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INTERNATIONAL MONETARY FUND

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Executive Board Attendance

M. Camdessus, Chairman
S. Fischer, First Deputy Managing Director

Executive Directors

T.A. Bernes
R.F. Cippà
B. Esdar
N. Eyzaguirre
R. Faini
J. Guzmán-Calafell
K.A. Hansen
K.-T. Hetrakul
W. Kiekens
K. Lissakers

J.P. de Morais

S. Pickford
M. Portugal

M.R. Sivaraman
G.F. Taylor
Wei Benhua
J. de Beaufort Wijnholds
Y. Yoshimura

Alternate Executive Directors

M.F. Melhem, Temporary
S. N'guiamba, Temporary
P. Charleton
W. Szczuka
W.-D. Donecker
A.G. Zoccali

H. Oyarzábal
O.-P. Lehmuusaari
C. Harinowo

B.S. Newman
R. Fernandez
M. Daïri
C. Rustomjee
L. Palei, Temporary
S. Collins

W.F. Abdelati, Temporary

A. Linde, Acting Secretary
P. Kunzel, Assistant

Contingent Credit Line—Further Considerations—Further Follow-Up

Staff representatives: Williams, TRE; Gianviti, LEG; Boorman, PDR; Leddy, PDR

Also Present

ECB: R. Raymond. External Relations Department: M. Bell, W. Murray, R.W. Russell. Legal Department: F.P. Gianviti, General Counsel; W.E. Holder, Deputy General Counsel; R.B. Leckow, I. Mouysset. Policy Development and Review Department: J. Boorman, Director; T. Leddy, Deputy Director; A. Bennett, I. Kapur, R. Kincaid, J. Lin, Z. Murgasova, T. van der Willigen. Research Department: M. Mussa. Secretary's Department: B.A. Sarr. Treasurer's Department: D. Williams, Director; T. Catsambas, B.V. Christensen, J.C. Corr, M.M. Cuc, L.U. Ecevit, M.G. Kuhn, A. Westphal. Western Hemisphere Department: C. Cha, J. Stotsky, E.C. Tanner. Office of the Managing Director: N. Sachdev. Advisors to Executive Directors: P.A. Akatu, M. Askari-Rankouhi, A. Giustiniani, O.A. Hendrick, N. Jadhav, H. Mori, H. Ogushi, J.L. Pascual, O. Schmalzriedt, F. Zurbrügg. Assistants to Executive Directors: J. Chelsky, A. Kapteijn, K. Ongley, Qi J., S. Rouai, Sugeng, M. Vismantas, Vongthieres O., M. Walsh.

**1. CONTINGENT CREDIT LINE—FURTHER
CONSIDERATIONS—FURTHER FOLLOW-UP**

The Executive Directors considered a further follow-up paper on further considerations toward a contingent credit line (SM/99/91, 4/15/99; and Sup. 1, 4/19/99).

Mr. Daïri submitted the following statement:

During the last Board meeting on CCL, we expressed this chair's concerns and reservations regarding the proposed structure of the CCL. These concerns remain valid and we reluctantly can support the proposed decision provided there is a clear majority for it. We need, however, to raise or reiterate the following concerns:

First, we remain of the view that the CCL does not provide sufficient incentives for countries willing to voluntarily adopt, at an early stage, a preventive economic stance. In particular, we are still unconvinced that there is a clear advantage for a country to embark on a CCL instead of waiting for the contagion to manifest itself before requesting Fund support, including under the SRF.

Second, the addition of the CCL as a window within the SRF decision could be misleading and run against the very purpose of the CCL as a signaling instrument of good policies and intentions. We have the impression that the CCL as designed may be seen as a sort of preview for the actual SRF. This confusion is further entertained through the inclusion among the eligibility criteria of the second part of Paragraph 14 (i) "or whose balance of payments problem is due to the circumstances identified in Para. 15." If our understanding is correct, Paragraph 15 deals with the activation criteria of the CCL. Therefore if the eligibility is assessed on the basis of the activation criteria, the CCL loses all its preventive aspects and will be easily confused with the SRF. Paragraph 17 of the decision is clearer in separating between commitment and availability of resources.

