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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 94/1

10:00 a.m., January 7, 1994

Contents

Executive Board Attendance

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
	M. Sirat
	P. Cailleteau, Temporary
J. Bergo	E. Srejber
	J. Jonáš, Temporary
	T. Fukuyama
	S. Ishida, Temporary
	L. E. N. Fernando
J. E. Ismael	K.-T. Hetrakul
	K. Link
	R. F. Cippa, Temporary
A. Kafka	
	G. Y. Glazkov, Temporary
	V. Y. Verjbitski, Temporary
G. Lanciotti	
K. Lissakers	M. W. Ryan, Temporary
R. Marino	
	S. Rouai, Temporary
	B. S. Dlamini
	J. O. Aderibigbe, Temporary
	J. Dorrington
G. A. Posthumus	
	B. A. Sarr, Temporary
	J.-C. Obame, Temporary
	E. Wagenhoefer
A. S. Shaalan	Y. Y. Mohammed
D. E. Smee	
	Y.-H. Lee, Temporary
	Wei B.
A. G. Zoccali	A. F. Jiménez de Lucio

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

Also Present

European I Department: D. Hewitt, G. R. Kincaid. External Relations Department: P. J. Bradley, R. Coleman. Legal Department: R. H. Munzberg, Deputy General Counsel; D. E. Siegal. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; M. Allen, P. F. Allum, G. C. Anayiotos, P. Mylonas, P. K. Rennhack. Secretary's Department: J. W. Lang, Deputy Secretary; J. M. Boughton, A. Mountford, T. S. Walter. Southeast Asia and Pacific Department: S. V. Dunaway. Treasurer's Department: G. Wittich, Deputy Treasurer; J. E. Blalock, G. M. Fitzpatrick, D. Gupta, B. E. Kueppens, M. A. Wattleworth. Western Hemisphere Department: S. T. Beza, Counsellor and Director; B. C. Stuart. Advisors to Executive Directors: G. M. Blome, A. Chang Fong, S. K. Fayyad, Hon C.-W., J. Jamnik, J. C. Martinez Oliva, J. R. Suárez. Assistants to Executive Directors: H. M. Al-Atrash, R. N. A. Ally, A. Cathcart, D. Desruelle, A. Galicia, C. Gaseltine, N. P. Hahnemann, O. Himani, C. Imashev, G. J. Matthews, S. C. McDougall, S. del C. Olgiati, T. Oya, S. K. Regmi, P. L. Rubianes, A. Sighvatsson, F. A. Sorokos, L. Tase, R. Von Kleist.

1. OBSERVATIONS IN MEMORY OF FORMER MANAGING DIRECTOR

The Acting Chairman stated that Pierre-Paul Schweitzer had passed away on Sunday, January 2, 1994. Mr. Schweitzer had had a long and distinguished career in the French Government before becoming the fourth Managing Director of the Fund in 1963. He had been the financial attaché in the French Embassy in Washington from 1949 to 1953, Director of the French Treasury from 1953 to 1960, and Deputy Governor of the Bank of France from 1960 to 1963. In the period 1947-48, he had served as the Alternate Executive Director for France at the International Monetary Fund. During his tenure as Managing Director, Mr. Schweitzer had guided the Fund through a decade of profound changes in the world economy. Under his innovative leadership, the Fund's Articles of Agreement were amended for the first time, and the Special Drawing Account was created, followed in 1969 by the first allocation of SDRs. Mr. Schweitzer had also guided the Fund through two general increases in quotas, the extension and liberalization of the compensatory financing facility, the introduction of the buffer stock financing facility, and the approval of nearly 200 stand-by arrangements with a whole range of member countries, including with major industrial countries.

Mr. Schweitzer had also helped see the international financial community through a series of exchange market crises in the second half of the 1960s, including par value changes for several major currencies, the Acting Chairman recalled. The annual volume of Fund drawings in 1968 and 1969 was the largest in the history of the Fund to that time. Mr. Schweitzer's leadership had been instrumental in enabling the international community to deal with the collapse of the Bretton Woods system in August 1971, and the subsequent realignment of currencies under the Smithsonian Agreement. He had also been party to the deliberations of the Committee of Twenty, the precursor of the Interim Committee.

As Managing Director, Mr. Schweitzer had been a prominent figure on the international scene, the Acting Chairman continued. He had undertaken numerous speaking engagements outside of the Fund, he had appeared frequently before the press and on television, and he had been awarded several honorary degrees from major universities. Throughout his tenure as Managing Director, Mr. Schweitzer had traveled the world to promote international monetary cooperation and to strengthen the ties between the Fund and its growing number of members. Following his retirement from the Fund in 1973, Mr. Schweitzer had pursued a career in private banking.

Those who worked with him invariably found Mr. Schweitzer a charming, friendly man, with a quiet but firm leadership style, and a judgment of people and situations that was keen and farsighted, the Acting Chairman concluded. During his tenure as the Chairman of the Fund's Board, he had done much to foster the collegial cooperative spirit that had emphasized open discussion and consensus building. He was fondly remembered by the Fund staff for his deeply caring and supportive manner. Those who knew him would miss him greatly, and he would be widely remembered, with respect and admiration, for his many contributions to the Fund and to the international community. The Managing Director had attended the funeral service for Mr. Schweitzer on January 6 in Switzerland.

2. EXECUTIVE DIRECTORS

The Acting Chairman welcomed to the Executive Board Mr. Fukuyama, Alternate Executive Director for Japan, and Ms. Srejber, Alternate Executive Director for Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden.

3. DEBT AND DEBT-SERVICE REDUCTION OPERATIONS - EARLY REPURCHASE EXPECTATIONS - AMENDMENT

The Executive Directors considered a staff paper on the modalities of Fund support for debt and debt-service reduction operations, containing a draft decision further amending Executive Board Decision No. 9331-(89/167), adopted December 19, 1989, on early repurchase expectations with respect to debt and debt-service operations (EBS/93/190, 11/30/93).

Mr. Shaalan made the following statement:

> This chair has considered for some time that the segmentation provisions unduly constrained the Fund's ability to support debt operations. We therefore welcome the proposed implementation of the understanding reached last September to eliminate those provisions. In formulating the approach before us, the staff has tried to balance carefully the majority view in the Board in favor of "desegmentation" with the concerns expressed regarding the loss of a mechanism--segmentation--that may have encouraged achieving appropriate balance among menu options in debt restructuring packages. I can go along with the proposed approach, but with two qualifications.
>
> First, if we are indeed eliminating the segmentation restrictions, then we should do just that--eliminate them. Every effort should be made, both by the Board and the staff, to avoid codifying the judgment on what constitutes appropriate balance in a given package to the point at which we end up acting as if the segmentation provisions have not been removed.
>
> Second, the staff lists the factors that would form the basis for coming to a view on whether a particular package is appropriately balanced. I can see how, by and large, the first three factors are related to the broad criteria set by the Board in May 1989 on the Fund's involvement in supporting debt and debt-service reduction operations. What is not clear is why the fourth factor--whether a package has a broad range of options--should play a role in the general assessment of the package. I say this

because by the time of Executive Board consideration of a request for use of Fund resources in support of a restructuring package, the package will have been agreed, at least in principle, by the member and its steering committee of commercial bank creditors. Obviously, if the package did not provide banks with a sufficiently broad range of options, it would not have been agreed to by the committee in the first place. It is therefore not entirely clear why we need to concern ourselves with whether or not a package that has already been agreed to by the creditors does provide them with a sufficiently broad range of options.

While the staff paper leaves open--although just barely--the possibility of using augmentation resources without first making use of accumulated set-asides, I wonder why this should be the exception to a general expectation of giving priority to the use of accumulated set-asides. Some elaboration on this by the staff would be appreciated. As access to augmentation resources is limited by a cap relative to the member's quota--30 percent of quota--there is clearly quite enough room for calibrating access to additional resources in individual cases in a manner that takes into account the criteria specified under the 1989 guidelines.

The proposed change in Section C of the repurchase expectation decision is quite complicated. This is partly because the decision itself is complicated and difficult to render operational. Indeed, the proposed modification magnifies the attribution difficulty that the existing decision entails. Under the proposed modification, in addition to having to figure out what portion of the released collateral is attributable to the Fund's resources, a determination must be made as to what portion of that portion is due to augmentation resources. The staff attempts to address this added complication more or less by imputation, whereby Fund resources that have gone into financing the collateral would be deemed to have been augmentation resources. Again, either we eliminate the segmentation restrictions, or we do not. As the staff paper notes, the removal of the segmentation provisions would mean that the decision to provide resources would no longer identify the specific operation within the overall package for which different types of resources would be used. Given this, how are we then to turn around in the event of a release of collateral and deem resources used to finance the collateral as having been additional? This is not intended to be a criticism of the staff, which has been given quite a difficult task. I agree that there is a certain amount of logical appeal to attaching an early repurchase expectation to augmentation, but as partly underlying the early repurchase expectation is a presumption that the balance of payments need that formed the basis for disbursement no longer exists, should we not, in the interest of simplicity, if nothing else, do away with Section C of the decision altogether? If, upon release of the collateral, the member's balance of payments position is judged to be strong, then the situation could be handled by invoking the provision under Article V, Section 7(b), which enables the Fund to represent to the member that it should repurchase because of an improvement in its balance of payments and reserve position.

Mr. Zoccali made the following statement:

It should not come as a surprise that we agree with the staff that an early resolution of the segmentation problem, and a clear and consistent understanding of the framework for potential Fund support for debt and debt-service reduction operations, would be helpful to all parties involved in such negotiations. Several countries of this constituency have concluded the restructuring process and successfully re-established their access to international capital markets, and one additional member is now engaged actively in talks with commercial banks. The constructive support of Fund management and staff throughout was, and remains, essential for the success of those negotiations. We can go along with the staff's proposals.

Use of set-asides should continue to be the preferred instrument to channel Fund support, followed by augmentation and, if necessary, by an acceleration of set-asides. This notion of sequencing should not be another name for segmentation, or exclude the possibility of resorting fully to all three forms of access in a timely fashion so as to arrive at earlier agreements. Cost effectiveness needs to factor in the excess risk premium that a debtor must continue to pay during protracted negotiations, which makes it more difficult to re-establish external viability. The benefits of an early and cost-effective debt accord clearly outweigh the risks of early repurchases of accelerated set-asides, linked to possible program derailments. As in all cases involving Fund support, a judgment will need to be made on the basis of the particular circumstances and evidence of a strong adjustment effort.

With respect to the criteria for assessing the appropriateness of a debt package, we welcome the intention to broaden the notion of an appropriate balance between debt and debt-service reduction so as to reflect more adequately the use of net present value equivalences between different market-based options. This approach is consistent with the present guidelines, which already emphasize, as requirements for Fund support, the attainment of medium-term external viability and the package's cost effectiveness. In this regard, the criteria relating to the continued involvement of commercial banks in the country, and to the requirement of providing a sufficiently broad range of options in order to achieve a high degree of bank participation in the package, seem either difficult to enforce or redundant, as Mr. Shaalan has already noted.

This said, other elements of the package to be considered should include debt reduction from ongoing privatization operations, as well as the terms for normalizing past-due interest obligations, in particular when they entail debt-service reduction. Given the higher proportion of past-due interest in pending cases--which requires sizable reductions in order to attain sustainable debt levels--and the differential treatment of interest and principal arrears by creditors, some comment from the staff regarding the treatment of interest arrears that it would consider to be in conformity with the guidelines for Fund support would be appreciated.

We can go along with the proposed changes in the repurchase expectation decision, although we share the views of Mr. Shaalan in this regard. As Section C of the decision appears to anticipate the modification of the segmentation requirements of other international financial institutions, I wonder what further adaptations of the Fund's guidelines the staff believes would most likely be required in consequence.

We share Mr. Shaalan's views concerning the repurchase expectations stemming from the early release of collateral financed with additional resources from the Fund after the removal of segmentation. In any case, in determining such repurchase expectations, the staff should be able to interpret the reference to a second round of debt reduction operations with some latitude. Assuming a continuing balance of payments need, such a determination should also take into account whether large restructuring outlays have been, or will be, financed with the released collateral, as part of an ongoing privatization process aimed at producing further debt reduction in the future.

