristide (in exile) and recognized the credentials of the delegation of that Government. This decision of the Chairman (which was not appealed before the Board of Governors) reflected the clear position of the Fund's membership that the Government of President Aristide is the representative Government of Haiti, as evidenced by the fact that the decision was consistent with the recommendation of the Joint Procedures Committee. It is also consistent with the position taken by the United Nations and the Organization of American States.

In view of the Chairman's decision to depart from the principle of dealings with the government in effective control, the staff proposed, in line with the principle of unicity of government, that the Government of President Aristide be recognized as the Government of Haiti with the authority to designate, not only the Governor of the Fund (as decided for the Annual Meetings), but also the other two organs carrying out Haiti's relations with the Fund (fiscal agent and depository). Allowing the de facto government to retain the authority to select these two organs, while the Governor was designated by the Government of President Aristide, would have been a form of recognition of the de facto government, contrary to the position adopted by the Fund's membership. Moreover, this recognition of two governments for different purposes would have created practical difficulties. For instance, if Haiti became able to consent to its quota increase (after clearance of the arrears to the Fund), the consent would be given by the government in exile, but the payment would have to be made by the de facto government through the fiscal agent, which is a rather unrealistic expectation.

It is clear that, in the present situation, any decision of the Fund concerning the fiscal agent and depository of Haiti will pose certain risks for the Fund. For instance, once it has recognized the authority of President Aristide's Government to designate the depository, the Fund will have to rely on a promissory note in Haitian currency from that depository, and it is possible that the Fund may in fact be unable to encash that note (although the practical significance of this inability to encash is somewhat limited in practice, since the use of Haitian currency by the Fund is unlikely in the present circumstances). However, the alternative would have put the Fund's claims at even greater risk. First, it is unlikely that the de facto government, after the denial of its delegation's credentials, would have resumed making payments to the Fund. Secondly, the fiscal agent designated by the de facto government had no access to Haiti's funds abroad that have been blocked precisely to avoid their use by this government, while these funds could be made available to the Government of President Aristide and used to eliminate the arrears to the Fund and to meet obligations to the Fund as they become due. As for a decision not to allow any government (whether the Government of President Aristide or the de facto government) to designate a fiscal agent, this would have effectively ensured the accumulation of further arrears to the Fund.

In accordance with the decision taken by the Executive Board, the Fund will be dealing with the fiscal agent designated by the Government of President Aristide. The Fund will send payments instructions to that fiscal agent and will give effect to payment instructions received from it. This does not mean that the Government of President Aristide will necessarily have access to Fund credit as a result. Haiti does not have access to Fund credit at present since it is in arrears to the Fund. Even if the arrears were fully cleared, the necessary conditions for access to Fund credit in terms of implementation of economic policies could not be met by a government that does not control any part of the member's territory. While, in contrast, the fiscal agent designated by the Government of President Aristide would be able to purchase Haiti's reserve tranche, Haiti has at present practically no reserve tranche position. Haiti's reserve tranche would be reconstituted, upon payment of its proposed quota increase, by an amount equivalent to the reserve asset portion of that payment, but Haiti is presently not in a position to consent to, or pay for, its quota increase because of its arrears to the Fund. If the arrears were cleared and Haiti consented to and paid for its quota increase, the payment of the reserve asset portion of the quota increase would enable Haiti to make a reserve tranche purchase of an equivalent amount; insofar as Haiti would have paid for this reserve asset portion with the benefit of bridge loans, the purchase would be used to repay the bridge loans.

In the future, the Fund will continue to deal with governments in effective control, in accordance with its practice, except when the international community clearly considers the government in effective control to be a group of individuals who, while having temporarily taken control of power, may not be regarded as the government of the country. In these circumstances, the Fund will have, as in the case of Haiti, to draw the consequences of the position of the international community, especially when it has been reflected in decisions of the Board of Governors or its Chairman (e.g., in the form of a denial of credentials at the Annual Meetings).

(b) In the case of Yugoslavia, the Chairman of the Board of Governors decided to deny the credentials of the delegation, including the Governor, appointed by the Federal Republic of Yugoslavia (Serbia/Montenegro), consistent with the view that this Governor should not be allowed to cast the votes of Yugoslavia pending clarification of the status of Yugoslavia in the Fund. In the case of Somalia, he similarly decided to deny all the credentials of all delegations, in view of the discontinuation of effective government in the country.

The proposals of the staff in EBD/92/242 that it be decided that there are no Governors of the Fund for Yugoslavia and Somalia were the logical extension of these decisions of the Chairman of the Board of Governors on credentials: although the denial of credentials to the Governors appointed by the Federal Republic of Yugoslavia (Serbia/Montenegro) and Somalia only prevented their participation in the votes on resolutions proposed at the Annual Meetings and in the election of Executive Directors, the same reason that led to their exclusion from the Annual Meetings would justify that they not be allowed to vote by mail on other proposals, such as the proposed resolution of the Board of Governors on the establishment of an administrative tribunal for the Fund.

In accordance with the principle of maintenance of relations with members and in order to minimize the risks to the Fund, it was not proposed to decide that there is no fiscal agent or depository for Yugoslavia or Somalia, so that the Fund will continue to deal with them for the time being. As in the case of Haiti, however, no new designation of fiscal agent or depository from any self-proclaimed governments in the Federal Republic of Yugoslavia (Serbia and Montenegro) or from Somalia will be accepted, since this would be a form of recognition of these governments as representing the members.

The decision that there is no Governor of the Fund for Yugoslavia does not prejudice in any way the issue of the status of Yugoslavia in the Fund. The latter concerns the existence of the member itself and not the designation of the organs with which the Fund would deal.

In response to a question, the General Counsel explained that, when deciding on the Fund's relations with a member, Executive Directors acted as officials of the Fund, not as representative of Fund members.

Mr. Dawson said that several of the points made by the General Counsel should be stressed. First, if the Board did not endorse the staff's recommendation concerning the treatment of Haiti, the Fund would be in conflict with other institutions, international practice, and, indeed, itself. In the past, Latin American countries had experienced frequent changes in government, but the present case of Haiti was unique: there was absolute international solidarity in terms of the recognition of the Aristide Government. The strength of the international consensus in support of that Government was clearly unusual, if not unprecedented.

Apparently Mr. Dorrington and other Directors were in a difficult position because their governments had already made the decision, in the context of the Fund, to support the Aristide Government, at least for the purposes of the choice of the Governor for the Fund, Mr. Dawson commented. That conclusion was logical, and the General Counsel had addressed the hypothetical cases that had been mentioned and, in the process, had shown that they were not likely to materialize.