Third, we do not support opening the CCL window to members already under Fund-supported programs. Any risks of deterioration of their situation from contagion or other causes should be dealt with in the context of augmentation of Fund support, or use of SRF. We therefore continue to believe that the CCL should be reserved to members that follow policies that are considered unlikely to give rise to a need to use Fund resources

Fourth, we fail to see the rationale for a sunset clause. If anything such clause would contribute to further devalue the attractiveness of the CCL compared to the SRF. Since the SRF does not include a sunset clause, we may be giving the impression that the Fund is encouraging prudent behavior for only a limited time while remaining open to support less prudent members under the SRF.

On the impact of the CCL on Fund liquidity, we are of the view that if successful, this policy is more likely to reduce the use of Fund resources. If this did not materialize, it would mean that this facility was ill-designed or that other elements of the architecture are not operating as envisaged.

Comments on the text of the Decision:

Paragraph 14, line 6 - change to "account the member's progress toward adherence...". This is the text of the summing up.

Paragraph 14, lines 8 and 9 - change "through the management of the level and structure of its external debt and international reserves" to "management of its debt profile." This is the text of the summing up and reflect also the quotation in Paragraph 6, lines 1 to 3. The question of international reserves is referred to in the draft explanatory text among the "sustainability checks."

Comments on the draft explanatory text:

Paragraph 1, lines 5 and 6 - since we are amending the SRF decision and not taking a separate decision, change "Directors have approved the decision establishing the CCL (Decision No. __, __)" to "Directors have amended Decision No 11627 to establish the CCL."

Paragraph 4, line 3 and 4 - change to "taking into account the member's progress toward adherence."

Mrs. Hetrakul and Mr. Sugeng submitted the following statement:

The staff have prepared a paper which incorporates some elements of the proposed CCL that have yet reached a consensus among the Board members. Therefore, today's meeting is important in reaching the best resolution of some critical issues around the eligibility criteria, the size of the commitment, the rate of surcharge as well as the source of the CCL's financing.

On the eligibility criteria, similar to the previous Board meeting, we are of the view that the eligibility criteria for the members should be stringent. This kind of test is essential to build credibility on the facility as well as the recipient countries. The new facility needs to build its own credibility in order to be seen as a genuine seal of approval and to be distinguished from the wide arrays of facilities now available from the Fund. With this trademark, by passing a credible test, a country will get benefits in the form of receiving a Fund seal of approval to enable this country to have better access in the international capital market. The Fund would certainly benefit from the stringent criteria to better manage the resources committed for this facility since these criteria will prevent the occurrence of moral hazard and excessive use of this facility.

We are also satisfied with the degree of realism in the staff proposal, especially on the inclusion of the members in precautionary arrangement as well as in the implementation of standards. I am sure, that some kind of flexibility might be needed during the transition time before we can fully assess the suitability of the facility to current need of the members.

Therefore, we can go along with all the four eligibility criteria proposed by the staff. Accordingly, we do not have any objection that for a

country that is still in the "medical center" (the Fund's adjustment program is still underway) due to a non-contagion impact should be excluded from using this facility. This is important to be stressed to convey the clear sign to the markets that the country which uses the facility is the one with unquestionable records of performance. CCL which includes problem countries could blur the aim of the CCL itself. In this regard, we would like to note that the problem countries could look for other Fund's facilities, rather than the CCL, or asks an augmentation in the event a contagion sweeps her.

Given the nature of the CCL, a signal of the readily available resources for members with access to the CCL is essential. Inadequate resources which may then be known by markets could jeopardize the purpose of the CCL, and may even create a deterioration of a country's condition. Thus, putting no access limit of the CCL could be most likely to help achieve the goal of the CCL. However, we could go along with the consensus of the Board if the access limit is put on the range between 300 to 500 percent of quota.