Mr. Dlamini made the following statement:

We endorse the proposed amendment to the guidelines relating to Fund involvement in the debt strategy. The increased flexibility arising from the elimination of the current segmentation provisions should facilitate a more expeditious and satisfactory conclusion of all future negotiations for debt relief. In this regard, we hope that all the parties involved in the strategy, including the Fund, the commercial banks, and the members, would show maximum cooperation to ensure that any remaining constraints to smooth negotiations are removed.

With the proposed modification, the staff's preference for using set-asides under an arrangement, with additional resources being considered only if accumulated set-aside resources were insufficient to assure adequate Fund financing of a debt reduction package, can be understood. However, I would caution that the warnings given about the need to catalyze resources from other sources, including the member's own contribution and the strength of its adjustment program, should not lead to protracted discussions that could jeopardize a member's overall adjustment efforts. In brief, the proposed change in modalities should not lead necessarily to a diminution in access to additional resources for debt and debt-service reduction to a point at which a member's adjustment effort is derailed.

Mr. Glazkov made the following statement:

I strongly support the proposed modifications of the guidelines on Fund support for debt and debt-service reduction. Segmentation restrictions are not really necessary, because a balance in the menu options in the package--which they are meant to encourage--is directly determined by the Fund on a case-by-case basis. Also, segmentation restrictions may hinder the completion of the debt restructuring process, as they did in some cases detailed by the staff.

I fully concur with the staff's arguments in favor of removing the segmentation restrictions. The staff paper summarizes the previous discussions, and many convincing arguments and practical cases were provided in earlier papers on the debt situation of developing countries. I fully endorse those arguments, as well as those made by other Executive Directors in that connection.

Probably the major rationale for segmentation restrictions is the consideration that banks favor, above all, cash buybacks, which shift the risk from private to official creditors. Therefore, augmentation resources should be protected from being used that way. That notwithstanding, in the case of Argentina in 1992, creditors strongly preferred the par bond option initially. The fact that only augmentation resources were available to finance the par bond option contributed to substantial delays in the signing of the agreement with Argentina.

The preference of creditors in that case can be explained by the fact that there had been a significant decline in international interest rates. This shows that the modalities of Fund support for debt and debt-service reduction must be flexible enough to respond to the changing world financial situation. Argentina is one of just five countries with which the Fund has been involved in debt and debt-service reduction operations so far. If we do not remove the segmentation restrictions, we will come upon many more, and greatly varying, examples of the adverse effects of such restrictions.

Notwithstanding these considerations, the concerns expressed by Executive Directors who do not favor removal are certainly justified. These relate to the cost effectiveness of the packages, the efficient use of Fund resources, the adequacy of debtor countries' contributions, sharing the risk among all the participants in the debt and debt-service reduction operation, and ultimately, achieving an appropriate balance between debt reduction and debt-service reduction options.

However, these concerns do not refer directly to the segmentation restrictions; they refer, in general, to the soundness of the Fund's strategy for appraising support for debt and debt-service reduction operations. In this regard, I fully endorse the approach proposed in the staff paper, namely, that considerations relating to the current segmentation restrictions will be addressed much better if they are taken on a case-by-case basis, with both the staff and the Board being guided by the set of principles formulated in May 1989, as well as by those proposed in the staff paper today, with the correction proposed by Mr. Shaalan. This will provide for both the necessary flexibility and full adherence to the principles of sound financing.

The current restrictions, which by no means facilitate the reaching of a balanced debt and debt-service reduction package, can actually prevent attainment of such a balance, as the existing rigidities might preclude consideration of all relevant circumstances. There is no predetermined balance; all countries and cases are different, as are their potential balances. Even the opponents of the removal of segmentation restrictions recognize this, and they are prepared to consider relaxation of the restrictions on an as-needed basis. However, from a legal standpoint, the Fund cannot relax the guidelines on an ad hoc basis. Therefore, I support the proposal to remove segmentation restrictions, and simultaneously to reinforce the guidelines for Fund support of debt and debt-service reduction operations. This will allow the Fund to be straightforward in its policies, and it will send a clear message about the Fund's policy to debtor countries and the creditor community. It is a good example of the flexibility of the Fund's policy. The Fund could probably take further steps in this direction, and consider the possibility of extending its support to reduce the burden of other types of debt.

If we agree to change the guidelines regarding Fund involvement in the debt strategy, we should adjust appropriately the modalities of early repurchase expectations. Therefore, I support the proposed consequential changes in the repurchase expectation decision.

Mr. Fukuyama made the following statement:

At the last Board meeting on the debt situation in September last year, when the staff proposed the elimination of segmentation restrictions for the first time, this chair expressed its readiness to consider fungibility between set-aside resources and additional resources. However, this chair did not support the complete removal of segmentation restrictions, as proposed by the staff. This chair, as well as others, asked the staff to work on modified guidelines for consideration at another Board meeting. The Chairman accepted this proposal.

At that time, our emphasis was, on the one hand, on the need to maintain the menu approach in bank debt packages as the core of the debt strategy. On the other hand, we acknowledge that segmentation provisions have complicated the completion of bank packages in some cases. In addition, it is necessary to take into account the fact that, given the diverse debt situations in many countries, including the states of the former Soviet Union (FSU), segmentation could impede future innovative operations to deal with those countries. This chair therefore stated at the Board meeting in September that it could agree to the introduction of a certain amount of flexibility into segmentation, but it stressed that more consideration should be given to the rationale for the original guidelines.

After careful examination of the staff paper, my authorities now find the new guidelines reasonable, and they no longer have any difficulty in supporting the staff's proposal as a whole. I commend the staff for taking carefully into account the views of Directors who expressed a preference for a balance in bank debt packages, and for the staff's intention to clarify this consideration explicitly in the summing up of the Board discussion endorsing the modification of the guidelines. Also, I find reasonable the four factors proposed by the staff on which the assessments of balance should be based. Among these four factors, it is especially important that the menu of options provide banks with a sufficiently broad range of alternatives to ensure a high rate of participation in the package. This is exactly what this chair has been emphasizing.

Another major concern is that the removal of segmentation restrictions could lead to a relaxation of the basic policy on use of Fund resources. In this respect, the staff's commitment, as laid out in the paper, that increased flexibility will not mean that the Fund will provide such resources for weaker adjustment efforts, or on the basis of an insufficient record of performance, is very encouraging.

Regarding the consequential changes in the repurchase expectation decision, the proposed approach is consistent with the objectives of the debt strategy, and I therefore support the proposed decision.

Mr. Lanciotti made the following statement:

I am strongly convinced that an agreement on today's proposal for the modification of existing guidelines concerning Fund support for debt and debt-service reduction should be regarded as a step forward in the process of facilitating the solution of the debt problem of many countries. The staff paper clarifies many issues of concern raised in previous discussions by the Board. In particular, it provides a fully satisfactory answer to the questions asked by this chair during last September's discussion. Overall, the proposed modification to the existing guidelines strikes a balance between the desirability, on the one hand, of increased flexibility in working out new and imaginative schemes to facilitate the solution of debt problems of many countries, and, on the other hand, the need to maintain appropriate protection against the risk of shifting the burden of dealing with the debt problem from private to official creditors as a consequence of an inappropriate balance of different options in the chosen menu.

Regarding flexibility, the removal of the artificial segmentation incorporated in the existing guidelines between different debt and debt-service reduction techniques--which may be financially equivalent in any case--is extremely important. It opens the way, at the same time, for financial innovation and the development of modalities for debt and debt-service reduction packages that are yet consistent with the spirit of the Fund's strategy for making its resources available for these operations. Moreover, the overall elimination of segmentation is in keeping with the principle of equality of treatment. Indeed, neither ad hoc exceptions to the existing guidelines, nor greater flexibility in applying them, would be a satisfactory solution, as uncertainty about the Fund's established policy on this matter would be increased. In contrast, a clear and consistent signal by the Fund to the participants would be incorporated in the framework of the emerging negotiations.

With respect to protecting against financial risks, it is worth stressing that the proposed modifications do not involve any relaxation of the general criteria qualifying the Fund's support. Board approval on a case-by-case basis would still be required to ensure that support operations represent a cost-effective, efficient use of Fund resources; that they are backed by a credible adjustment program; that the debtor countries contribute adequate resources of their own in support of them; and that they strike an appropriate balance in the different options in the menu so as to encourage broad participation by banks. I can therefore support the proposed decision.

Mr. Link made the following statement:

This chair agrees with the staff that the segmentation provisions applied so far under the modalities of Fund support for debt and debt-service reduction have complicated the completion of bank packages in a couple of cases, and that they threaten to impede future operations. To gain flexibility, the staff therefore proposes eliminating these provisions. As some of the concerns that we expressed during the discussion last September have been taken into account, we can accept the proposed decision. We especially welcome the criteria that the Fund has defined for its backing of bank debt packages.

A bank debt package should lead to short-term relief and longer-term viability, on the one hand, and it should also encourage a high rate of participation, on the other hand. Private financing is warranted in order to avoid an excessive shifting of risks to official creditors.

All debt and debt-service reduction operations will be considered on a case-by-case basis by the Executive Board. The Board will strike an appropriate balance between debt and debt-service reduction operations. When set-asides and additional resources are both available for the same operation, the question of the priority of resources is raised. We are not sure whether the accumulated set-asides should have priority, so we agree with the remarks made by other Directors in favor of being more flexible in this regard.

We would expect that the staff would report regularly to the Board on the experience with the new framework. Moreover, we very much hope that the new guidelines not only will contribute to solving existing situations of overindebtedness, but also will help in preventing excessive debt accumulation in the future.

Mr. Sirat made the following statement:

This chair has always been skeptical about the segmentation of the use of Fund resources in support of debt and debt-service reduction operations. Accordingly, by and large, we support the staff's proposal.

Segmentation has proved inappropriate, first, because the debt-service reduction option and the debt reduction option are calculated to be broadly equivalent financially in net present value terms, at least theoretically. Of course, an effective comparison of the principal reduction option and the interest reduction option depends on expectations of interest rate developments. From this point of view, and as banks may believe that there is a risk that U.S. dollar interest rates will rise in the coming months or years, it is probable that banks would be more reluctant now to choose the interest reduction option than they have been over the past few years, all things being equal, as a subsequent increase in interest rates would increase that option's concessionality.

It is clear in any case that the risk that most banks would choose the debt-service reduction option did not materialize, especially because it appears that most banks acted with an eye to their fiscal and prudential constraints, which are different in every country, and therefore a balance between the different options was reached overall. Taking everything into account, segmentation has proved to be simply another constraint, leading to lengthier discussions--such as in the case of Argentina--or a suboptimal agreement--as in the case of the Philippines.

The removal of segmentation would not entail great risks. The continuation of the limit on the use of Fund and Bank resources--either set-asides or additional resources--to finance collaterals would in itself contribute to a balanced menu of options. It would also lead to the development of options benefiting from a minimal warranty, in exchange for a smaller degree of concessionality, and to strong pressure on the banks from the debtor country to choose the debt reduction option.

Therefore, a balance in the menu proposed to the banks should develop through the negotiation process between the banks and the debtor country, and indeed, that balance should be left to the negotiation process itself. I was not fully convinced by the criterion mentioned in the staff report as to the number of options in the menu, with the proposal that Fund support should be ruled out for packages with a very limited range of options. Like Mr. Shaalan and other speakers, I suggest that the number of options be a matter for consideration by the banks themselves, and that the Fund should be satisfied if the bank committee considers the menu to be varied enough to ensure broad participation in the package by the banks.

Regarding the issue of the use of Fund resources and the possible priority as between set-asides and additional resources, clearly, set-asides already accumulated should be used first. The staff proposes that, as a general rule, additional resources should be considered first, before any possible acceleration of future set-asides. While I understand the reluctance of the staff regarding the acceleration of future set-asides given its past track record, I suggest that a somewhat more flexible guideline be developed here. This chair would prefer that the choice between accelerated set-asides or augmentation of resources be made on a case-by-case basis. The criteria would be, on the one hand, the level of access already granted to the borrower, which would determine whether additional augmentation resources would be appropriate, and, on the other hand, the past track record of the program, which would influence the decision whether to accelerate future set-asides. I support the proposed decision.