He had noted the General Counsel's reference to Directors as officials of the Fund, Mr. Dawson said. He understood the history of that idea. However, the State Department was always asked to credential Executive Directors with diplomatic status. The argument that Directors were officials of the Fund should not be used too heavily; 19 of the present 22 Directors had diplomatic status as representatives of their governments.

The General Counsel remarked that Mr. Dawson's final point was well taken: the diplomatic status of Executive Directors was not based on the Articles of Agreement, but rather on the headquarters agreement between the United States Government and the United Nations.

Mr. Dawson remarked that the Inter-American Development Bank was under a headquarters agreement of the OAS, rather than the UN, which was why the Directors of that institution did not receive diplomatic status.

Mr. Dorrington said that he was pleased that the General Counsel had stated that the decision on Yugoslavia would in no way prejudice the discussion on that country scheduled for November 13, 1992. He wondered whether the staff could provide equally unambiguous assurance with respect to the proposed treatment of Haiti. Could the staff say that the proposed treatment of that country could not be used in any way as a precedent in the future to put any aspect of the Fund at risk?

The General Counsel said that he did not see the same relationship between the two cases that Mr. Dorrington was suggesting. In the case of Yugoslavia, of course, the proposed treatment dealt with a particular aspect of the Fund's relations with that country; the Board would be addressing a different aspect on November 13, 1992. As to Haiti, there had been a decision to accept the credentials of the delegation appointed by the Government in exile to attend the Annual Meeting of the Board of Governors, which implied a recognition of that government. Since the criteria for that decision, which departed from the usual criterion of effective control, had not been stated, it was not clear to what extent the decision constituted a precedent for the future. However, once that decision had been made, there was an issue of principle that did not arise in the case of Yugoslavia or Somalia, namely, the principle that, once the Fund recognized a government of a member country, that government had the power to designate the organs that would be in charge of the Fund's relations with the member. That was the accepted principle for the time being. According to the proposed treatment of Haiti, the Fund would be merely confirming something that was traditionally recognized by international organizations, individual countries, and the Fund itself. Hence, the case of Haiti was totally different from the case of Yugoslavia.

Mr. Dorrington remarked that he took the General Counsel to mean that he could not state unambiguously that the proposals under discussion would not set a precedent for the future.

The Chairman said that he understood the General Counsel to be saying the opposite, namely, that in the case of Haiti the Fund was unambiguously applying the established principle of dealing with a single government, which was the government recognized by the Fund; hence, in accepting the staff proposals, the Board would not be creating a precedent. Indeed, the Board would be merely reaffirming the principles on which its relations with members were based.

Mr. Dawson stated that he agreed with the Chairman. The Fund would not be establishing a precedent; in fact, it would be reaffirming an established principle.

Mr. Kafka considered that Mr. Dorrington's approach would create a very confusing precedent.

Mr. Dorrington remarked that he did not wish to create any precedents for anyone to follow or not to follow. Indeed, that was precisely his point: he was trying to be fully aware of the implications of what the Board was being asked to approve. He fully agreed with the General Counsel that the problems under discussion were difficult ones.

Mr. Posthumus noted that the staff proposals had a clear and direct link to the decisions taken by the Board of Governors during the 1992 Annual Meetings. The application of those decisions to the work of the Fund could set precedents. In his comments the General Counsel had clearly tried to be consistent with the Fund's normal policies and practices. The precedent that had been established resulted from the decisions of the Board of Governors. The cases that Mr. Dorrington had described were an illustration of possible events, but they were a possibility only because of the decisions of the Board of Governors.

The General Counsel said that he fully agreed with Mr. Posthumus that the precedent was the decision of the Chairman of the Board of Governors. The staff proposals concerning Haiti merely drew the consequences of the decision with respect to Haiti.

Mr. Goos remarked that it appeared that the Fund's new policy was that, as a general rule, the Fund would expect the authorities it dealt with to be in control of a country, unless the Board of Governors decided otherwise on the basis of criteria that it chose to apply.

The General Counsel noted that there was a general principle in international relations that countries dealt with the government of a country that was in effective control of the territory of that other country. Otherwise, every country, before deciding to deal with a government, would have to make sure that elections had been conducted properly, so that the head of state met all the constitutional criteria required to be in power, a step that governments did not wish to take. In some exceptional cases, however, the international community--meaning a clear majority of countries--decided that one particular self-proclaimed government would not be recognized because it had come to power by force. The Fund's basic principle was that it should deal with governments that were in effective control. If, however, the international community--through the Board of Governors--decided that the group of people in control of a territory should not be recognized as a participant in international relations, then the Executive Board would have to draw the consequences of that decision. That decision obviously was a political one, but it was a decision on behalf of an organ of the Fund, the Board of Governors, by its Chairman. An appeal of the decision could be made to the Board of Governors. In the case of Haiti, no appeal had been made. Therefore, the decision on Haiti taken at the 1992 Annual Meetings was considered to be final. Moreover, that decision was consistent with the recommendation of the Joint Procedures Committee.

Mr. Goos commented that he had attended the relevant meeting of the Joint Procedures Committee. At that time, he had not foreseen the consequences of the decision on Haiti. It had been his impression that the decision applied only to the representation of Haiti at the 1992 Annual Meetings, and that there were no further implications. Apparently other members of the Committee had had the same impression.

Mr. Dawson said that the staff proposals under discussion at the present meeting were the logical consequence of the actions taken at the 1992 Annual Meetings.

Mr. Végh considered that the concerns expressed by Mr. Dorrington had been adequately addressed by the General Counsel. He supported the staff proposals.

Mr. Shimizu stated that he could go along with the staff proposals. However, the staff could usefully comment on the legitimacy of the fiscal agents and depositories of Somalia and Yugoslavia. Normally, the fiscal agent and depository were designated by the Governor or government of each member country.

The General Counsel responded that, for both Somalia and Yugoslavia, the Fund would merely continue its existing relations with the currently appointed fiscal agent and depository of each country. There was no question of appointing new fiscal agents and depositories. There had been cases in the past of countries that had been in turmoil for which it had not been clear which government was in control or whether a government even existed. In those cases, relations at the operational level had continued with the existing fiscal agent and/or depository.

Mr. Prader considered that Mr. Dorrington had made valid and important points, and that a written explanation by the staff was called for. He was willing to support the staff proposals at the present meeting, but some of the principles involved were new to his authorities, and the further explanation that he had requested would be helpful to them.

The Chairman noted that the General Counsel's explanations at the present meeting would be made available for members to examine.

