April 27, 2001
Approval: 5/4/01

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 99/109

9:30 a.m., September 24, 1999

Contents

Executive Board Attendance

M. Camdessus, Chairman
S. Sugisaki, Acting Chairman

Executive Directors	**Alternate Executive Directors**
	S.M. Al-Turki
	A.R. Ismael, Temporary
T.A. Bernes	
A.G. Carstens	
R.F. Cippà	W. Szczuka
B. Esdar	W.-D. Donecker
	P. Cabezas, Temporary
	J. Spraos
	O.-P. Lehmussaari
K.-T. Hetrakul	
	S.K. Keshava, Temporary
	J. Prader
K. Lissakers	
J.-C. Milleron	G. Bauche
	S. Rouai, Temporary
	C. Rustomjee
	I. Zakharchenkov, Temporary
S. Pickford	S. Collins
M. Portugal	
A.S. Shaalan	
G.F. Taylor	
Wei Benhua	
	E.J.P. Houtman, Temporary
Y. Yoshimura	

A.S. Linde, Acting Secretary
G. Nkhata, Assistant

Enhanced Structural Adjustment Facility and Initiative for Heavily Indebted Poor Countries—Financing Issues
Staff representatives: Boorman, PDR, Christensen, TRE

Also Present
IBRD: A. van Trotsenberg, Africa Regional Office. External Relations Department: G.V. Bhatt. Legal Department: I Mouysset. Policy Development and Review Department: J.T. Boorman, Director; N.L. Happe, G.R. Kincaid. Secretary's Department: P. Gotur. Treasurer's Department: E. Brau, Treasurer; M.G. Kuhn, Deputy Treasurer; B.V. Christensen; J. Lin. Western Hemisphere Department: S. Shah. Office of the Managing Director: M. Cross, Personal Assistant. Advisors to Executive Directors: J.A. Chelsky, J.C. Estrella, M.E. Kandil, W. Merz, J.L. Pascual, M. Yanase. Assistants to Executive Directors: M. Budington, T. Elkjaer, C. Josz, B. Kelmanson, Liu Z., W.C. Mañalac, D. Nardelli, R.J. Singh.

1. ENHANCED STRUCTURAL ADJUSTMENT FACILITY AND INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES—FINANCING ISSUES

The Executive Directors continued from EBM/99/108 (9/23/99) their consideration of a statement by the Managing Director (BUFF/99/121, 9/22/99) on financing issues related to the Enhanced Structural Adjustment Facility (ESAF) and the Initiative for Heavily Indebted Poor Countries (HIPC). They also had before them a paper elaborating on the financial and operational modalities of off-market transactions in gold by the Fund and addressing a number of questions and concerns raised during the discussion of the financing for the continuation of the ESAF and HIPC Initiative at EBM/99/95 (8/30/99) (EBM/99/176, 9/15/99), as well as tables updating information on the status of bilateral pledges distributed to Executive Directors on September 3, 1999 (FO/DIS/99/130, 9/15/99).

The Managing Director resubmitted the statement considered on the previous day, Thursday, September 23 (EBM/99/108):

> For the Executive Board discussion of the financing of the ESAF and HIPC initiatives on Thursday, September 23, I would suggest that Executive Directors—in addition to providing further indications of bilateral pledges—also focus on the issue of ring-fencing and on the mitigation of the effect of the Fund's off-market gold transactions on the Fund's net operating expenses.
>
> Ring-Fencing
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> I had earlier suggested this formulation on ring fencing:
>
> "The off-market transactions in gold by the Fund that are envisaged will be a one-time operation of a highly exceptional nature that is necessary to allow the Fund to contribute to resolution of the debt problems of the HIPCs at the turn of the millennium and to a continuation of ESAF operations or a successor facility in the Fund."
>
> Mr. Taylor has proposed a slight reformulation of the first part:
>
> "The transactions in gold by the Fund that are envisaged—which would be entirely off-market—will be a one-time operation of a highly exceptional nature...".
>
> Ms. Lissakers has subsequently proposed the following reformulation:
>
> "The off-market transactions in gold by the Fund that are envisaged will be a one-time operation of a highly exceptional nature that is a necessary part of a broader financing package to allow the Fund to contribute to the resolution of the debt problems of the HIPCs at the turn of the millennium and to continuation of concessional operations

to support countries' efforts to achieve sustained growth and poverty reduction."