Ms. Lissakers made the following statement:

We welcome this opportunity to discuss the proposal to amend the guidelines for the Fund's involvement in the debt strategy, in order to allow the use of both set-aside and augmentation resources to support debt reduction operations and interest support for debt and debt-service reduction, or principal collateralization for reduced-interest par bond exchanges.

The last modification of the guidelines was in May 1992, when the Executive Board agreed to the use of augmentation resources to be made available to collateralize principal in par bond exchanges.

In light of changes in financial markets and the evolution of debt restructuring packages, we can support this latest proposal to lift the segmentation requirements--provided that we can ensure that the bank packages for which Fund support is sought are balanced and represent an efficient use of resources. In this regard, we appreciate that the staff has proposed, in response to our concerns and those of others, that the assessment of the appropriate balance be based on a number of factors, including, most importantly, that the debt-servicing profile is sustainable over the medium term, and does not undermine prospects for growth and domestic investment. This would imply that the benefits of the deal are not too front-loaded. The other factors are that the overall cost effectiveness of the package, and the underlying costs of the various options, would be kept as low as possible for the debtor; that the package would ensure continued involvement by the commercial banks; and that the breadth of the package would be such as to ensure that there was a menu of debt reduction and debt service options.

Like Mr. Shaalan, we question the utility of the fourth criterion in the paper, regarding the participation of the broad universe of banks, and we look forward to the staff's response. As several speakers have commented, the structure of the market and the mix of banks involved in most negotiations almost ensure that a wide variety of options will be built into the package, and that this will be agreed before the Fund is actually in a position to decide whether or not to support it. We also share

Mr. Zoccali's interest in hearing more from the staff about the question of the treatment of past-due interest options in this package, and the possibility for Fund support in this area.

The added flexibility provided by the staff's proposal will help expedite bank agreements currently under discussion. At the same time, we would emphasize the need for the Board to continue to determine on a case-by-case basis whether a bank debt package merits Fund support. For our part, we will carefully scrutinize each package to ensure that it is balanced before we endorse use of Fund enhancements. A package must include a broad enough range of well-priced options to achieve the best possible outcome, both for the country and the creditors, as well as to ensure the most effective use of Fund resources.

We would appreciate clarification of the early repurchase proposal, in particular, about how it relates to additional resources provided by other international financial institutions. As we understand it, the lifting of segmentation requirements by the Fund means that in circumstances in which additional Fund resources are used to support both principal reduction and interest collateralization, while the additional resources of other international financial institutions continue to be limited to collateralization, an early repurchase expectation could affect a larger share of the additional resources of other international financial institutions. We would appreciate elaboration by the staff on this matter.

Mr. Kafka made the following statement:

This chair has always questioned the need for, and purpose of, the segmentation provisions covering Fund support for debt and debt-servicing operations. We agree with their elimination and with the thrust of the staff paper.

Regarding the proposed change in the repurchase expectation decision, like others, I would prefer the deletion of Section C. The present terms for repurchase already render very small the possibility that any country, within one year, will still be using the resources released for purposes other than debt reduction. Nevertheless, this issue is not worth wasting a long time discussing, and I could go along with the staff proposal.

Mr. Smee made the following statement:

Segmentation restrictions may have provided a mechanism for encouraging balance among menu options, but they did so by imposing artificial limits on what that balance would be, thereby hindering countries, their commercial bank creditors, and the Fund itself in being as helpful as possible to the process of returning member countries to external viability with growth.

That does not mean that an appropriate balance does not need to be encouraged by the Board in assessing whether or not a particular package qualifies for Fund support. The four factors noted in the staff paper set out very well the basis for making that assessment.

We agree with the staff that decisions on Fund support should be made on a case-by-case basis, taking account of substantive factors, not of artificial barriers that the Fund itself has created.

The elimination of segmentation restrictions raises other issues. With regard to the priority of use between set-asides and additional resources, we agree with the staff to give priority to the use of accumulated set-asides. While the staff believes that it is best to avoid acceleration of future set-asides if at all possible, we believe that acceleration should be dropped entirely. We propose this because, by removing segmentation, we have much more room to maneuver, without the need to break the link between the time structure of the program and its financing. We agree with the staff's proposal regarding the treatment of collateral financed by additional resources that is being released and not used for subsequent debt operations.

Mr. Shaalan has raised the issue of how that part of the released collateral to be attributed to the Fund's augmentation resources--beyond the set-asides--can be calculated. We must ensure that the member country's use of those funds is not artificially constrained by limits or barriers that the Fund places in the way. Nevertheless, the rule that the staff has proposed on how to treat additional resources used to finance collateral that is released and not used for subsequent debt relief operations appears very sensible.

Mr. Shaalan has also raised the question of whether the criterion requiring that the menu of options in bank debt reduction packages be broad enough to attract broad participation by the banks is redundant or irrelevant. While I agree that, in most cases, the bank advisory committee will represent a broad range of banks, and that it will most likely design a wide menu of options, one can imagine cases in which the interest of smaller banks might not be represented on the committee. The interests of those banks need to be taken into account, by ensuring that an option that applies to them is incorporated. The criterion provides a safeguard that the Fund can use to ensure that minority rights are protected.

We support the amendments of Decision No. 9331-(89/167), except for Section B, which we would propose be deleted in its entirety, since we do not support acceleration of set-aside amounts now that segmentation has been eliminated.

Mrs. Wagenhoefer made the following statement:

At previous Board meetings, my predecessors and I have explained in detail the German position concerning the proposed modifications of the guidelines on Fund support for debt and debt-service reduction. The latest occasion was on September 3, 1993. Therefore, I do not consider it necessary to repeat all our arguments in today's Board discussion.

My authorities continue to hold the view that the existing segmentation provisions constitute an adequate compromise, for the following reasons: first, these provisions aim at encouraging an appropriate balance among menu options in completed packages; second, they serve the aim of limiting the use of additional Fund resources, and they thereby restrict the bailing out of commercial banks; and third, they offer sufficient flexibility, which allows the Fund to respond adequately to the specifics of individual cases. My authorities therefore see no need for the proposed elimination of the segmentation provisions.

Regarding the proposed criteria for assessing the balance of a package, I found the arguments expressed by other Directors regarding the usefulness of the fourth criterion convincing--that the package should be such as to attract broad support among the banks. I support the thrust of the other three criteria, which indeed seem to be self-evident; I would assume that the staff has already observed these criteria in the past.

Therefore, an endorsement of such criteria in exchange for elimination of the segmentation provisions would, unfortunately, not alleviate the concerns of my authorities. For these reasons, I cannot support the proposed removal of the existing segmentation provisions.

Mr. Sarr made the following statement:

Given the constant evolution of the debt situation, we welcome the staff's proposal to lift the segmentation restrictions on the use of Fund resources in support of debt and debt-service reduction operations, so as to continue to improve the Fund's ability to support these operations effectively. While we find the proposed extensive assessment of the debt package, along with the prudent approach recommended by the staff with respect to the acceleration of future set-asides, to be a pragmatic safeguard, we nevertheless would welcome any assurance that the staff could provide that the fixed numerical guidepost for assessing the negotiated packages does not constitute in any way a step backward. Like Mr. Shaalan, we think that the rationale for the fourth criterion--that the package should be such as to attract broad support among the banks--is not entirely clear. We support the proposed decision, and the proposed amendment to the guidelines on debt and debt-service reduction operations.

Mr. Dorrington stated that he welcomed the timing of the discussion, which was not being held in the context of a particular case. In September, he had agreed in principle to abolish segmentation, subject to certain assurances. The staff paper provided him with those assurances. In particular, he welcomed the four criteria the staff had set out on page 3 of the staff paper. At the same time, he could sympathize with those Directors who had questioned the utility of the last of those criteria, and he would welcome the staff's comments on those queries. He could agree to the proposed decision.

Mr. Marino stated that, as a strong supporter of the fungibility of Fund resources for a number of years, he could join others in welcoming the greater flexibility that was being proposed for the use of Fund resources to support debt and debt-service reduction operations, through the elimination of the segmentation restrictions. That action, by eliminating an artificial constraint, would contribute to the cost effectiveness of debt reduction packages.

He agreed with the staff proposal to amend the current guidelines for Fund support for debt and debt-service reduction operations, including the incorporation of the factors that the staff would analyze in order to ensure that the debt reduction package was adequately balanced, Mr. Marino continued. However, those criteria should be seen as broad principles, should be kept as general and as simple as possible, and should serve mainly to assure that the package was sound.

He would like to stress the importance of opportune timing in the debt rescheduling process, and the indirect effects of the debt reduction packages that had to be factored into the analysis of a package as a whole, Mr. Marino concluded. As shown by the experience of several cases, a relatively swift negotiation helped to dispel the expectations of confrontation and a payment moratorium, which promoted capital inflows that allowed for a sharp decline in domestic interest rates. That, in turn, stimulated domestic investment and economic growth. Therefore, when evaluating a debt package, he urged the staff to give due consideration to the important indirect effects of concluding the negotiations quickly.

Mr. Wei made the following statement:

Although substantial progress has been made through the debt reduction efforts of the international community, the total debt of developing countries increased in 1993. In this context, much remains to be done by the international community to reduce the overall size of the debt for developing countries--in particular, the debt burden of the low-income developing countries. The Fund is required to play an active role in the debt reduction operations of the developing countries through a more innovative and flexible approach. Therefore, I associate myself with other Directors in believing that the segmentation provisions should be eliminated, because, as the staff points out, they have complicated the processing of the implementation of debt and debt-service reduction packages, have placed unduly rigid constraints on the Fund's ability to support debt restructuring operations, and will impede future restructuring operations.

However, while welcoming the decision to eliminate the segmentation restrictions for set-asides and additional resources to be used for debt reduction or debt-service reduction, we note with concern that very rigid and strict criteria have been established, on a case-by-case basis, when the Board considers a member's request to use Fund resources for a debt and debt-service reduction package. It seems that those criteria on page 3 of the staff paper could be met only by the middle-income countries, or by those countries the economies of which are already in good shape, and are thus possibly in a position to negotiate with the commercial banks on a debt reduction package. Meanwhile, spontaneous private financing to these countries is expected to resume. However, the situation of many low-income and lower-middle-income developing countries--especially the poorest--remains extremely difficult, and spontaneous private inflows to these countries are not anticipated in the near future. In fact, the lack of substantial progress on the part of these countries in reaching debt restructuring agreements with commercial bank creditors has been evident until now. These countries will require a greater degree of debt reduction flexibility than is provided for in the decision to eliminate segmentation restrictions. Therefore, I wonder how the pressing needs of these countries can be accommodated, and how the Fund will meet this formidable challenge in the proposed modification of the guidelines. The staff is encouraged to make further efforts to explore the possibilities, with the aim of enabling the Fund to provide as much financial support as possible to those countries in need of help.

We share Mr. Shaalan's concerns regarding the stipulation that accumulated set-asides generally be used before augmentation resources for debt reduction purposes. With respect to the issue of priority in using set-asides or additional resources, we share Mr. Sirat's view that some flexibility should be given to the members in that decision.

Mr. Lee made the following statement:

We very much welcome the present proposal to eliminate the segmentation restriction on the use of Fund resources for debt operations. In the past, this chair has always argued that the guidelines should be amended to allow full flexibility of resources across alternative instruments.

We agree with the staff that, under the revised guidelines, an appropriate balance between debt and debt-service reduction would be taken into account at the time of the Board consideration of a request for Fund support. We also agree to the suggestion in the paper regarding the issue of the priority of use between set-asides and additional resources. We therefore support the proposed decision.

Mr. Posthumus made the following statement:

As indicated by this chair in the Board meeting last September on the financing for developing countries and their debt situation, we could accept the staff's suggestions on the abolition of the segmentation provisions in the guidelines for Fund support for debt and debt-service reduction operations.

At that time, however, we also stressed that segmentation had merits in promoting a proper balance between principal and interest reduction in bank debt and debt-service reduction packages--an aspect that we believed should be safeguarded, even if the segmentation provisions were eliminated.