Mr. Dorrington said that he was still not fully convinced that there was no risk involved in accepting the staff proposals. He would certainly prefer to have time to reconsider what the Board was being asked to decide in the light of the availability of the explanations in writing by the General Counsel and consultation with his authorities. However, there did not seem to be a majority in favor of that approach. He was prepared to accept the judgment of the majority of Directors in favor of endorsing the staff proposals at the present meeting; most Directors seemed to feel that accepting the staff proposals would pose no risk to the Fund. He was not yet convinced one way or the other. He could go along with the staff proposals if the majority of Directors were convinced that there was no risk to the Fund, provided that the approval forthwith of the staff proposals would not prejudice the outcome of the coming discussion on Yugoslavia, and assuming that the General Counsel's explanation would be available in writing.

Mr. Fridriksson said that he sympathized with Mr. Dorrington, who had raised some valid issues. In the light of the responses by the staff, he could support the staff proposals, but his authorities would certainly look forward to reviewing the explanations given at the present meeting by the General Counsel.

Mr. Jamnik commented that his position was similar to that of Mr. Prader. He could go along with the staff proposals.

Mr. Fernando recalled that the General Counsel had explained that two of the countries in question currently did not have a Governor for the Fund, which was an impediment to conducting a vote by mail, as the Fund wished to do in the case of the Resolution on the Administrative Tribunal. The staff had suggested that that was one reason for dealing with the cases in question at the present meeting, rather than at a later date. Under the staff proposals, the Fund would recognize a Governor for Haiti but not for Somalia and Yugoslavia. He wondered how the latter two cases would be handled for the purpose of the vote by mail on the Administrative Tribunal and the communications between the staff and members regarding the effectiveness of the quota increases under the Ninth General Review.

The General Counsel responded that the proposed Resolution on the Administrative Tribunal would not be sent for a vote to Somalia and Yugoslavia because neither country had a Governor. The communications on the quota increases would be sent to the fiscal agents of Somalia and Yugoslavia.

The Chairman said that the sense of the meeting was that the Executive Board endorsed the staff proposals in EBD/92/242. In addition, the General Counsel would circulate the explanatory comments that he had made during the present discussion.

2. ACCESS POLICY AND LIMITS IN CONNECTION WITH QUOTA INCREASES - FURTHER CONSIDERATION

Mr. Goos said that he wished to take up one aspect of the question of the access policy and limits in connection with the quota increases under the Ninth General Review (EBS/92/159, 10/6/92; Cor. 1, 10/23/92; and Sup. 1, 10/21/92), which the Board had considered at EBM/92/128 and 92/129 (10/28/92). He, as well as some other speakers, had stressed during the discussion the temporary nature of the new access guidelines and limits, and he had asked for a specific clarification of that point in the relevant draft decision, which was to be circulated for approval on a lapse of time basis. The staff had explained that the relevant text could stipulate that, in coming years, the new access limits would be reviewed annually, in the light of all relevant factors, including members' balance of payments problems and developments in the Fund's liquidity. That formulation would give a flavor of the temporariness of the new guidelines and access limits, but it would not give a sense of the direction in which access limits should be headed over time; in that connection, the text should show that the access limits would be phased down over time, to bring the access to a level that would be consistent with the access provided for under the Articles. That was clearly the fundamental principle behind the enlarged access policy. He hoped that the Board would reconsider the matter that he had described and try to find a formulation that would clarify the point that the new access limits were temporary and would be phased out over time.

The Deputy General Counsel recalled that the issue of temporariness had been raised during the discussion of the proposed decisions at EBM/92/128 and 92/129. In order to meet Mr. Goos's request, he had suggested additional language for the draft decision to reflect the temporary nature of the access guidelines and limits. However, he himself had not understood the Board to have agreed on a precise time limit for the applicability of the new access guidelines and limits. Under the suggested apprcach, temporariness would be reflected in a clause providing for regular reviews. The text in question could read: "These guidelines will be reviewed not later than October 29, 1993, and annually thereafter, in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity." The criteria which would be relevant for the review was almost identical to those contained in the relevant portion of the decision on enlarged access. However, there were some differences between the new access guidelines and limits on the one hand, and the enlarged access policy on the other, the Deputy General Counsel continued. First, the enlarged access policy was a special policy involving the use of borrowed resources under stand-by and extended arrangements, while the new guidelines would regulate access to the Fund's ordinary resources under the existing EFF and the credit tranches. Second, the Fund's authority to approve arrangements under the enlarged access policy, had had to be renewed annually by an 85 percent majority. In contrast, changing or abolishing the access limits pursuant to a review of the new access guidelines and access limits would require a majority of the votes cast.

As to the second issue that Mr. Goos had raised at the present meeting, the Deputy General Counsel said, he had not understood the Board to have agreed on the direction in which the access limits should move over time.

The Chairman recalled that Mr. Goos had clearly indicated that he wished to give a sense of direction to the annual reviews of the new access limits. However, that proposal was not broadly supported by other Executive Directors. He would note Mr. Goos's preference, and his possible reservations about the language of the relevant proposed decision. A number of Directors had said that they would hope to see the access limits increase over time.

Mr. Goos remarked that he did not recall being the only speaker who had made the point that the new access limits were temporary and should be reduced over time. In addition, recent Interim Committee communiqués had stressed that the enlarged access policy was a temporary device, that it should be phased out, and that the access limits should be reduced to the level of access that was provided for under the Articles. His proposal was therefore consistent with the original intention of the Board and the Interim Committee when the enlarged access policy was introduced.

The Deputy General Counsel noted that the Interim Committee, particularly in its communiqué of September 26, 1983, had agreed to consider annually not only the access limits but the future enlarged access policy itself, including its termination, its gradual phasedown, or its extension in light of all relevant factors.

Mr. Goos said that there could be no doubt about the general thrust of what the Board had had in mind when it had introduced the enlarged access policy: the access limits would be appropriate in the circumstances in which they were introduced, and there was a clear understanding that the access limits should be phased out over time if circumstances permitted that to happen. That general thrust that lay behind the enlarged access policy should be kept alive in the decision on the new access limits and guidelines. Otherwise, the Board's policy on the new access limits would be inconsistent with the enlarged access policy, in which event he could not support the relevant proposed decision.

Mr. Posthumus recalled that in his statement at the discussion on the new access policy, he had noted that the enlarged access policy was not just an access policy but also a policy that had provided the Fund with additional resources--something that was not true of the new access policy, as the Deputy General Counsel had remarked. Directors had stated that the new access guidelines and limits should be temporary; they had not suggested that they should be permanent. As he understood it, if the Board did not adopt a decision on the temporary access policy by November 1, 1992, the enlarged access policy would lapse and the Fund would return to access limits of 100, 140, and 165 percent.