As far as I am concerned, I think that the latter language takes appropriately account of the diversity of concerns expressed and in order to expedite our deliberations, I give it management support. I would invite Executive Directors to express their views on these formulations and would propose that the wording that is agreed be reflected in the Interim Committee communiqué and in a resolution by the Board of Governors.

Mitigation of the Costs of Off-Market Gold Transactions

As earlier discussed in "Financial and Operational Modalities of Off-Market Transactions in Gold by the Fund" (EBS/99/176, 9/15/99), the acceptance of gold instead of currencies (or SDRs) in payment of repurchase obligations would enlarge remunerated positions (or reduce the Fund's SDR holdings) and hence increase the Fund's net operating expenses. This would, without mitigation, result in a somewhat higher rate of charge on the use of Fund credit.

The Executive Board could decide to mitigate the impact on the rate of charge in a variety of ways. In the most recent discussions, there appeared to be broad support for the view that the cost should not be borne by the members indebted to the Fund. On this basis, I would now propose that the mitigation of the cost of up to 10 million ounces of off-market gold transactions take the form of a reduction in the rate of remuneration, and that the mitigation of the cost of up to an additional 4 million ounces of gold be absorbed by the Fund through a reduction in the Fund's income target (as outlined in EBS/99/176 on pages 4–6).

Finally, let me stress again that the proposed off-market gold transactions of up to 14 million ounces and the proposed strengthening of the HIPC Initiative are contingent upon identification of the necessary additional bilateral contributions to complete the financing package—a task that we must strive to complete before the Interim Committee meeting. I do not intend, of course, to transmit any conclusions on these issues to the Interim Committee before there is agreement on all elements of the financing package.

Extending his remarks, the Chairman thanked the Executive Directors for their efforts the previous evening to advance the finalization of discussions on important issues related to the financing of the ESAF-HIPC Trust, and also on other important items on the agenda of the Interim Committee. Many Directors had indicated—in bilateral discussions held that morning—that the final positions of their authorities were still uncertain. If this meeting could not yield the desired outcome, then another might have to be programmed for Saturday, September 25, possibly after dinner.

At the end of the meeting the previous day, some Directors had expressed the concern that they were faced with a moving target in this context, the Chairman continued. The reason for the apparent shift was that it was becoming clear to management and staff that the full financing would not be assured if the gold transactions were not extended to the absolute limit of 14 million ounces. This would make the necessary bilateral contributions somewhat lower, in general, but even more imperative, particularly for those members that had taken the lead in promoting the extra relief operation in Cologne. While the HIPC enhancements and the reform of the ESAF were welcome, they had placed an extra burden place on the ESAF-HIPC Trust. Many Directors thus placed considerable hope in the leadership of the G-7, in this regard. As a whole, the G-7 had pledged contributions above its quota share, but a special responsibility for the finalization of the package still lay with Canada, France, and the United Kingdom, which were still contributing below their quota share.

Several countries' SCA-2 balances were higher than their quota share would imply, the Chairman noted. He urged these countries not to reduce their grants from the SCA-2 balances to their quota share, as some other countries could not contribute for obvious reasons, and welcomed Mr. Pascual's reassurances that provided the G-7 did their part, Spain would favorably consider contributing above its quota share. Several Directors had indicated that their authorities were willing to contribute their SCA-2 balances in the form of long-term deposits. They were also encouraged to make an extra effort to transform them into grants for the same reason.

Consultations with the Chairman of the Joint Development Committee and with the World Bank had confirmed that the prospects for achieving a full financing package were not particularly bright. The World Bank appeared to have made little progress in this regard, and the Fund was in the extremely vexing situation of being within striking distance of success, but unable to complete its package for various reasons, including legislative and administrative procedures. It was clear that the Fund's announcement of its package would have a positive and catalytic effect on the rest of the international community, and on the decision-making processes that continued to hamper contributions. However, the annual meetings were approaching rapidly, and the Fund and the World Bank would soon have to admit that the pledges were not yet in place.

Mr. Esdar made the following statement:

> I fully support the Managing Director in urging members to do their part. However, I have tremendous problems with this new table. The table gives the impression that we have established a new approach to burden sharing. I have tried to convince my authorities that we should provide the German contribution in the form of a long-term interest-free loan, which is equivalent to a grant, and I was pleased to provide written confirmation of that yesterday. However, this table gives the impression that I misinformed my authorities, and that Germany has contributed SDR 30 million too much. I would strongly urge staff to find a better way of presenting these figures.