I am therefore pleased to note that this aspect will be stressed explicitly in the Acting Chairman's summing up of the present discussion--which will endorse the proposed modification of the guidelines--as an important point to be taken into consideration in assessing a package for Fund support. In this respect, the four factors enumerated by the staff on page 3 of the paper would indeed help to ensure that a sufficient and balanced reduction of principal and interest is achieved in debt reduction packages. It is necessary that both debtors and creditors be made fully aware of those criteria, and of the Fund's intention to adhere strictly to them.

The staff argues that the removal of the segmentation provisions from the guidelines is not expected to have a very large impact on the Fund's liquidity. I am not fully convinced that this will be the case. The staff notes that increased flexibility may induce countries to seek use of additional resources earlier than would have been the case otherwise. I would therefore favor a review of the outcome of the proposed modifications and, in particular, of their impact on the level of Fund credit, preferably within one year.

I can agree with the other proposals on sequencing of set-asides and additional resources. In particular, acceleration of future set-asides should be avoided as much as possible, and I can even support the proposal to eliminate the possibility completely, as Mr. Smee proposed. Furthermore, the possibility of requiring an early repurchase in the case of released collateral should be retained.

Mr. Jonáš made the following statement:

We support the elimination of the segmentation provisions included in the guidelines for Fund support for debt and debt-service reduction. The elimination of the segmentation restrictions could facilitate a quicker conclusion of comprehensive and innovative debt and debt-service reduction agreements, while maintaining the case-by-case examination that is needed for a bank debt package to qualify for Fund support.

Mr. Al-Tuwaijri made the following statement:

As this chair noted during the Board discussion of the debt situation last September, it seems that there are no strong reasons to maintain the segmentation restrictions, which may artificially complicate the completion of debt rescheduling. Indeed, continuation of the segmentation policy could needlessly reduce the benefit obtained by a member country from a given level of available Fund resources. Moreover, the factors that would be taken into account in making the staff's assessment of a debt and debt-service reduction package, which are detailed on page 3 of the staff paper, seem to guard against commercial banks exiting the process and shifting more of the risk to the Fund. Furthermore, the decision by the Fund whether or not to support a particular debt and debt-service reduction package would continue to be made by the Executive Board on a case-by-case basis, taking into account all relevant factors, which should also ensure that no undue shifting of risk to the Fund takes place. Thus, I have no problem in supporting the proposed decision.

Mr. Ismael made the following statement:

The staff proposal, as presented in the staff paper, has accommodated the wish for increased flexibility in debt restructuring operations, as well as addressed the concern of some Directors that removal of the safeguard restrictions on segmentation could result in an unbalanced debt restructuring operation. I can therefore support the proposed decisions.

Mr. Rouai stated that he could support the proposed decision.

Mr. Bergo said that his chair would like to support fully the proposed modifications of the guidelines for Fund support for debt and debt-service reduction operations. He welcomed the factors that would be taken into consideration on a case-by-case basis in that connection.

Mr. Fernando said that he also wished to join the chorus in support of the proposed decision.

The staff representative from the Policy Development and Review Department stated that, with respect to the proposed modifications of the guidelines on Fund support for debt and debt-service reduction operations, he wished to assure Directors that the proposed modifications were not intended to be a step backward, or to lead to a more restrictive application of the policy. On the contrary, the intention was to allow the Fund to be somewhat more flexible in supporting debt and debt-service reduction operations. The guidelines were intended to supplement the existing guidelines on the use of Fund resources for debt and debt-service reduction, and they would ensure that any additional use of Fund resources made possible by the elimination of segmentation was subject to appropriate controls.

A number of Directors had questioned the usefulness of the fourth criterion regarding the need for the package to be such as to attract the broad support of the banks, the staff representative went on. The rationale for it was very much what Mr. Smee had outlined. By including that criterion, the banks and the member country were put on notice that the agreement with the banks should be one that appealed to the broadest possible universe of banks, and that groups of banks with particular concerns should not be discriminated against in the package. The staff believed that it was important that the steering committee of commercial banks and the country concerned bear that consideration in mind. In practice, it could be expected that, in the vast majority of cases, the steering committee would be fully representative of the banking community, and would ensure that the agreement provided banks with a sufficiently broad range of options to allow extensive participation in the package. Therefore, in most cases, the guideline would not be an obstacle to reaching an agreement between the country and its bank steering committee. That notwithstanding, it should not be ruled out that, in cases in which a group of banks was concentrated in one or two member countries, other banks might feel themselves severely disadvantaged by an agreement reached by the steering committee, and the staff needed to be able to preserve the option of flagging those cases.

With respect to the treatment of interest arrears, the Fund should be able to support most elements of a restructuring agreement involving a reduction in debt service on interest arrears under the modified guidelines, the staff representative pointed out. However, if the agreement involved merely the restructuring or rescheduling of interest arrears, without any debt or debt-service reduction, then clearly it would not be a candidate for support through the use of Fund resources. Therefore, for example, a cash downpayment on arrears would not be an element that would be supported directly by the Fund's resources under the policy; however, their conversion into a collateralized bond involving debt or debt-service reduction, would qualify for Fund support.

The issue of the applicability of the general policy on Fund support for debt and debt-service reduction to the poorest of the Fund's member countries had been discussed in more depth on September 3, 1993 at EBM/93/124, the staff representative observed. It was true that the policy was aimed at those cases in which a country was normalizing its relations with its creditors; it was less designed for the cases of countries that needed to exit from commercial bank debt. The international community had responded to those latter cases through the IDA debt repurchase facility, which was on terms that were far more appropriate to the situation of many of those countries than the use of regular Fund resources.

In not being more flexible about the priority of use of set-aside and additional resources, and, in particular, as Mr. Shaalan had noted, with respect to cases of augmentation without the use of set-asides, the staff had tried to stick as closely as possible to the original principles underlying the 1989 guidelines on the use of Fund resources for debt and debt-service reduction operations, the staff representative stated. The fundamental method of Fund support for debt operations was through the set-asides, with additional resources clearly playing a supplementary role. The staff did not believe that the Board had intended to design a policy that would lead in general to larger access to Fund resources. In fact, from the way in which the guidelines were to be modified, if the country reached an agreement with the banks at an early stage during an arrangement, its access to Fund resources could be somewhat larger, whereas if the country reached an agreement at a late stage in an arrangement, then access could be somewhat lower than would have been the case otherwise. In general, the revised version of the guidelines should not lead to much difference in the amount of access to Fund resources that a member would have under the policy.

One speaker had recommended that the acceleration of set-asides be dropped altogether, while another had suggested that the Fund be more flexible as between the use of acceleration of set-asides and augmentation, the staff representative from the Policy Development and Review Department concluded. The acceleration of set-asides was a somewhat unfortunate practice, as it caused the Fund to make resources available on the basis of performance criteria that were yet to be fulfilled. If the program went off track, the situation could become somewhat disorderly. Nevertheless, the staff believed that the acceleration of set-asides could not be dropped completely at the current juncture. For example, if a country reached an agreement with the Fund on an arrangement involving a large amount of access to the Fund's resources, and reached an agreement at an early stage of the Fund arrangement with its commercial bank creditors as well, it was possible that augmentation under the arrangement by itself would be insufficient to provide the Fund resources that would be needed to enable the country to conclude the agreement with the banks. For that reason, the flexibility provided by the acceleration of set-asides needed to be retained.

The Deputy General Counsel stated that Section C of the proposed decision on early repurchases had been added two years after the adoption of the original repurchase decision. Essentially, the Fund had considered that, because other international financial institutions had traced collateral that was released and that had been financed by them from additional resources, it should have a similar provision in the early repurchase expectation decision. Even at that time, remarks had been made about the extreme complexity of the system and about the practical relevance of the system in light of the Fund's repurchase periods. The present adaptation was the best that the staff could find after lifting of segmentation.

Before the Fund could ask a country to make an early repurchase on the basis of released collateral, the Deputy General Counsel noted, it needed to know a number of elements: whether the country had established collateral under the debt package; the total amount of that collateral; and the total amount of additional resources from international financial institutions--including the Fund--that had been placed to that collateral. If the restrictions on segmentation were lifted and the country were then free to use the non-segmented resources for any purposes under the package, then the Fund would have no way of knowing what amount of Fund resources had gone into the collateral, nor whether those resources were additional resources or set-aside resources. However, other international financial institutions would continue to identify additional resources and their use for a particular collateral.

The World Bank had not given the staff firm indications as to how it intended to proceed about released collateral, and it was likely that the Bank Board would consider the issue only after the Fund Board had taken a decision, the Deputy General Counsel concluded. If required, in the light of a subsequent decision by the Bank, the staff would bring the issue again to the Board's attention.

The staff had attempted to come up with an indication of what potentially relevant financing for the collateral from the Fund might be, in light of the elements that were known after the lifting of segmentation; the total amount of collateral established by the member; the amount of additional resources provided by the World Bank and/or other international financial institutions; and the amount of additional resources purchased from the Fund. Given these elements of information, the Fund would deem the collateral--to the extent it had not been financed from additional resources of the other international financial institutions--as having been financed from additional resources from the Fund. A sentence to that effect was proposed to be added to the decision. The staff had attempted to deal with a situation in which, after lifting of segmentation, it was impossible to identify whether or not additional resources from the Fund had been placed into the collateral.

The Executive Directors adopted the following decision:

1. The introductory paragraph of Decision No. 9331-(89/167), adopted December 19, 1989, as amended, is amended to read as follows:

"In the context of the guidelines on the role of the Fund in the debt strategy, the Fund adopts the following decision on expectations of early repurchase by members with respect to purchases of additional resources under stand-by or extended arrangements or amounts set aside under such arrangements for use in debt and debt-service reduction operations involving (i) debt reduction, (ii) interest support, or (iii) collateralization of principal in reduced interest par bond exchanges."

2. Section A, paragraph 1 is amended to read as follows:

"Whenever the Fund approves a member's request for purchases of additional resources or amounts set aside under a stand-by or extended arrangement pursuant to the Fund's guidelines on the role of the Fund in the debt strategy, the Fund shall specify in the decision approving the request the purposes for which, and the period of time within which, such set-aside amounts or additional resources can be used."

3. Section B, paragraph 4(a) is amended to read as follows:

"If the program of a member that has previously made accelerated purchases of amounts set aside under a stand-by or extended arrangement is off track on the date a purchase becomes available under the phasing provision in the arrangement, and is not back on track within 90 days after that date, the Managing Director shall report the matter to the Executive Board promptly after the expiration of the 90-day period."

4. A new paragraph 11 shall be added to Section C, to read as follows (the paragraphs of Section D to be renumbered accordingly):

"For purposes of this Section, and with respect to Fund resources made available in accordance with the amended guidelines on the role of the Fund in the debt strategy (Summing Up at EBM/94/1 on January 7, 1994), in cases where debt or debt-service reduction operations include the establishment of a collateral, any portion of the collateral that has not been financed from additional resources from international financial institutions other than the Fund shall be deemed to be financed first from additional resources from the Fund and, subsequently, from other resources."

Decision No. 10547-(94/1), adopted
January 7, 1994

The Acting Chairman made the following summing up:

The Executive Board agreed to modify the guidelines on the Fund's involvement in the debt strategy that had been established in the Chairman's summing up on May 23, 1989. The Board decided to eliminate the segmentation requirements in order to facilitate commercial bank debt restructuring for some countries with difficult debt situations. After this modification, it would be possible to use both set-asides and additional resources from augmentation to support operations involving debt reduction, interest support for debt and debt-service reduction, and principal collateral for reduced-interest par bonds, provided that such operations satisfied the Fund's criteria. The Board also decided to make the consequential amendments to the decision on early repurchase expectations with respect to debt and debt-service operations.