The Deputy General Counsel said that he agreed with Mr. Posthumus. The proposed decision intended to reflect the temporary nature of the new access guidelines and limits. Moreover, under the relevant decisions, the enlarged access policy would lapse automatically when the requirements for the effectiveness of the quota increases under the Ninth General Review were met. If the Board did not decide on new access limits, access could be provided under the credit tranches and the access limits under the EFF would remain at 140/165 percent. Under the proposed approach, a single limit would cover access under the credit tranches and the EFF.

Mr. Posthumus said that he wondered whether he was correct in understanding that the proposed decision on the new access guidelines and limits would deviate on a permanent basis from the relevant provisions in the Articles.

The Deputy General Counsel responded that the proposed decision would set annual and cumulative access limits for the use of Fund resources under the credit tranches and under the EFF. Those limits would replace the existing access limits under the EFF. The decision would also set limits on access under the credit tranches. No such limits were part of the Articles. The Articles only required a waiver in cases of access above 200 percent of holdings of the members' currency.

Mr. Kafka stated that he agreed with the Deputy General Counsel.

Mr. Dawson commented that, as he understood it, the draft decision circulated originally provided for, but did not require, an annual renewal, and that that was still the case under the proposed amendment. His authorities were willing to support the original staff proposal at lower levels of access than were ultimately approved. That was why his chair could not support the amended decision. He had assumed that the word "temporary" was going to be included in the amended draft decision and that an annual review would be provided for; accordingly, the temporariness of the new access could be seen as implying that permanent status was given to the lower previously imagined limits. He assumed that the annual review had always been the intent, but that there was no intention of renewal on an annual basis.

The Chairman said that the relevant text could mention the temporary nature of the new access guidelines and limits. That would clearly be consistent with the sense of the meeting on October 28, 1992.

The Deputy General Counsel said that it had been assumed that the reviews of the new access guidelines and limits would be held on a regular basis. In that connection, the proposed decision stipulated the date before which the first review would be held and that reviews would be held annually thereafter.

As to the possible addition of a reference to the temporariness of the new access guidelines and limits, while the guidelines and limits would be reviewed regularly, no date for their expiration was proposed under the contemplated approach. Reference could be made, preferably in the summing up, to the effect that the access guidelines and limits were intended to be temporary and would be reviewed on an annual basis in light of all relevant factors. This would serve the purpose of defining the meaning of temporariness. Such language was more appropriate for a summing up than a decision. However, the same language could, if Directors wished, be included in the relevant decision, perhaps in the final paragraph.

The Chairman said that the solution suggested by the Deputy General Counsel would be consistent with his own finding of the sense of the Board discussion on October 28, 1992.

Mr. Goos remarked that the solution suggested by the Deputy General Counsel failed to mention any sense of direction for the access limits. Perhaps it would be clearer to say that "the increased access limits are meant to be temporary."

Mr. Kafka commented that Directors could not foresee now whether they would be in a position to reduce the access limits in the future. Much would depend on what would happen to the world economy.

The Chairman said that he would not wish to see the Board suggest now that the access limits would move in one direction or the other as a result of the planned review. It seemed best to say that the Board would review the access guidelines and limits in light of all the relevant factors. At that review, each Director would be able to express an opinion on the access limits.

Mr. Kabbaj stated that he agreed with the Chairman and the Deputy General Counsel. As Mr. Kafka had remarked, at the time of the review the Board could decide to increase or decrease the access limits, or eliminate the current access policy.

Mr. Goos said that he was concerned that the review could lead to an increase in the access limits. He would not wish to introduce now a rigid rule on the access limits. Even under the old enlarged access policy there had been no such rule, but there had been a clear understanding that the higher access limits would be phased out. Perhaps the decision could mention that the access limits would be reduced "if circumstances permitted." The Board had not decided to reduce the limits at the present stage because it felt that the current conditions were not appropriate for cutting absolute access, but the understanding he had mentioned still existed and should be reflected in the proposed decision. Alternatively, the situation could be clearly explained in the summing up.

Mrs. Martel said that she agreed with the Deputy General Counsel and Mr. Kabbaj. The Board clearly had not reached an understanding that the access limits should be reduced on the occasion of the review. The Board should stick to the compromise that it had reached on October 28, 1992.

Mr. Ismael commented that it was regrettable that the issue of the decisions reached in principle on October 28 had been reopened at the present meeting, and that the reopening reflected some mistrust by one Director of the rest of the Board. No one was suggesting that the new access guidelines and limits should be interpreted as a permanent policy; everyone had agreed that the policy was temporary. In any event, there was already a downward trend in the access limits, and no one was suggesting that the Board should reverse the trend and propose in the future an upward trend in access. The problem that Mr. Goos had described could be solved by approving the amended text that the Deputy General Counsel had proposed.

Mr. Prader said that a reference to the temporary nature of the new access guidelines and limits could be added to the proposed decision, but the outcome of the review of those guidelines and limits should not be prejudged, which was what Mr. Goos seemed to be doing. The Board should not agree now to limit its room for maneuver at the proposed review; it could not know what events would occur in the coming months. The Board should not devalue the sense of the term "review."

Mr. Dawson considered that it would be appropriate and sufficient to include the language that the Deputy General Counsel had suggested in the summing up. A policy that was to be reviewed on an annual basis was clearly a temporary policy.

Mr. Jamnik said that he preferred to include the suggested language in the relevant proposed decision, but he could accept its inclusion in the summing up as well.

Mr. Posthumus considered that the suggested language should be included in the proposed decision. He was not certain that he could support the proposed decisions.

The Chairman said that the suggested language could be added to both the summing up and the relevant proposed decision.

The Deputy General Counsel commented that the staff had no difficulty in adding the suggested language to both the summing up and the relevant decision.

Mr. Goos commented that he wished to reserve his position on the text of the decision under discussion, which was to be approved on a lapse of time basis. His authorities felt very strongly about the matter that he had raised. Their position had nothing to do with any feeling on their part of mistrust, and it was not meant to prejudge future decisions. The Fund's practice was to make its decisions as specific as possible. It was important to bear in mind that the enlarged access policy clearly spelled out that the increase in access limits under that policy was temporary and that the policy should be phased out over time. That outcome was not an expression of mistrust but of policy intention. His suggestion would merely continue the approach that had been agreed under the enlarged access policy. He wondered why Directors were suddenly resistant to putting in writing what was a clear understanding among them.