The Chairman stressed the need to bear in mind that the Board, staff and management were working towards the same objective. Management and staff were well aware of the need to take into account the political realities of the members. The table, which was not for publication, was intended to facilitate an internal conclusion of the financing package. For any external dissemination, the presentation would be more cautious and consensual.

Mr. Carstens made the following statement:

> Mexico has ratified the contribution announced yesterday. While understanding the concerns of Mr. Esdar, I believe that this table is appropriate as a reference point, particularly if it is not to be circulated publicly. It provides information on the financing situation as it will be, if we approve gold transactions of up to 14 million ounces of gold. I note, however, that Mexico's contribution far exceeds the amount included here.

The Chairman reiterated that the paper would be used for internal purposes only, and urged Directors to be as helpful as they could in finalizing the package.

Mr. Esdar nevertheless pointed out that he could not present the table in that form even to his authorities.

The Chairman expressed willingness to send a letter to the German authorities supporting Mr. Esdar's explanation of the current presentation.

Ms. Lissakers made the following statement:

> This comparison of contributions as presented in the table is driven by the understandable desire by many members to have the countries that were most assertive in arguing for enhancements contribute a reasonable share to the financing. I do not have any difficulties with it. The fact is, these figures are not particularly meaningful in a broader context, because the financing for the HIPC Initiative extends beyond the Fund's contribution, spanning the whole international financial institutions' complex, and the bilateral packages. The largest bilateral creditors will be faced with a huge write-down of claims that will have a significant budgetary impact in all our countries. For the multilateral development banks, whose situation is more difficult than the Fund's, this is an extraordinarily difficult financing challenge because they do not have identifiable resources that they can deploy.

The Chairman agreed that, while the table was helpful for the finalization of the package, there was no cause for concern in that broader context.

Mr. Milleron made the following statement:

> My authorities have carefully examined your request to the countries whose share in the SCA-2 is below their quota share, but they will not be able

> to provide the supplementary resources requested. There are two main reasons for this position. First, in general terms, some of the bilateral contributions need to be oriented toward the multilateral development banks that are unable to provide more resources of their own. Second, I agree with Ms. Lissakers that the HIPC Initiative financing is broad and complex, and the judgment on burden sharing should not rest on one particular channel of the financing. In fact, taking into account all aspects of the financing, including the bilateral ODA debt, France is involved for more than its fair share in the overall financing. The French effort for the enhanced HIPC Initiative represents US$5.5 billion, around 0.38 percent of GDP, at least twice as much as most other industrial countries. That is why we expected somewhat more effort from some of our partners. There should, however, be no ambiguity on the determination of the French authorities to see the Initiative fully implemented and financed.

The Chairman noted that like Mr. Pickford the previous day, Mr. Milleron had just given excellent reasons not to contribute. He stressed that if this effort failed, and the financing package could not be put in place, the failure would have to be traced to the lack of contribution among key G-7 players.

Mr. Cippà made the following statement:

> Poland has confirmed that it will provide its SCA-2 balances as an interest-free deposit, and today, the board of National Bank of Poland decided to extend the maturity of the interest rate deposits from 10 to 20 years. According to staff, this would increase Poland's contribution from SDR 4.1 million to SDR 5.2 million. Poland is also considering providing additional grants from budgetary resources, subject to parliamentary approval. We may have more information in this regard by tomorrow.

The Chairman expressed his appreciation for the remarkable effort being made by Poland. He noted that the country was clearly targeting a contribution of up to, or near to its quota share.

Mr. Yoshimura made the following statement:

> I share Mr. Esdar's concerns regarding the table. I must say that I was disappointed to hear Mr. Milleron's comments. Japan was in the same boat as France regarding the bilateral ODA burden, but has already committed its SCA-2 balances to the Fund financing in the form of a grant. Our authorities consider that we may have gone too far, in view of their efforts to ensure fair burden sharing with the multilateral development banks. However, we have been emphasizing to our authorities the importance of the Fund's catalytic role in mobilizing financing for this Initiative. We have made efforts to make a convincing case for doing more, despite the bilateral ODA burden, and we hope that others will follow.

Mr. Milleron noted that when he had said that the French effort represented at least twice the effort being made by most other industrial countries, he had used the word "most," with Japan in mind.

The Chairman reminded Directors that the discussion was not intended to deal with the problem of burden sharing among industrial countries, which was dealt with in other fora.