Directors noted that decisions by the Fund to support particular debt and debt-service reduction packages would continue to be made on a case-by-case basis. As set out in the May 1989 guidelines, the Board would evaluate any proposed package in light of the strength of the member's economic policies, the likelihood that the package would help the country regain access to credit markets and attain external viability with growth, and an assessment that the package represented an efficient use of scarce resources. Directors agreed that appropriate balance between debt and debt-service reduction was an element to be taken into account in evaluating a proposed package. In assessing balance, the Fund would consider a number of factors, including (i) whether the resulting debt-service profile on restructured debt was consistent with a country's likely medium-term debt-service capacity; (ii) whether the package, taken as a whole, was cost effective; (iii) whether the package would imply continued commercial bank involvement with the debtor country, where such involvement would be appropriate and could be expected to provide the basis for a subsequent return to spontaneous financing; and (iv)--although some Directors questioned the need for such an assessment--whether the menu of options included in the package provided a sufficiently broad range of alternatives to ensure a high rate of participation in the package. As before, the member and its banks would be able to allocate the options in a package between debt and debt-service reduction so as to tailor them to the needs of each case.

Under the modified approach, it would generally be expected that set-asides would be included in an arrangement if Fund support for debt operations was likely to be requested. Priority would be given to accumulated set-asides in support of bank debt packages. Augmentation of access would be considered only if accumulated set-aside resources were insufficient to ensure adequate Fund financing of the package, taking into account the criteria specified in the 1989 guidelines, including the need to catalyze resources from other sources and for the member to contribute as feasible, and the strength of the member's adjustment program. The consensus of the discussion was that acceleration of set-asides would continue to be possible, but only if judged absolutely necessary, and normally after appropriate use of additional resources. An exception to that set of priorities could be permitted where access under an arrangement was particularly low, in which case it would be possible to avoid use of set-asides and rely solely on augmentation of the arrangement.

4. CHARGES - CONSOLIDATION, UPDATE, AND SIMPLIFICATION OF RULES AND DECISIONS

The Executive Directors considered a staff paper on the consolidation, update, and simplification of Rules and decisions on charges (SM/93/257, 12/9/93).

The Deputy General Counsel said that, in the light of comments made by Directors following the circulation of SM/93/257, it was useful to underscore that the paper was meant only to propose a consolidation and simplification of the Rules and decisions on charges, and, therefore, with the few exceptions identified in the staff paper, to draw the consequences from past developments. For instance, a number of provisions carried over from the period before the Second Amendment had become obsolete and could usefully be eliminated. Second, when the Fund had decided to unify the rate of charge, and when the system of setting the rate of charge in proportion to the SDR interest rate on an annual basis had been changed, the staff had promised to propose an incorporation in the I-Rules. The purpose of the present proposal was mainly to clarify which Rules on charges applied and to clear away Rules that no longer applied. There was no intention to preempt in any way the discussions on burden sharing, precautionary balances, and other substantive issues that the Board planned to hold.

Mr. Schoenberg made the following statement:

This chair welcomes the endeavor to consolidate, update, and simplify the Rules and decisions on charges. As this institution grew rapidly during the past few years, fears were voiced that it could fall victim to Parkinson's Law. As many of us know from our home countries, the growth and size of bureaucracies tend to be positively correlated with the increasing complexity and illegibility of their rules and regulations. The proposed changes of the Rules and decisions on charges take a stride in the right direction, toward easily understandable, straightforward, and sensible rules. I commend the staff for this effort.

I would, however, like to highlight two points of concern to this chair. Number one is the proposed simplification of the introductory sentence of Rule I-6(4), which we welcome in principle, as long as the Fund does not make use of borrowed resources. Should the Fund again have to rely on borrowed resources some time in the future, which surely cannot be ruled out completely, their rate of charge should reflect the associated higher costs in comparison with the cost of using the Fund's own resources.

As we do not anticipate the introduction of a large number of new Fund facilities in the near future, the proposed change of Rule I-6(4)'s introductory sentence is really not necessary. Should the required majority of the Board decide otherwise, we would like to have our views regarding the rate of charge for borrowed resources included as a general agreement in the Acting Chairman's concluding remarks.

My second point concerns Rules I-6(4)(c) and (d), on the possibility of the use of excess net income for a retroactive increase in the rate of remuneration. Obviously, this is not an option at the moment. The rate of remuneration could, however, quite feasibly have to be set below 100 percent of the SDR interest rate again in the future. We would therefore like to keep this option in the Rules, or at least include in the Acting Chairman's concluding remarks the necessity of a reintroduction of a retroactive increase in the rate of remuneration as an option for the use of excess net income for cases in which the rate of remuneration is set below 100 percent as a general agreement of the Board.

I would like to refer to my statement during the debate on the Fund's income position, when I strongly advocated the implementation of specific rules concerning the handling of excess net income or income shortfalls. Such rules could put an end to the frequently recurring controversy over the handling of budgetary overshooting or undershooting. As the staff specifically did not include the topic of burden sharing in today's discussion, I will not dwell further on that subject.

I surely do not think that we need to reinvent the governing of this institution. I do, however, feel that there are other areas where consolidation, updating, and simplification of Rules and decisions would also be extremely helpful. I strongly encourage the staff and management of the Fund to further pursue this most worthwhile avenue.

Mr. Fernando, referring to the suggestion of Mr. Schoenberg that the Chairman's concluding remarks capture the concerns raised, inquired whether, as a matter of procedure, it was intended to issue the Chairman's concluding remarks.

Continuing, Mr. Fernando said that, in considering Mr. Schoenberg's second point, it was important to bear in mind that a main objective of the present exercise was to delete redundant Rules. In addition, if the Board were to decide in the future that the rate of remuneration should be reduced to less than 100 percent of the SDR interest rate, that would surely imply a modification of Rule I-10(a), which set the rate of remuneration at 100 percent of the SDR interest rate. Altering Rule I-10(a) would be a major policy decision that would have a bearing on not only the issue of remuneration but also other issues, such as the SDR. The question whether any excess net income should be used to increase the rate of remuneration coefficient in such a context should be addressed at the time of the discussion on the rate of remuneration that would seek to change Rule I-10(a).

In addition, Mr. Fernando continued, proposed Rule I-6(4)(c) would make it possible to use excess income for the benefit of the rate of charge retroactively or prospectively, or to strengthen the reserves. The potential benefit to the rate of charge should be measured against the fact that, in the event of a shortfall in income, the entire burden of making good that shortfall would fall on the rate of charge. Therefore, the proposed Rule I-6(4)(c) was symmetrical and balanced in the sense that it deleted any reference to making remuneration a beneficiary of excess income.

As the staff had noted, the staff proposals were not intended to preempt in any way the results of future reviews of Fund policies bearing on charges, Mr. Fernando remarked. Finally, as leaving Rule I-6(4)(c) unchanged would detract from the commendable objective of the current exercise, Mr. Schoenberg's concern could be met if the Acting Chairman's concluding remarks, if this course of action was intended, were to mention that the relationship between the rate of remuneration and the SDR interest rate could be taken up on a more appropriate occasion.

The Acting Chairman said that he did not intend to make concluding remarks on the present occasion, as they could modify the decisions adopted by the Board at the end of the discussion.

The Secretary added that the Board had before it decisions that would be either accepted or rejected. The decisions adopted would speak for themselves. In such cases, the Board clearly had an established practice of not having a summing up or concluding remarks at the same time that decisions were adopted. That practice avoided situations in which a summing up or concluding remarks could run the risk of watering down a decision or decisions. Directors' reservations about, and other comments on, any of the proposed decisions would be reflected in the minutes of the discussion.

Mr. Posthumus said that it would be useful to ask the staff to respond forthwith to the main points made by Mr. Schoenberg in his opening statement and to Mr. Fernando's reactions.

The Deputy General Counsel commented that the proposed change in Rule I-6(4)(c) was meant to harmonize the relevant Rules. The Board had decided in July 1986, with effect on February 1, 1987, to raise the rate of remuneration to 100 percent of the SDR interest rate, and had amended the relevant Rule. Since then, it had not been possible to exercise the option of using excess net income to retroactively increase the rate of remuneration at the end of a year, because, under Article V, Section 9, the rate of remuneration could not be increased to more than 100 percent at the SDR interest rate. Questions about the possibility of retroactively increasing the rate of remuneration had arisen in the past when excess net income had occurred at the end of a year. On those occasions, the staff had explained that, despite the provisions of Rule I-6(4)(c), the option of retroactively increasing the rate of remuneration was not available. Therefore, the staff considered that the Rule should be eliminated to harmonize the relevant provisions and avoid any ambiguity.

Using concluding remarks by the Acting Chairman to convey an understanding or agreement concerning a possible future reinstatement of the option to retroactively increase the rate of remuneration would not be appropriate, the Deputy General Counsel said. An understanding or agreement was not the equivalent of a decision; a decision by a 70 percent majority would be needed at a future date to reintroduce the option of a retroactive increase. The fact that there had been an understanding in the past indicated that the Board might be prepared to adopt a decision, but there was no guarantee that the majority needed to take the decision would be reached. In practice, the situation that Mr. Schoenberg had described could arise only if the Executive Board decided, by a 70 percent majority, to reduce the rate of remuneration. The same majority was required to reintroduce the option in the Rules of a retroactive increase in the rate of remuneration.

Mr. Schoenberg's second point raised the complex issue of how to define the holdings that were subject to the rate of charge, the Deputy General Counsel continued. At present, all holdings acquired from the Fund's general resources were subject to the same rate of charge. Until 1993, there had been a number of separate rates of charge; those rates had become obsolete and would be eliminated from the I-Rules under the proposed decisions.

Under the existing I-Rules, the Board had adopted a system under which the holdings that were subject to charges were listed in accordance with the facilities under which purchases were made, the Deputy General Counsel went on. Each time a facility was established, it was added, by a decision requiring a 70 percent majority, to the list in Rule I-6(4), unless the Board decided that the holdings acquired under a facility should be subject to a separate rate of charge.

Under the proposed decisions, the Deputy General Counsel went on, the system of listing holdings in accordance with a particular facility would be eliminated. Instead, the Rule would rely on a general definition which, in line with the relevant provision of the Articles, described the holdings that were subject to charges. The definition under Article V, Section 8(b) and the definition in the new text of Rule I-6(4) would be identical. As a result, if a new facility were to be established, the language of the proposed Rule would cover the rate of charge from holdings acquired under that facility. Unlike the present system, there would be no need for a separate decision on the rate of charge under the new facility, unless the Board decided on a separate rate of charge. A 70 percent majority was needed to adopt that new system.

On the question of understandings with respect to the rate on borrowed resources in the future, two points should be made, the Deputy General Counsel said. First, under Article VII, the Board could decide, with a simple majority, to undertake borrowing. Second, the Fund could borrow either for a new facility, or to rebuild resources to be made available under existing facilities. In the latter case, even under the present system, there would be no decision on the rate of charge. For example, if the GAB were activated, its resources would not be used under a new Fund facility, and there would be no decision on the rate of charge at that time.

The issue Mr. Schoenberg had raised was whether the Board preferred to continue a system under which the establishment of a new facility, that might require an 85 percent majority if floating against the reserve tranche or special repurchase periods were involved, would also involve a 70 percent majority decision on the establishment of a rate of charge, the Deputy General Counsel said. Alternatively, the Board could decide now to define all holdings acquired from Fund resources in a generic fashion, so that a further 70 percent majority decision on the establishment of a rate of charge would no longer be required. The staff recommended the second course of action.

Mr. Schoenberg said that the idea of including a reference in the concluding remarks to a particular understanding was a second-best option. He would prefer to keep the existing Rules concerning the two points he had raised.

He fully agreed with the Deputy General Counsel's various comments, Mr. Schoenberg continued. However, with respect to the rate of remuneration and the rate of charge, a change in the status quo some time in the future could not be ruled out, and the question was what would happen then. If the Board intended, as Mr. Fernando had suggested, not to preempt future decisions with the adoption of the decisions under discussion now, then he saw no reason not to keep the status quo.

Mr. Fernando commented that keeping the provisions in question clearly would not be consistent with the objectives of simplification and harmonization.

Mr. Cailleteau made the following statement:

On a number of occasions, this chair has expressed its concern about the degree of complexity of some of the Fund's mechanisms and has stressed the need to ensure as much simplicity, transparency, and predictability as possible. We thus welcome this meeting, which allows us to review some of the technicalities of the Fund's mechanisms and to streamline some intricate texts.

We approve of the staff's intention to present a comprehensive package of updating, simplification, and harmonization of the Rules.