The Executive Directors concluded their discussion on access policy and limits.1/

Statements on access policy and limits in connection with the quota increases under the Ninth General Review were circulated by Mr. Al-Jasser, Mr. Goos, and Mr. Landau in the period following the discussion at EBM/92/130 (see Annex II).

1/ The decisions on access policy and limits in connection with quota increases under the Ninth General Review were circulated in SM/92/193 (10/30/92) for lapse of time approval on November 3, 1992. The Chairman's summing up on access policy and limits in connection with quota increases under the Ninth General Review was circulated in BUFF/92/133 (10/30/92).

3. GUINEA - ENHANCED STRUCTURAL ADJUSTMENT FACILITY - REVIEW UNDER FIRST ANNUAL ARRANGEMENT, AND 1992 ARTICLE XIV CONSULTATION

The Executive Directors considered a staff paper on the midterm review under the first annual ESAF arrangement with Guinea and the 1992 Article XIV consultation with Guinea (EBS/92/161, 10/9/92).

The staff representative from the African Department said that preliminary data recently provided by the Guinean authorities on fiscal and monetary developments during the month of September 1992 suggested that virtually all the quantitative benchmarks for end-September under the program were observed. In particular, the benchmarks on the net domestic assets of the banking system, the net bank credit to the Government and the public sector in general, net foreign assets of the Central Bank, and total budgetary expenditure (as defined under the program) were all met with a comfortable margin. However, total domestic government revenue had fallen somewhat short of the program benchmark as a result of lower than expected receipts from the tax on petroleum products. The impact of that shortfall on the budget deficit had been offset by additional cuts in the fully locally funded development outlays.

Mr. Santos made the following statement:

On behalf of my Guinean authorities, I would like to express my appreciation to the staff for the fruitful discussions held in connection with the 1992 Article XIV consultation and the midterm review of the first annual ESAF arrangement. They have no difficulty with the staff appraisal.

The implementation of the 1991-92 program supported by the first annual ESAF arrangement suffered some setbacks as a result of adverse exogenous shocks and domestic policy slippages in late 1991 and in early 1992. Owing to severe disruptions in the production of the main mining companies and a decline in export prices for bauxite and alumina, export earnings as well as government tax revenues recorded substantial shortfalls. Consequently, most of the quantitative performance criteria set for end-December 1991 could not be met. Moreover, the structural performance criterion on the number of civil servants was missed.

It is against this background that, in early 1992, the program was revised and policies were reformulated and strengthened with a view to putting it back on track, so as to achieve the objectives of the original program by 1994. Within the framework of the reformulated policies, a broad-based package of corrective measures, well described in the authorities' memorandum of economic and financial policies, have been implemented. However, while these measures brought about some improvement in the overall economic situation, they fell short of turning around the deteriorating fiscal position. Therefore, between May and August, the authorities took additional steps to strengthen further their policies, notably in the fiscal sector and on the structural front. The effective implementation of the wide-ranging corrective measures in a pre-electoral environment demonstrates the Guinean authorities' commitment to the adjustment process. They are confident that these measures provide a good basis for the completion of the midterm review, and they are requesting a waiver for the nonobservance of the end-December 1991 performance criteria.

The macroeconomic objectives of the revised program are to achieve a real GDP growth of 3.5 percent and 4.5 percent in 1992 and 1993, respectively; reduce the rate of inflation to 17 percent in 1992 and 12 percent in 1993; normalize relations with external creditors; and build up reserves to the equivalent of 3.7 months of nonmining imports in 1993. To achieve these objectives, the program calls for the implementation of a restrictive fiscal policy for the remainder of 1992 and during 1993, a tightening of monetary policy together with a flexible exchange rate policy, and the acceleration of the structural reforms.

In the fiscal sector, the objective is to reduce the primary budget deficit (excluding mining revenue) to 2.5 percent of GDP in 1992 and further to 1.1 percent of GDP in 1994. In this regard, measures aimed at strengthening tax administration, improving revenue collection, and containing expenditure growth have been put in place. These include an increase in the tax on petroleum products, the elimination of a number of tax and customs duty exemptions, and an increase in the turnover tax as well as the statistical tax on imports. On the expenditure side, the number of ministries has been nearly halved, and steps have been taken to cut current expenditure and outlays on locally funded development projects. Moreover, emphasis will be put on containing the wage bill while making provision for social spending.

My authorities are committed to implementing restrictive monetary and credit policies that will help contain inflationary pressures and contribute to the attainment of the other macroeconomic objectives of the program. While restrictive policies will be pursued, the authorities will ensure that adequate credit is provided to the private sector in order to stimulate productive activities. The accelerated net repayments by the Government to the banking system are also expected to provide room for increasing lending to the private sector. The major reforms that have been introduced during 1992 in the legal system and the private investment promotion office that has been established are expected to facilitate the private sector's access to bank credit and thereby stimulate economic activity. Moreover, the authorities are considering the introduction of government treasury bills in 1993, in order to enhance incentives for financial savings and reduce the dependence of the government budget on monetary financing.

With regard to the external sector, and as indicated in Table 9 of the staff paper, the external position is very sensitive to variations in export prices. My authorities are very much concerned about the continued fall in bauxite and alumina export prices and its impact on export earnings, mining sector tax receipts, and ultimately on the balance of payments outlook. Therefore, they intend to diversify the economy away from traditional exports and build up a comfortable level of foreign reserves. With regard to the exchange rate, my authorities will continue to follow a flexible exchange rate policy in order to maintain the real effective exchange rate at its present broadly appropriate level. They have also indicated their intention to eliminate external payments arrears before end-December 1992.

In support of their macroeconomic policies, the authorities have front-loaded the structural and institutional reform measures contemplated in the program. Indeed, most of the measures envisaged under the first annual ESAF arrangement were implemented by early October 1992. The authorities intend to pursue vigorously the process of structural reforms, in particular the privatization of state enterprises.

The courageous corrective measures implemented in various key areas have already yielded positive results, and these should help to maintain the adjustment process firmly on track and achieve the objectives of the revised program. My authorities expect that, in view of the policies being implemented and those envisaged for 1993, the international financial community will support their adjustment efforts.

Mrs. Martel made the following statement:

The Guinean authorities' performance under the first annual ESAF program was disappointing. Overruns in government current spending and delays in implementing fiscal measures aimed at offsetting the shortfalls in mining sector receipts have led to deviations from the program's objectives.

Notwithstanding these policy slippages, two major factors constraining the authorities' stance of adjustment deserve, in my view, to be underlined. First, the steeper than envisaged decline in bauxite prices and the prospects for a continuing depressed world market seriously impact on the program, not only on the fiscal side but also the growth and balance of payments objectives. Second, the weaker than anticipated response of modern sector enterprises to the widely liberalized price and trade environment continues to place high social and political pressures on the government, especially on the employment front.