Mr. Esdar requested that, at some stage, Directors should be provided with a list providing figures on the actual, rather than the potential, amounts that had been contributed, which could be useful in discussions with the authorities.

The Chairman confirmed that such a table would be drawn up and circulated to Directors.

Mr. Portugal made the following statement:

> I can confirm that Brazil is willing to contribute the equivalent of the full amount of its SCA-2 balance as a grant, although that will require legislative action. In addition, my Colombian authorities have indicated that they are willing to contribute their balances in the form of an interest-free deposit, as would my Dominican Republic authorities. Trinidad and Tobago is willing to make a low interest deposit.
>
> We would also be able to plead very eloquently for not contributing. Most of the countries in our constituency are either undergoing a crisis, or are HIPC or potential HIPC cases themselves; we cannot expect them to contribute. Others such as Brazil—which to date has provided debt relief of US$323 million to the four HIPC countries—have a high bilateral burden. In addition, the regional multilateral organizations are experiencing considerable financial difficulties. The points made about contributions being made elsewhere are important.
>
> We would also have political problems with making our contribution public. The poor states in our own country that are as poor as HIPCs and heavily indebted to the federal government do not receive any sort of debt relief. It would be difficult to explain why we are providing debt relief grants to foreign countries.

Mr. Shaalan noted that the status of contributions in his constituency was still fluid, but wondered if the Board could be given an updated estimate on the shortfall. This would help in discussions with the authorities.

The staff representative from the Treasurer's Department indicated that there was a shortfall of SDR190 million on an as-needed basis, excluding the contributions that had just been notified.

The Chairman noted that this would bring the shortfall down to SDR170 million on an as-needed basis, which was still a significant amount.

Mr. Spraos asked what this calculation assumed about bilateral contributions, and whether they would be adjusted on the basis of these new figures.

The Chairman indicated that they would not.

The staff representative from the Treasurer's Department pointed out that the assumption was that the amounts would be adjusted for those countries, such as Switzerland, Spain and Denmark that had indicated that they would contribute a particular share of the total bilateral contributions. For all other countries, the contributions would remain as indicated in the table.

Mr. Spraos said that in that case, he had to enter a reservation. Italy and Greece had made a commitment to bring their bilateral contributions up to their quota share. The calculation was based on the amount needed, assuming that 10 million ounces of gold were sold. Now that the assumptions have been changed, their pledge would imply a somewhat different amount.

The staff representative from the Treasurer's Department pointed out that for those two countries an adjustment would also be made.

Mr. Spraos lifted his reservation.

Ms. Lissakers said that she found the method used for the calculations somewhat confusing.

The Director of the Policy Development and Review Department traced the method back to 1986, at the time of the first ESAF, when the Fund accepted contributions in whatever form members were willing to provide them—including deposits with the interest accruing to the Fund—which could then be used for grants and concessional assistance. The "as needed" concept introduced a common basis, in the context of the vast array of types of contributions, which showed across the time frame of the initiative how much each contributor would be generating in terms of interest subsidies.

Ms. Lissakers nevertheless wondered why contributors' shares of SCA-2 in SDRs and dollars did not change. Its relationship to quota shares did not change. The amount of gold sales was irrelevant to that calculation. It was the other connection, namely why the quota share numbers changed when the amount of gold sales increased that was confusing, and justified resorting to another table.

The Chairman indicated his willingness to circulate to Directors, before the next meeting, a table based on the methodology suggested by Ms. Lissakers, but noted that this would be difficult in light of the heavy work schedule in the few hours left before the Interim Committee Meetings.

The Director of the Policy Development and Review Department confirmed that it would be difficult to draw up a table showing a single number for each country because a number of countries had only indicated their contribution in terms of a percentage of the total contributions. This meant that the figures would not be known for some countries until the total amount was established.

The Chairman noted that, with the decision taken the previous day, on the disposal of its income, the Fund had completed its contribution. The ball was now in the court of the countries represented around the table, whose authorities had to decide whether they would allow the Cologne Initiative to float, or leave it to sink. As the main protagonists of the enhancements to the Initiative, G-7 countries in particular, clearly had to contribute their fair share, their contributions in other instances notwithstanding.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/99/108 (9/23/99) and EBM/99/109 (9/24/99).

2. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by an Advisor to Executive Director as set forth in EBAM/99/131 (9/22/99) is approved.

APPROVAL: May 4, 2001

SHAILENDRA J. ANJARIA
Secretary