I will not elaborate on the proposals on updating, and I will focus on only three questions. First, concerning the principles underlying the present decisions, we welcome the staff's suggestions, as we consider that the proposed decisions could not be interpreted in any way as a means of limiting the competence of the Board. On the contrary, some decisions on simplification will allow the Board to have more time for substantial debates on financial matters.

Second, the proposed mechanism for setting the rate of charge proportionate to the SDR interest rate without the one-year limitation is fully warranted. Indeed, the perpetuation of this method, unless the Board decides otherwise, is suitable, because this system has proven adaptable to the necessity of keeping the income from charges in line with operating costs.

Third, as regards the harmonization of commitment charges on arrangements, I recall our basic agreement--expressed on many previous occasions--with the principle of having a unified rate of charge and a unified method of calculation. Therefore, we endorse the proposed decision on harmonizing the treatment of the commitment charges under stand-by and extended arrangements for three main reasons: the arguments against harmonization seem a bit obsolete, as the extended Fund facility is now well established; the simpler the rules are, the better, and, at this stage, the supposed advantages of discrimination are far inferior to the advantages of simplification; and the impact on the Fund's net income will be minor, whereas the "gain" for the members that obtain a stand-by arrangement will be symbolically noteworthy.

Mr. Verjbitski made the following statement:

It is certainly a good idea to begin the new year by putting things in order and, in the process, getting rid of some obsolete provisions on our books that have outlived the very reasons for their existence. This chair would certainly support including such exercises on a broader scale in the Executive Board's future new year's resolutions.

I would like to join other Directors in commending the staff for its efforts at consolidating, updating, and simplifying the Rules and decisions on charges. I share Mr. Schoenberg's view that the proposed changes in the Fund's Rules are a big step in the direction of greater transparency and clarity of the Rules on charges.

As I support the bulk of the decisions proposed by the staff, I shall focus my remarks only on a few areas of concern or disagreement.

I have three comments on the proposed decisions appearing on pages 10-11 of SM/93/257. First, I can go along with proposed Decision 1 in Section A. However, with regard to the deletion of Rule T-1(d) and of the last sentence of Rule I-1--which specify, respectively, the periodicity of reviews of the rate of interest on holdings of SDRs and of the rate of service charge--this chair would appreciate it if the Chairman could confirm for the record that the Executive Board will be able to review these rates in conjunction with any future review of the rate of charge under Rule I-6(4), when an Executive Director so requests.

Second, in principle, I do not think that now is the right time for the Executive Board to amend decisions on burden sharing. This chair would prefer to postpone that step until Directors have received the forthcoming staff papers on the issue and have considered the overall Fund system of burden sharing at a Board meeting. Therefore, I cannot support proposed Decisions 2 and 3 at this time.

Finally, I have no problem with proposed Decisions 4 and 5 in Section A, nor with the decisions in Section C. My only concern about the decisions in Section B is the proposed simplification of Rule I-6(4). I agree with Mr. Schoenberg that the introductory sentence of Rule I-6(4) should not be changed to exclude references to the specific policies under which the holdings subject to periodic charges are acquired. It appears that such policies are not listed anywhere else in the Rules, and, in my view, it may be feasible to have at least one such listing in the Rules.

With these comments, I would like to conclude by associating myself with those Directors who spoke in favor of expanding this valuable exercise of consolidation, updating, and simplification of the Rules and decisions to other areas of the Fund's work.

Mr. Lanciotti made the following statement:

I welcome today's discussion as a further step forward in the process of simplifying the complex mechanism that governs the Fund's charges. The usual practice of periodically reassessing the entire system, with a view to making it less cumbersome, is in the best interest of this institution's membership, and we are thankful to the staff for its zeal in seizing every opportunity to refine our Rules and decisions.

The staff's proposals are entirely acceptable to us. In particular, I agree with the rationale given for the adoption of a general definition of holdings subject to Rule I-6(4). It will avoid all the shortcomings of lists--including the necessity of updating them--while leaving to this Board the flexibility to set a different rate of charge for particular holdings, should it become necessary.

Also, I accept the deletion of the option to retroactively increase the rate of remuneration in Rule I-6(4)(c), as I share the staff's view on its redundancy.

Finally, incorporation of the commitment charge on extended arrangements in the I-Rules, and its harmonization with the commitment charge on stand-by arrangements, would certainly add transparency and simplicity. Indeed, the raison d'être for a differentiation between arrangement charges has blurred over time. Moreover, as the staff points out, harmonization of the charges entails "on the one hand a financial benefit to members and, on the other, a minimal impact on the Fund's financial position." In light of the above considerations, I support all the staff proposals.

Mr. Zoccali made the following statement:

We welcome the staff's effort to update, harmonize, and simplify the I-Rules, which have remained essentially in their present form since 1981. In that connection, we note that, as the staff reiterated today, the proposed decisions are not intended to preempt the results of the forthcoming review of the Fund's financing or of burden-sharing issues, which ideally should have preceded this discussion.

We are nevertheless prepared to fully endorse the staff's proposals. Suffice it to mention that it is difficult to envisage the early termination of the burden-sharing decisions, as implied in the paper. In addition, in our view, the present mechanism for determining the rate of charge "by default" contributes to the increasingly asymmetrical financing of the Fund's operational and fixed costs, and it has served to erode consensus building on these important matters, which, as Mr. Cailleteau has mentioned, merit increased Board attention.

More specifically, on the proposals before us, we consider the staff's approach to Rule I-6(4)(c) and (d) to be fully consistent with the objective of this exercise. As to the unification of treatment of the commitment charges on arrangements, the staff mentions the possibility of forgone income of approximately SDR 1 million. In this regard, we were somewhat surprised that no mention was made of the possible offsetting effect from greater use of precautionary arrangements. Has this effect been incorporated in the estimated income reduction from the proposal, and has the staff ruled out a fixed amount when there is an "ex-ante" understanding that Fund resources would not be drawn, partially or totally? We consider that this issue should be revisited on another occasion.

Finally, with respect to the updating of Rule T-1(d), we prefer the staff's proposed alternative, namely, conducting the review of the rate of interest on holdings of SDRs at the time of the review of the valuation of the SDR basket every five years, or when the Board deems it appropriate.

Mr. Kafka made the following statement:

We welcome this effort at consolidating the I-Rules so that it will be easier to read and understand the results of our decisions over the past ten years or more on the subject of charges. It also provides us with a better basis for re-examining the practical nature of the decisions we have taken. There are, as the staff points out, certain consequential changes that we must take into account to make the Rules internally consistent. We are in agreement with the effects of the consolidation and support the proposals.

There are just a few additional points that we would like to make. The paper makes the distinction between Rules and administrative procedures. We refer in particular to the subject of reports to the Board on, say, the average quarterly charge, which is an administrative procedure. We would like to be assured that the mechanism does exist to ensure regular reports by the staff on this and any other type of information that is relevant to the Board. The same goes for the review process, provisions for which are being excluded in some cases. It is true that the Board can review the Rules at any time, but we should ensure that there is an administrative mechanism to bring this to the attention of the Board when such a review is warranted. On Mr. Schoenberg's point regarding retroactive increases in the rate of remuneration, we think--like Mr. Fernando--that this should be discussed if and when the rate is set below the SDR rate.

The paper before us does not encompass discussion of the burden-sharing decisions, but the consolidation of the decisions as presented is also helpful. I hope that we shall have the opportunity in the not too distant future to discuss this topic in full.

Mr. Bergo made the following statement:

Like others, I welcome the efforts to consolidate, update, and simplify the Rules and decisions on charges.

As I note that today's decisions will not in any way preempt the results of the review to be conducted by the Board on the Fund's financing in general, and on burden-sharing in particular, I have no problem in supporting the decisions.

I should, however, like to make a few remarks on the points raised by Mr. Schoenberg in his statement. Regarding his first point, on the rate of charge for borrowed resources, this chair tends to take a somewhat different view. We have on other occasions indicated a preference for adopting a simple and unified rate of charge that will apply to ordinary, as well as borrowed, resources. The decision taken on December 9, 1992 was to that effect. I have difficulty in seeing the economic justification for assigning particular parts of the Fund's operational costs to particular users on the basis of the type of resources purchased. A case for differentiation of charges on the basis of the type of facility used could be argued more easily, and I would not completely rule out the possibility that new Fund facilities might be subject to a special rate of charge, depending on the particularities of, and economic rationale for, such a new facility. However, adopting the proposed decisions today, and thus establishing a coherent and consistent set of Rules, would not preclude the possibility, if and when new facilities should be established, of deciding on a different rate for that particular category of holdings.

With regard to the other point raised by Mr. Schoenberg, if a decision should be taken in the future to change the rate of remuneration from the present 100 percent of the SDR rate of interest, I would have no difficulties with, at the same time, reintroducing the possibility of the use of excess net income for a retroactive increase in the rate of remuneration. However, I feel, for the reasons given by the staff, that the appropriate time to take up that discussion would be during the consideration of changes in the rate of remuneration.

Mr. Shaalan said that he supported the proposed decisions on the consolidation, update, and simplification of Rules and decisions on charges. The staff had clearly noted that those decisions would not preempt the results of the review of the Fund's financing to be conducted in the near future. It was his understanding that the issues to be covered under the planned consideration of matters related to burden sharing would include the default rule on the setting of the rate of charge.

Mr. Ryan made the following statement:

We, too, welcome the legal housecleaning proposed in the decisions before us. The intent to clarify and streamline Rules is commendable and one we fully support.

Like some other speakers, however, we do have some concerns on particular points. First, we are sympathetic to the view expressed by Mr. Schoenberg and others regarding the retention of language permitting a retroactive increase in the rate of remuneration in the event of a surplus in net income. On the one hand, one could argue that this option--if deleted--could always be reintroduced at the time of any prospective reduction in the setting of the rate of remuneration. In such circumstances, we would certainly want to treat this option as a precondition to any such action. On the other hand, we find little harm in preserving the option in Rule I-6(4)(c) and would support its retention more as a matter of prudence against unforeseen eventualities.

Our second point concerns the harmonization of the commitment fees for stand-by and extended arrangements. We recognize the fairness issue involved here. At the same time, we wonder whether this is a particularly opportune time to take measures that will have the effect of reducing a source of Fund income. We did not meet our net income targets for the last fiscal year and are not expected to meet them again this year. This in turn raises another fairness issue, which this chair has mentioned previously, namely, the burdening of future borrowers with increases in the coefficient of the rate of charge to compensate for current shortfalls. The proposed decision would presumably add to the shortfall this year by some small amount, and thus potentially increase this burden. We would appreciate clarification of whether lost income owing to harmonization would be taken into account in projections for future fiscal years and would therefore be reflected in recommendations on the setting of rates of charge.

We recognize that this issue does not involve a large sum of money, but, nevertheless, we question its appropriateness at this time. Our preference would be to delay any change in current practice.

Mr. Smee made the following statement:

Like other Directors, I welcome this occasion to consider the changes before us. Clearly, we should seize every opportunity to introduce a greater degree of transparency into our operations.

I have no great difficulties with most of the changes being proposed, as they essentially render operational previous decisions taken by this Board.

The one exception, and this has been flagged by other Directors, including Mr. Schoenberg in his statement, is the change related to deleting in Rule I-6(4)(c) the option to retroactively increase the remuneration rate at the end of the financial year. If I understand the staff's rationale correctly, because the rate of remuneration is set at 100 percent of the SDR rate, the Board, constrained by the Articles from exceeding this limit, could not retroactively increase the remuneration rate above this percentage. Given what the staff considers to be an inconsistency, it is proposed to delete the option referred to in Rule I-6(4)(c). Now, in a purely legalistic sense, this is probably appropriate housekeeping. However, we cannot ignore the reality under which we are currently operating, namely, the temporary reduction in the rate of remuneration owing to burden-sharing arrangements.

Like other Directors, I do not wish to enter into issues related to burden sharing. But the provisions of Rule I-6(4)(c), inconsistent though they may be with Rule I-10(a), contain an important message regarding our operations. That message is balance--balance between the interests of borrowing and creditor members.