In such a context, the attainment of the objectives of the ESAF program warrants both a revised adjustment path and the acceleration of a number of fundamental reforms. I can therefore endorse the strategy that the staff has designed and monitored under a shadow program since the beginning of 1992, and I would like to make the following comments on the policy mix.

First, in 1991 the overall fiscal deficit before grants narrowed by 1.4 percent of GDP but fell short of the programmed 3.1 percent of GDP reduction. In early 1992, the continued decline in mining receipts and the weakening of tax and customs duty collection efforts threatened to further derail the adjustment path.

Although somewhat delayed by a cabinet reshuffle in the first quarter of 1992, the authorities' response, successively strengthened in May, June and October, represents a real turnaround from the past fiscal stance. First, a strong increase in tax and customs revenue is aimed at fully offsetting the losses in mining receipts throughout the program period and consists mainly of an increase in the turnover tax from 10 percent to 13 percent, and an increase in the statistical tax from 0.25 percent to 2 percent, and a significant strengthening of tax and customs administration and drastic reductions in exemptions.

In addition to the boost in revenue that these measures have yielded since May, it is worth noting that these efforts are supported by decisive structural reforms designed to ensure their sustainability. The ongoing computerization of customs administration is a case in point, as is the full privatization of importation and distribution of petroleum products that is slated to achieve more transparency and efficiency in the collection of taxes of one of the main sources of budgetary receipts in Guinea (the TSPP).

On the expenditure side, I noted with satisfaction that the authorities decided to make additional savings on current and nonpriority capital outlays in order to meet the revised target of the 1992 program. However, to reach the fiscal deficit reduction targeted in the program for 1994, while sustaining the required level of development outlays and accommodating possible shortfalls in revenue performance, I think the authorities should contemplate additional actions on the expenditure side. In this regard, I noted that a number of decisive structural measures, namely, the civil service reform, liquidation of loss-making public enterprises, privatization of Air Guinea and the electricity and the new telecommunications company were to be implemented in the context of the World Bank structural adjustment loan. As these reforms have a direct impact on the wage bill and the level of subsidies and transfers to the public enterprise sector, I would appreciate comments from the World Bank representative on the progress made in these areas and the scope for further reductions in related budgetary outlays.

On the monetary front, there were encouraging signs of stabilization, with a rapid decline in the inflation rate at the end of 1991. As a consequence, real lending and savings rates became positive. Nevertheless, inflationary pressures were rekindled in early 1992, as the Government had to resort to borrowing from the banking sector to finance the fiscal deficit. The exchange rate depreciation implemented in the first quarter was also a contributing factor to the renewed increase in prices.

It is therefore critical for the Government to strictly adhere to the programmed net repayment to the banking system in order to consolidate the deceleration of inflationary pressure while making room for the demand of credit from the private sector.

Progress on structural reforms is still constrained by weak administrative capacity, but one has to remember that in 1985 Guinea inherited a plethoric administration of 90,000 civil servants that was ill prepared for the task of building a market-oriented economy.

Since then, important strides have been made. Guinea's exchange and trade system is now free of quantitative restrictions and controls. The recent stepping up of the privatization process of public utilities and public transport companies attests to the authorities' determination to stimulate private investments and reduce unemployment.

Moreover, the recent adoption of a new land tenure code, the ongoing reform of the judicial system, and the establishment of a private investment promotion office are welcome steps toward removing institutional impediments to private initiative.

Turning now to the external sector, I fully share the staff's view that further improvement in Guinea's external position and competitiveness will depend chiefly on the progress that the authorities will be able to make in removing remaining structural impediments to the development of production and trade, such as the lack of road infrastructure.

Although Guinea has a clear potential for increasing nonmining exports, especially in the agricultural sector, the balance of payments will remain over the medium term very sensitive to developments in bauxite prices. This underscores, in my view, the critical importance of maintaining throughout the program period a tight demand-management policy aimed at reducing inflationary pressures and allowing for a more stable exchange rate policy.

At the present juncture, the timely availability of donors' and creditors' support will clearly be critical in helping the Guinean authorities to sustain the adjustment effort. Henceforth, my authorities stand ready to favorably consider a debt rescheduling on Trinidad terms.

To conclude, the Guinean program is now back on track, as confirmed by the results for end-September just provided by the staff, but there is clearly no room for further fiscal slippages. The authorities have adopted strong and convincing corrective measures that, if sustained, will ensure the success of the program and warrant the support of the international financial community. I can therefore approve the proposed decisions.

Mr. Abbott made the following statement:

In supporting Guinea's request made last year for a three-year ESAF, we did so because we believed Guinea would benefit from a coherent and disciplined medium-term framework for managing its economic affairs. Developments over the past year have only reinforced that view. During the first three quarters of this ESAF arrangement, the requirements of the program were not adhered to. Internal weaknesses were compounded by adverse terms of trade movements due to slumping aluminum prices. The not surprising result was a rapidly deteriorating economic performance and a program that was quickly and badly off track. This was a very discouraging start.

Fortunately, the history of this ESAF arrangement was not concluded at the end of the first quarter of 1992. A new start on implementing the ESAF strategy was launched when a new civilian cabinet was installed in February and Soriba Kaba became Minister of Plan and Finance. In close collaboration with Fund staff, a shadow arrangement was worked out to try to bring the program back on track.

Reinforced fiscal adjustment has been a key feature of this shadow arrangement. The track record that has been established so far is encouraging. Public spending is being controlled with a much firmer hand, and needed revenues are being generated by tax increases and improving revenue administration. Belatedly, structural benchmarks that were called for under the original program have also now been implemented. Liquidation of the government-owned petroleum product distribution company (ASP) is a major accomplishment that should eliminate an unnecessary revenue drain as well as close off some opportunities for corruption.

Looking forward, the revised program calls for higher growth in 1993 (4.5 percent), lower inflation (12 percent versus 17 percent in 1992), normalization of relations with external creditors by the end of 1992, resumed full service thereafter, and virtual balance in the overall balance of payments. In light of the need both to absorb the terms of trade loss and to press on with the fiscal and monetary adjustments, it is not entirely clear to us that these growth, inflation, and payments objectives are mutually consistent. We would appreciate a little more explanation from the staff about where the impetus to growth and trade improvement is expected to come from within the policy stance called for in the revised program.

In our view, it will be essential to adhere to very tight fiscal standards again in 1993, including quarterly subceilings, as were established for the shadow arrangement this year. The proposal to hold civil service salary adjustments to no more than targeted inflation should be incorporated into the 1993 performance benchmarks. Good progress has been made in streamlining civil service ranks, although this could still be pushed a little further. More also needs to be done to eliminate subsidies. The intentions regarding pricing and structural policies strike us as useful but not yet adequately ambitious. We understand more comprehensive privatization plans are under consideration by the Ministry of Plan and Finance, and we would hope that these would be incorporated into the structural adjustments planned for the second annual installment of this ESAF arrangement.

In the discussion of external sector policies the staff mentions that structural and institutional constraints are more of an impediment to expansion of the traded goods sector than are cost or pricing considerations. If this is true, we would expect to see the program call for more structural actions in this area than it seems to. Could the staff elaborate a little on this apparent gap?

Regarding monetary policy, it is stated on page 7 of EBS/92/161 that "monetary policy in the period ahead will aim at achieving the balance of payments objectives, while containing inflationary pressures and accommodating the targeted expansion in output." Taken at face value, this seems to be a heavily overloaded monetary policy. Given the institutional setup in Guinea, we find it hard to make any sense of the apparent primacy of an external objective for monetary policy. Just what is monetary policy expected to do to meet the external objective? In our view, a sharper focus on bringing down inflation would be more appropriate. The broad opportunities for structural adjustments offer ample policy levers for achieving the output and payments goals without distracting monetary policy from an anti-inflation orientation.

Regularizing relations with external creditors is one of the main objectives of the Guinean program for 1992-93. A Paris Club rescheduling had been anticipated after the program was approved last year. Because the program was quickly off track, this proved to be impossible. The energetic actions by Minister Kaba and his team have turned this situation around. Following completion of this midterm review today, a Paris Club rescheduling for Guinea is slated to be discussed in November. Based on the track record that has now been established and the determination the Guinean authorities have shown to stick with their ESAF undertakings, my authorities now expect to be able to support a Paris Club rescheduling in November.

We are happy to support the proposed decisions.

Mr. Esdar made the following statement:

I certainly welcome the corrective action taken by the authorities to bring the program back on track and to adjust the difficult external environment. It is to be hoped that these measures are sufficient to compensate for the substantial slippages that have occurred in 1991/92 and which, combined with policy slippages between 1988 and 1990, have raised severe concerns about the authorities' commitment to adjust their economy.

I am also pleased to note that virtually all the structural reforms envisaged in the program of the first year have been implemented finally. Vigorous progress on structural reform appears to be absolutely essential for a more balanced and substantial performance of the economy, as this chair pointed out in detail when we discussed Guinea's request a year ago.

As already mentioned last year, the envisaged pace of adjustment seems to be somewhat gradual. Important medium-term targets of the revised program--for example, the inflation rate, the overall government deficit, gross investments, and national savings--are even less ambitious than those of the original program. Moreover, we even entertain doubts whether these weaker targets can be attained.

I agree with the staff that considerable risks remain, especially in the fiscal area. Tax revenues could continue to lag behind expectations as a result of tax evasion. Growing pressure on government expenditure cannot be excluded, given the coming elections. It might be difficult to withstand these pressures, given the fact that important segments of the public administration still resist the reform process, as is mentioned in the staff paper. In this regard, it is a cause for there having already been some fiscal slippages in the shadow program for 1992 on both the revenue and the expenditure sides, and higher security expenditures having been offset in part by cuts in development projects, thereby impairing future growth prospects. In addition, I am also somewhat concerned about the fact that the number of civil servants has increased continuously since March, contrary to the original program targets. Given the crucial importance of the public wage bill for fiscal consolidation, I wonder whether a related benchmark would have strengthened the program and will be included for the 1993 program.

As to monetary policy, a growth rate of broad money of around 15 percent in the next year does not seem to be very ambitious after having already been reduced from 46 percent to 14.7 percent in 1992. A further reduction should be feasible and might help bring down inflation and limit the need for future devaluations of the nominal exchange rate.

In this context, I wonder whether the exchange rate policy of managed floating vis-à-vis the U.S. dollar, which has resulted in a continuous devaluation against the U.S. dollar, might have tended to accommodate weak domestic policies in the past. A commitment to more exchange rate stability could perhaps strengthen the confidence and commitment of the authorities to reduce inflation. Such an exchange rate anchor could send strong signals to the private sector, contribute to breaking inflationary expectations, and facilitate capital inflows. One should keep in mind that the expansion of Guinea's traded goods sector is impeded more by structural and institutional constraints and pure infrastructure than by c st considerations. I doubt whether continuous nominal devaluations are really necessary to support this sector. Perhaps the staff would like to comment on this view.

In addition, I would like to get some further information about the authorities' external debt policy. As is shown in paragraph 23 of the letter of intent, the authorities intend only to reschedule pre-cutoff-date arrears and part of the debt-service payments due in 1992. However, my authorities--and, I think, the Paris Club--have been informed that the Guinea Government is now also seeking a rescheduling agreement covering external debt due between 1993 and 1995. Perhaps the staff could clarify this issue.

The long-term balance of payments outlook from 1992 to 2002 gives the impression that the adjustment efforts will slow down considerably after the end of the ESAF program, as there will be only slight and gradual improvements in the balance of payments after 1994. As the pace of adjustment under the current program already appears to be somewhat too gradual, there is a need for further decisive adjustment measures, especially in the structural area. However, these reforms could and should be supported primarily by the World Bank and other long-term financial sources. Based on appropriate structural reform, the country should be able to become independent of Fund assistance by the end of the ESAF arrangement, as is indicated in the staff paper.

With these observations, I can endorse the proposed decisions.