By leaving the provisions of Rule I-6(4)(c) in their present form, we are in effect acknowledging that disposition of net income in excess of the target for the year can take at least two forms: retroactively reducing the rate of charge, or retroactively increasing the rate of remuneration.

Yes, technically the rate of remuneration is at 100 percent of the SDR rate. But, in reality, burden-sharing arrangements are in place. Let us not surrender the spirit intended in Rule I-6(4)(c) for the sake of tying up each and every legal nicety.

Like Mr. Schoenberg, Mr. Ryan, and others, I would suggest that the provisions of Rule I-6(4)(c) remain intact until our discussions on burden sharing, at which time we can reflect on these important principles elsewhere in our Rules.

Mr. Fernando remarked that Mr. Smee seemed to have implied that the rationale for leaving intact Rule I-6(4)(c) was the current reality of the rate of remuneration being less than 100 percent of the SDR interest rate. However, the shortfall from 100 percent represented claims on the Fund by the countries with remunerated positions in the Fund, and those amounts could be collected in the future when the relevant decisions were made and circumstances were appropriate. Therefore, he saw no clear relationship between the reduced rate of remuneration now and the possibility of using excess net income to make good what had been agreed on account of burden sharing.

The Deputy General Counsel commented that the staff paper did not say that Rule I-6(4)(c) must be changed. The staff had argued that the Rule had created ambiguity, and that harmonizing it with another relevant Rule would be advisable. While the option of a retroactive reduction in the rate of remuneration could not be exercised for the time being, it could be resurrected in the future. The staff recommended to delete Rule I-6(4)(c) in order to clarify the Rules.

It was important to clearly separate the disposition of net income and a possible retroactive increase in the rate of remuneration at the end of a financial year on the one hand, from the adjustments to the rate of remuneration under the burden-sharing mechanism on the other, the Deputy General Counsel said. As Mr. Fernando had noted, adjustments under the burden-sharing mechanism were temporary and refundable; they were made in respect of a particular period, and a refund would be attributed to that particular period. For example, if in a particular quarter in financial year 1993 a burden-sharing adjustment had been made resulting in a reduction in the rate of remuneration to 95 percent in response to deferred income in that quarter, and if two years later countries in arrears paid their corresponding charges, there would be a 5 percent distribution related to the adjustment in that previous quarter. Therefore, a creditor country would effectively receive remuneration at a rate of 105 percent, if an increase in the rate of remuneration to 100 percent had been made out of excess net income at the end of financial year 1993. Accordingly, in considering a retroactive increase in the rate of remuneration at the end of a financial year, the effects of burden-sharing adjustments must be disregarded, because the amounts involved were potentially refundable, i.e., refunds were made for instance whenever corresponding overdue charges were settled or the Board decided to reduce the precautionary balances; however, the amounts were not refunded when a loss occurred. Therefore, the issue of Rule I-6(4)(c) should be separated from the burden-sharing adjustment issue.

Mr. Smee remarked that he understood the points that the staff and Mr. Fernando had made. However, the message to be sent by the present discussion and the adoption of the proposed decisions was important, and as the Deputy General Counsel had mentioned there was no absolute certainty that refunds would have to be made. The Fund had lived with the present Rule I-6(4)(c) for a long time, and it should continue to do so until the burden-sharing issue was addressed, at which time all the various matters involved could be cleaned up.

Mr. Dorrington remarked that everyone clearly agreed with the preamble of Mr. Schoenberg's statement on the objectives of the present exercise. On the modification of the Rules so that purchases under a hypothetical new facility would be subject to the standard rate of charge, his position was the same as Mr. Bergo's. On the deletion of the option to increase retrospectively the remuneration rate, he had been reassured by the comments of the Deputy General Counsel. On the third issue, he recognized that there was still a justification for maintaining different systems of commitment charges, and he agreed that the preferred method was to levy a charge on the amount to be purchased in the forthcoming year. The proposed rule changes would reduce net income in the context of the Board's failure to agree on an increase in the rate of charge in December 1993, when the Board had faced a prospective substantial shortfall in income. Like Mr. Ryan, the proposed rule changes did give him some pause, but he could support all the proposed decisions.

Mr. Obame said that his chair had reviewed the proposed amendment of the Rules and decisions on charges in the light of decisions already made by this Board, and he had no major difficulty in endorsing them, if the objective to be achieved basically was simplification and harmonization of current operational Rules. He supported the proposed decisions, having in mind that they were not intended to preempt the outcome of future Board decisions, particularly those relating to burden sharing and the Fund's financing, on which the views of his chair were well known.

Mr. Cippa commented that he welcomed the effort to update and simplify the Rules and decisions on charges. He agreed with the proposal not to include the burden-sharing decisions in the provisions on special charges in the I-Rules. The staff proposed to harmonize the commitment charge under stand-by and extended arrangements. At present, the rates for the two charges were equal, but the basis for the calculation was different. Although under both facilities the commitment charges were fully refunded if arrangements were utilized, some relevant difference might occur in cases of arrangements longer than one year and when arrangements were not fully purchased. As there was no apparent reason to discriminate between members using Fund resources under either extended or stand-by arrangements, he favored harmonizing the commitment charges.

On the question whether to adjust charges under stand-by arrangements to charges under extended arrangements, or vice versa, he endorsed the staff proposal to apply extended arrangement rules for stand-by arrangements, even if so doing might have a negative, albeit limited, impact on the Fund's income, Mr. Cippa said. Indeed, he saw no justification for collecting commitment charges more than once for a given amount, as might happen under the present Rule for some stand-by arrangements. He supported the proposed decisions.

Mr. Wei said that the proposed decisions were acceptable.

Mr. Ishida made the following statement:

I appreciate the staff's efforts to consolidate, update, and simplify the Rules and decisions on charges. The staff has made great strides toward those goals, and I think that the amended Rules and decisions are sufficiently transparent and helpful. I support all the proposed decisions.

As most of the amendments of the Rules and decisions reflect decisions adopted by the Executive Board, and as the amendments or changes are simply technical and logical requirements, I have no difficulty in accepting them. I would like to comment on just two issues that require a 70 percent majority of the total voting power.

First, on the issue of substituting a general definition of holdings in Rule I-6(4) for a list of the various holdings, the substitution merely reflects decisions adopted by the Executive Board. In order to maintain the simplification of the rate of charges in the future, it is helpful to make clear in the Rule that in principle all kinds of holdings except reserve tranche holdings should be governed by Rule I-6.

Second, on the harmonization of the commitment charge on extended arrangements with that on stand-by arrangements, because the increase in the amount of the charge would not be large, and because this particular charge can be refunded, the change would not impose too heavy a burden on user countries. In addition, it is difficult to find constructive reasons for the differentiation of treatment between the charges on extended and stand-by arrangements. Consequently, taking into account these points, it is necessary to complete the harmonization for the purpose of meaningful progress in the simplification and consolidation of charges.

Mr. Al-Tuwaijri supported the proposed decisions.

Mr. Matthews said that the staff had responded adequately to the concerns raised by Mr. Schoenberg, and he supported the proposed decisions.

Mr. Jonáš stated that he, too, supported the proposed decisions.

Mr. Aderibigbe commented that he welcomed the efforts at consolidating, updating, and simplifying the Rules and decisions relating to charges. As he understood it, the proposals under discussion reflected decisions already adopted by the Board and implemented in the Fund's operations. Hence, there was no reason to re-open the debate on any of the issues covered by the various proposed decisions. It was also his understanding that nothing in the proposed decisions would prevent the Board from conducting future reviews and making additional changes as necessary in the future. He commended the efforts of the staff and supported the proposed decisions.

Mr. Marino said that he, too, wished to commend the staff for its effort at consolidating, simplifying, and updating the decisions on charges. He hoped that the Board could be helpful in that effort, and that the staff would undertake simplification and clarification of other aspects of Fund operations. He endorsed all the proposed decisions and shared Mr. Fernando's views on the topics raised by Mr. Schoenberg. He looked forward to the review of the Fund's financing in the near future and hoped that the issues regarding burden sharing and extended burden sharing would be adequately addressed, as promised, in the near future.

Mr. Posthumus stated that he fully supported the proposed decisions.

Mr. Ismael supported the proposed decisions. As Mr. Schoenberg had suggested, there were additional areas where simplification might be helpful, and the staff should look into the possibilities with regard to the second concern raised by Mr. Schoenberg. He wished to associate himself with the comments of Mr. Fernando and Mr. Kafka.

Mr. Rouai said that he accepted the proposed decisions.

The Deputy General Counsel commented that it was understood that a Director could request that the issues under consideration be brought to the Board's agenda for review at any time, irrespective of whether a particular Rule prescribed the periodicity of regular reviews.

The proposed decisions would have no substantive effect on the decisions on burden sharing, the Deputy General Counsel noted. The proposed decisions would merely delete provisions that had become obsolete and consolidate the relevant remaining provisions.

For the purpose of commitment charges, precautionary stand-by arrangements would be treated like any other stand-by arrangement, the Deputy General Counsel commented. By definition, a precautionary stand-by arrangement meant that the member country concerned did not intend to draw under the arrangement. However, the member was free to change its intention; there was no agreement that resources would not be used. The application of the commitment charge to a precautionary stand-by arrangement also reflected the fact that the Fund might devote about the same time and effort to an arrangement, whether resources were ultimately used or not.

As to the financial effects of the proposed decisions, in the event of a shortfall in reaching the net income target at the end of a financial year, the shortfall would not automatically be recovered in the next financial year, the Deputy General Counsel remarked. The Board could add that amount to the net income target for the next year, and under the current I-Rules the Fund could take the effects of any shortfall in the previous year into account when determining the net income target for the next year; however, the addition of the shortfall amount to the net income target would require a 70 percent majority.

The Deputy Treasurer noted that the estimates of income referred to in the staff paper involved actual amounts for the past five years. In that sense, an estimate of income was retrospective rather than prospective, and there had not been many large precautionary arrangements rather than arrangements under which resources had actually been drawn. If there were large precautionary arrangements, a re-examination of the structure of charges generally would be called for. As had been noted, the time and effort on the part of the Fund that were devoted to precautionary arrangements were about equal to the time and effort devoted to regular arrangements. Hence, if there were to be a large precautionary arrangement, the Executive Board might wish to take another look at the general structure of charges.

As to the question by Mr. Ryan, to the extent that there was a slight decline in income and a shortfall at the end of a financial year, the shortfall would be larger by that amount, the Deputy Treasurer commented. If there were an excess--as had happened on occasion in the past--the excess would be smaller by the amount of the shortfall. There was no automatic adjustment in the future; the Board had to look at that matter primarily with respect to the evaluation of the precautionary balances, which were, in the final analysis, the driving force behind a decision whether or not a shortfall should be recaptured. That subject would be taken up on another occasion.

The Executive Board approved the following decisions:

<u>Rules and Regulations - Amendment of I-Rules and Rule T-1(d)</u>

Rules I-4 and 5, Rule I-6(1), (2), (3), (5), (6), (8), (9), (10), and (11), and the Note to Rule I-6(10) and (11) shall be deleted. Rules I-1, 2, 3, and 6(4)(a) and (b) shall be amended as shown in Attachment I to SM/93/257. Rule T-1(d) shall be deleted.

Decision No. 10548-(94/1), adopted
January 7, 1994

Implementation of Burden Sharing in FY 1994 - Amendment

In Decision No. 10340-(93/54), adopted April 14, 1993, the following changes shall be made:

(a) Section IV, paragraph 3 shall be deleted.

(b) A new paragraph 3 shall be added in Section II, to read as follows:

"When estimating income for purposes of Rule I-6(4)(a) and (b), no projection shall be made of deferred income. The calculation of actual net income under Rule I-6(4)(b) shall include the proceeds of adjustments for deferred income under Section IV, paragraph 2."

(c) The references to Rule I-7(5)(a) in Section II, paragraph 1 and Section IV, paragraph 1 shall be deleted.

Decision No. 10549-(94/1), adopted
January 7, 1994

Implementation of Extended Burden Sharing - Amendment

The references to Rule I-7(5)(a) in paragraphs 1 and 2 of Decision No. 9471-(90/98), adopted June 20, 1990, as amended, shall be deleted.

Decision No. 10550-(94/1), adopted
January 7, 1994

Overdue Financial Obligations - Special Charges - Amendment

The references to Rule I-6(8) and (11) in Section I, paragraphs 1 and 3 of Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, as amended, shall be deleted.

Decision No. 10551-(94/1) G/TR, adopted
January 7, 1994

Net Income Target for FY 1994 and Rate of Charge on Use of Fund Resources - Amendment

In paragraph 3 of Decision No. 10391-(93/86) the words "of the rate of charge referred to in Rule I-6(4) to the SDR interest rate under Rule T-1" shall be added after the word "proportion."

Decision No. 10552-(94/1), adopted
January 7, 1994

Rules and Regulations - Amendment of I-Rules

The introductory sentence of Rule I-6(4), Rule I-6(4)(c), and Rule I-8 shall be amended as shown in Attachment I to SM/93/257. Rule I-6(7) shall be deleted.

Decision No. 10553-(94/1), adopted
January 7, 1994

Decisions on Charges - Amendment

Upon effectiveness of Decision Nos. 10548-(94/1), 10549-(94/1), 10550-(94/1), 10551-(94/1) G/TR, 10552-(94/1), and 10553-(94/1), Decision No. 10224-(92/147), paragraphs 2, 4, 5, and 6 of Decision No. 10391-(93/86), and Decision No. 4720-(75/114) shall cease to apply.

Decision No. 10554-(94/1), adopted
January 7, 1994

5. ERITREA - MEMBERSHIP - COMMITTEE

The Acting Chairman noted that an application for membership had been received from Eritrea on July 5, 1993.

The Executive Board approved the following decision:

The Executive Board, under Rule D-1, decides to establish a committee to proceed with the formal investigation, to obtain all relevant information, and to discuss with the Government of Eritrea any matters relating to its application for membership in the Fund. The Committee shall consist of Mr. Zoccali, Chairman; Mr. Lanciotti, Ms. Lissakers, Mr. Mwananshiku, Mr. Santos, Mr. Schoenberg, Mr. Shaalan, and Mr. Waterman.

Adopted January 7, 1994

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/93/177 (12/22/93) and EBM/94/1 (1/7/94).

6. PERIODS FOR CONSENT TO AND PAYMENT FOR INCREASES IN QUOTAS UNDER NINTH GENERAL REVIEW - EXTENSION

1. Pursuant to paragraph 4 of the Resolution of the Board of Governors No. 45-2, "Increases in Quotas of Members - Ninth General Review," the Executive Board decides that notices in accordance with paragraph 2 of that Resolution must be received in the Fund before 6:00 p.m., Washington time, on June 30, 1994.

2. Pursuant to paragraph 5 of the Board of Governors Resolution 45-2, the Executive Board decides that each member shall pay to the Fund the increase in its quota under the Ninth Review within 596 days after the later of (a) the date on which it notifies the Fund of its consent or (b) November 11, 1992. (EBD/93/94, Sup. 4, 12/17/93)

Decision No. 10555-(94/1), adopted
December 23, 1993

7. ISLAMIC STATE OF AFGHANISTAN - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with the Islamic State of Afghanistan.

2. The Islamic State of Afghanistan continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, except for multiple currency practices and exchange restrictions, as described in SM/93/263, that are subject to Fund approval under Article VIII. The Fund encourages the Islamic State of Afghanistan to eliminate the Article XIV restrictions as soon as circumstances permit.

Decision No. 10556-(94/1), adopted
January 5, 1994

8. ALBANIA - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Albania.

2. Albania maintains restrictions on the making of payments and transfers for current international transactions described in SM/93/263, in accordance with Article XIV, Section 2. The Fund encourages the authorities to eliminate these restrictions as soon as possible.

Decision No. 10557-(94/1), adopted
January 5, 1994

9. ALGERIA - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Algeria.

2. Algeria maintains restrictions on the making of payments and transfers for current international transactions as described in SM/93/263, in accordance with the transitional arrangements under Article XIV, Section 2, except for the exchange restriction arising from the prohibition on the availability of foreign exchange for certain specified imports, which is subject to approval under Article VIII, Section 2. The Fund encourages Algeria to eliminate the restrictions that are maintained in accordance with Article XIV as soon as possible.

Decision No. 10558-(94/1), adopted
January 5, 1994

10. GUINEA-BISSAU - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Guinea-Bissau.

2. As described in SM/93/263, Guinea-Bissau continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2. In addition, Guinea-Bissau has restrictive measures that are subject to Fund approval under Article VIII, Sections 2(a) and 3, comprising (i) restrictive features of a bilateral payments agreement with a Fund member, (ii) exchange restrictions evidenced by certain external payments arrears, and (iii) two multiple currency practices that are subject to Fund approval under Article VIII, Sections 2(a) and 3. The Fund encourages Guinea-Bissau to continue to eliminate the Article XIV restrictions as soon as possible.

Decision No. 10559-(94/1), adopted
January 5, 1994

11. INDIA - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with India.

2. The restrictions on the making of payments and transfers for current international transactions described in SM/93/263 are maintained by India in accordance with Article XIV, Section 2, except those restrictions arising under bilateral payment arrangements with four Fund members, and from the nonremittance of interest on nonresident, nonrepatriable rupee deposit accounts which are subject to approval under Article VIII, Section 2(a); and the multiple currency practice arising from exchange guarantees on interest payments on foreign currency nonresident accounts, which is subject to approval under Article VIII, Sections 2(a) and 3. The Fund encourages India to remove the remaining restrictions maintained under Article XIV as soon as circumstances permit.

Decision No. 10560-(94/1), adopted
January 5, 1994

12. SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with the Socialist People's Libyan Arab Jamahiriya.

2. The Socialist People's Libyan Arab Jamahiriya continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, except for the multiple currency practice and exchange restrictions, as described in SM/93/263, that are subject to Fund approval under Article VIII, Sections 2(a) and 3. The Fund urges the authorities to liberalize the restrictions maintained under Article XIV as soon as possible.

Decision No. 10561-(94/1), adopted
January 5, 1994

13. MALAWI - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Malawi.

2. Malawi maintains restrictions on the making of payments and transfers for current international transactions as described

in SM/92/225 and SM/93/263 in accordance with Article XIV, Section 2, except that the exchange restrictions evidenced by certain external payments arrears are subject to Fund approval under Article VIII. The Fund urges the authorities of Malawi to eliminate the restrictions maintained under Article XIV as soon as possible.

Decision No. 10562-(94/1), adopted
January 5, 1994

14. MALTA - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Malta.

2. Malta maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV in the form of limitations on certain invisible payments and transfers vis-à-vis residents of countries outside of the former sterling area as described in SM/93/263. The Fund strongly urges the authorities to remove the restrictions maintained under Article XIV.

Decision No. 10563-(94/1), adopted
January 5, 1994

15. PAKISTAN - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Pakistan.

2. As described in SM/93/263, Pakistan maintains restrictions on the making of payments and transfers for current international transactions in accordance with the transitional arrangements under Article XIV, Section 2. In addition, Pakistan maintains exchange restrictions and multiple currency practices subject to Fund approval under Article VIII, Sections 2(a) and 3, for which approval has been granted until June 30, 1994. The Fund welcomes the authorities' intention to eliminate restrictions maintained under Article XIV during this fiscal year.

Decision No. 10564-(94/1), adopted
January 5, 1994

16. REPUBLIC OF POLAND - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with the Republic of Poland.

2. The Republic of Poland maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, as described in SM/93/263. The Fund encourages the Republic of Poland to eliminate, as soon as circumstances permit, the exchange restrictions maintained under Article XIV.

Decision No. 10565-(94/1), adopted
January 5, 1994

17. RWANDA - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Rwanda.

2. As described in SM/93/263, Rwanda maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, except that the exchange restrictions evidenced by external payments arrears and those relating to travel allowances, and transfers abroad of personal income earned by foreigners, are subject to Fund approval under Article VIII, Section 2(a). The Fund encourages Rwanda to reduce its reliance on the exchange restrictions maintained under Article XIV.

Decision No. 10566-(94/1), adopted
January 5, 1994

18. TANZANIA - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Tanzania.

2. As described in EBS/92/170 and SM/93/263, Tanzania maintains restrictions relating to the allocation of foreign exchange for the payment of invisibles in accordance with Article XIV, Section 2. Tanzania also has exchange restrictions evidenced by external payments arrears that are subject to

approval under Article VIII, Section 2(a). The Fund encourages the authorities to reduce Tanzania's reliance on restrictions that are maintained under Article XIV.

Decision No. 10567-(94/1), adopted
January 5, 1994

19. TRINIDAD AND TOBAGO - ACCEPTANCE OF OBLIGATIONS OF ARTICLE VIII, SECTIONS 2, 3, AND 4

The Fund notes with satisfaction that, with effect from December 13, 1993, Trinidad and Tobago has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. (EBD/93/193, 12/29/93)

Decision No. 10568-(94/1), adopted
January 4, 1994

20. REPUBLIC OF UZBEKISTAN - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with the Republic of Uzbekistan.

2. The Republic of Uzbekistan maintains restrictions on payments and transfers for current international transactions, described in SM/93/263, in accordance with Article XIV, Section 2, except that the multiple currency practices arising from the divergence between the official rate, the rate quoted by the National Bank for Foreign Economic Activity, and the interbank rate, as well as from the spread between the buying and selling rates quoted by the National Bank for Foreign Economic Activity, are subject to approval under Article VIII, Section 3. The Fund encourages the Republic of Uzbekistan to eliminate the Article XIV restrictions as soon as circumstances permit.

Decision No. 10569-(94/1), adopted
January 5, 1994

21. VIET NAM - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Viet Nam.

2. The restrictive allocation of foreign exchange for the payment of invisibles as described in SM/93/263 gives rise to restrictions on the making of payments and transfers for current

international transactions and is maintained by Viet Nam in accordance with Article XIV, Section 2. Viet Nam also maintains restrictions evidenced by external payments arrears that are subject to Fund approval under Article VIII, Section 2(a). The Fund encourages Viet Nam to eliminate the restrictions maintained under Article XIV as quickly as possible.

Decision No. 10570-(94/1), adopted
January 5, 1994

22. ZAIRE - DECISION CONCLUDING 1993 ARTICLE XIV CONSULTATION

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with Zaïre.

2. As described in SM/93/263, Zaïre maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, except that the exchange restrictions evidenced by external payments arrears and the multiple currency practice arising from the segmentation of the exchange market are subject to approval under Article VIII, Sections 2(a) and 3. The Fund encourages Zaïre to take appropriate steps to remove the remaining restrictions maintained under Article XIV as soon as circumstances permit.

Decision No. 10571-(94/1), adopted
January 5, 1994

23. AUDIT COMMITTEE, FY 1994 - COMPOSITION AND NOMINATIONS

The Executive Board approves the Managing Director's recommendation that Germany, the Syrian Arab Republic, and Thailand be invited to submit nominations of persons to serve on the External Audit Committee for financial year 1994 and confirms the nominations set forth in EBAP/93/85 (12/21/93).

Adopted December 29, 1993

24. MEDICAL BENEFITS PLAN - ADJUSTMENT IN CONTRIBUTIONS

The Executive Board approves the recommendation to adjust contributions to the Medical Benefits Plan as set forth in EBAP/93/86 (12/22/93).

Adopted December 27, 1993

25. EDUCATION ALLOWANCE - EXTENSION OF ADJUSTMENTS TO EXECUTIVE DIRECTORS AND ALTERNATES

The Executive Board approves the recommendation to extend to Executive Directors and Alternates recent adjustments in the education allowance policy for staff. (EBAM/93/223, 12/22/93)

Adopted December 27, 1993

26. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 93/106, 93/121-93/124, and 93/141 are approved.

27. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/93/222 (12/22/93), EBAM/94/1 (1/3/94), EBAM/94/2 (1/4/94), and EBAM/94/3 (1/5/94) and by Advisors to Executive Directors as set forth in EBAM/93/224 (12/28/93) and EBAM/94/3 (1/5/94) is approved.

28. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/93/84, Supplement 1 (1/3/94) is approved.

APPROVAL: June 23, 1994

LEO VAN HOUTVEN
Secretary