The staff representative from the African Department said that the staff's position--which was fully shared by the authorities--was that there were clearly limits on how much could be achieved through further depreciation of the nominal exchange rate. The authorities had made the necessary adjustment in the nominal rate early in 1992, and since April 1992 the rate vis-à-vis the U.S. dollar had been fixed at GF 922. The authorities recognized that the desired strengthening of the supply response of the economy, and the private sector response in particular, was constrained by structural, institutional, and other factors, especially the weak structure of financial intermediation; the weak legal framework--which was not sufficiently transparent or effective in protecting property rights or resolving effectively and quickly disputes about collateral taken by banks or any other disputes; and the poor state of the economic infrastructure, particularly the transportation network in the rural areas. The policy emphasis had been on addressing more forcefully the structural impediments, the staff representative continued. Under the first annual arrangement under the ESAF, a number of structural reforms were required as prior actions as a way of paving the way for a stronger response in the future while recognizing that there were major uncertainties about the degree and sustainability of an eventual response from the private sector. It was difficult to say how much growth could emanate from the authorities' policies, and the GDP growth figures mentioned by the staff should not be treated as targets; they reflected certain assumptions about the supply response. If there was a slower response than the staff had assumed, there would probably not be any change in financial policies to stimulate growth, even if it appeared that the growth target would not be achieved. At the same time, the stance of financial policies had led to a lower inflation rate than originally thought necessary as a result of the sharp increases in wages and administered prices in 1991. The emphasis since then had been on maintaining a very tight monetary program by sticking to the original shadow program targets for repayments by the Government to the banking system. Even though slippages on the revenue and expenditure sides had occurred, the emphasis had been on preserving as much as possible those targets, so that, with an overall restrictive credit policy, the room to expand credit to the private sector would not be compromised. The achievement of the net foreign asset objective implied an attainment of the overall balance of payments objectives. Efforts to contain the inflationary pressures in the short term could not be influenced very directly by an adjustment in the stance of monetary policy, given the variability in the velocity of money in countries like Guinea, where the volume of holdings of money, especially cash, could change quickly, depending on the shocks to the overall economy and the price structure.

With respect to the strengthening of the supply response of the economy, the staff representative from the African Department continued, the emphasis by the staff, in seeking to conclude the midterm review under the first annual arrangement, was to push as much as possible to have the structural reforms in place before the signing of the letter of intent, so as to minimize the risk of further financial slippages as well as meet the foreign financing needs. In that connection, the staff had had in mind in particular the administrative reforms that were specific conditions for the release of funds from the World Bank and cofinanciers, and the privatization of the government-owned company for the distribution of petroleum products, so as to ensure both a more transparent implementation of the pricing policy and a reduction in the room for evasion of duties on petroleum products.

The increase in the number of civil servants, despite the efforts of the authorities to reduce the number, was not due to a lack of commitment by the authorities, the staff representative remarked. The main reason was the inherent uncertainties in an environment in which the exact number of civil servants was not accurately known. An independent auditor's report suggested that the number of ghost workers had been as high as 10,000; after an audit of the civil service conducted with World Bank assistance, the number had been reduced to 1,500; all those employees were put on suspension in December 1991, and as the individual cases were considered by a special court to see whether the conditions of employment were appropriate, the number was finally narrowed down to about 300. That explained the increase in the size of the civil service between December and August 1992 that was reported in the staff paper. That was not to say that a further reduction was unwarranted. Indeed, a further reduction was the objective of the authorities, who had agreed with the World Bank to reformulate the structures of the various ministries and limit the size of the civil service in the context of that restructuring, while ensuring that every employee was properly classified and included in the computerized system. In the face of the difficulties involved, the staff had insisted that more emphasis be placed on the overall size of the wage bill on a cash basis. In that connection, the overrun during 1991 was modest, and since early 1992 the wage bill had been broadly on target. In the nine months to September 1992, the wage bill was actually GF 1 billion less than the implicit figure in the budget. Hence, in that area, the staff was more hopeful than it had been earlier.

As to debt rescheduling, the staff paper on the midterm review included only the amount of additional support by the donor community that was necessary to achieve the external objectives of eliminating all outstanding arrears and financing an increase in gross official reserves to the equivalent of about three and a half months of imports, the staff representative from the African Department remarked. The authorities' debt scheduling request went beyond that, and the Paris Club creditors would have to consider whether they would like to be more generous at the present stage, on the assumption that the additional funds could be used effectively, or whether they would like to postpone that kind of additional support until the authorities could provide more sufficient evidence that the needed structural reforms were being undertaken. The amount of rescheduling needed to achieve the objectives stated in the authorities' letter of intent was only for the maturities falling due in 1992.

The Executive Directors agreed to continue their discussion on Guinea in the afternoon.

4. EXECUTIVE DIRECTORS

The Chairman bade farewell to Mr. Monyake, Mr. Végh, Mr. Mohammed, and Mrs. Sirivedhin on the completion of their term of service on the Executive Board.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/92/129 (10/28/92) and EBM/92/130 (10/30/92).

5. SOUTH AFRICA - 1992 INTERIM ARTICLE IV CONSULTATION

The Fund notes the staff report for the 1992 interim Article IV consultation with South Africa (SM/92/189) and declares the consultation completed.

Decision No. 10178-(92/130), adopted
October 28, 1992

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAM/92/105 (10/27/92) and EBAM/92/107 (10/28/92) is approved.

7. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/92/152 (10/29/92) is approved.

APPROVED: April 23, 1993

LEO VAN HOUTVEN
Secretary

Banque Nationale de Yougoslavie
Beograd

October 29, 1992

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington D.C.

Dear Sir,

The Federal Republic of Yugoslavia has with great efforts, and despite the rigorous economic sanctions, so far timely and regularly met the overall obligations of the SFR of Yugoslavia vis-à-vis the Fund.

However, with regard to the repurchases falling due during September 1992, we would remark that the funds which were available on the accounts from which payments were made so far, have now been exhausted. Meanwhile, the National Bank of Yugoslavia has made every effort to make appropriate arrangements with banks which would accept to effect payments in circumstances of the imposed sanctions.

The said efforts of the National Bank of Yugoslavia, as the fiscal agent and depository institution, have been jeopardized by the proposed document EBD/92/242 dated October 9, 1992, recommending the Executive Board to conclude on its session of October 30, 1992 that "there is at present no Governor for Yugoslavia". If such a conclusion were adopted (only about 15 days prior to the Fund's making a decision on the status of the FR of Yugoslavia in the Fund), the Governor of the NBY would be deprived of the authority to issue orders for effecting payments due to the Fund. The payments effected by the NBY to the Fund so far have legally been explained by the fact that there is a regular communication and cooperation between the FR of Yugoslavia, that is the NBY as its fiscal agent, and the Fund. The recent decision to deny the credentials to the delegation of the FR of Yugoslavia to participate at the Annual Meetings has been explained by the fact that it relates only to that question, and does not vitiate the other powers and responsibilities of the FR of Yugoslavia, until the final decision on the status of the FR of Yugoslavia in the Fund (that is, until November 15, 1992).

As to the above mentioned proposal set out in the document EBD/92/242 dated October 9, 1992, I find that, if the recommendation is adopted after all, the Executive Board should simultaneously adopt the conclusion that the FR of Yugoslavia is not under the obligation to service its debt due to the Fund until further notice.

Expecting your full understanding and support, please kindly inform the Executive Board of this letter on Friday, October 30, 1992, when EBD/92/242 is discussed.

Yours sincerely,

Governor
National Bank of Yugoslavia
Mr. Vuk Ognjanovia