On the implication of the Fund's liquidity from the unlimited access that is raised by some Chairs, we are of the view that this matter has been resolved by the setting of the stringent criteria. However, to address concerns on the need of resources to finance the CCL required by members, it is important to find out resources other than the general resources account. In this context, the GAB/NAB resources should become the primary consideration. Furthermore, here we would like to suggest the need to examine ways to find the resources from the market as proposed by Mr. Yoshimura and Mr. Ogushi in the previous Board meeting. Learning from the experience of other IFIs, there are ways that we can explore further without compromising the nature of our institution. Of course, private participation should also be involved in this process through programs that has been discussed extensively by the Board.

The availability of certain amount (100 percent of quota) of the facility is a key element in the activation of this facility. Contrary to the proposal in the paper which suggested a review before the activation with a possibility to have a benefit of the doubt, this chair has been continuously suggesting to apply some kind of automaticity to the first release of the facility when a contagion sweep a country. For this part, we would like to stress again that a quick release, without any discussion in the Board, will become the main characteristic of this facility which is different from the others. This feature will play a key role on the success of this program. Learning from the similar facility offered by the market, since the country has passed a stringent test and has paid a commitment fee, therefore it is only fair to them that they are not subjected to any prior review before the activation. What we need to establish is a certain indicator based on which the CCL's resources could be released automatically. We agree that the rest of the CCL's commitment should be released on the basis of the Board review.

In this context, however, we would like to know why a small purchase of credit tranche or EFF resources (5 percent of quota) would still be made available for the country. We are of the view that releasing this amount is not necessary since the country who commits on the CCL is still in good

condition and has adequate reserves. Staff comments on this will be welcomed.

On the issue of surcharge, we are of the view that a normal charge should be put on the CCL if the amount is within the range of normal purchase; i.e, below 300 percent of the quota. A surcharge may be justified for exceptional financing in excess of that amount. It is somewhat strange that a country which has passed a stringent criteria has to pay higher charges for the same amount of money than other countries with greater risks.

Mr. Portugal submitted the following statement:

Staff's new document incorporates a number of points and concerns raised by Executive Directors during the meetings of April 2 and 5 and constitutes a good basis for reaching consensus on this issue.

I welcome the incorporation among eligible countries of those that have precautionary Fund arrangements and those that are already using Fund resources for balance of payment reasons arising primarily from contagion, the use of the "critical mass approach" for assessing eligibility, the proposal for judgmental approach for assessing the requirement concerning constructive relations with the private sector, the specification that the quantified macroeconomic framework need not necessarily be specified in monthly benchmarks, and the elimination of an access limit.

In particular, I welcome the establishment of a portion of up to 100 percent of quota to be available immediately upon activation, as a presumption, if the Board concludes in the activation review that the member is facing exceptional balance of payments difficulties owing to external reasons beyond its own control, and that it has up to then implemented satisfactorily the agreed economic program.

I strongly feel that a high degree of certainty of availability of resources, under the conditions agreed, is a key element that will objectively differentiate the CCL from all other facilities and that may effectively influence eligible countries to apply at an early stage.

I acknowledge that the present document made some progress in this area, but as I attach a high importance to this issue, I feel that it may not be enough for achieving our common purposes. I would like to suggest that we consider still two modifications in this respect. First, that we reflect in the text of the decision itself (and not only in the explanatory text) the possibility of up to 100 percent of quota to be immediately available upon completion of the activation review. Second, I still think that the activation review should consist of the Board deciding only: (i) if the contingency has materialized and is of a kind covered by the facility (exceptional balance of payment difficulties externally motivated and outside its control); and (ii) if the country up to the moment when the contingency materialized has satisfactorily implemented the agreed economic program.

I feel that reserving judgment on whether major policy modifications are required, even if this is the exception and not the rule, may have greater

costs than benefits. We are considering here the case of good performing countries selected under demanding eligibility conditions. The likelihood that major policy modifications are necessary is small and, as it is said in the document, would probably be the exception rather than the rule. If, however, such modifications were necessary, the Fund would still retain substantial leverage in terms of disbursing the remainder of the resources. On the other hand, the fact that the resources disbursed upon activation are subject to a maximum of 100 percent of quota limits the risks to Fund resources. I feel, therefore, that we are trying to guard against low probability and limited risks, for which we have elements to manage. For that, we are incurring in the cost of introducing an element of uncertainty in the framework.

Presently countries that need adjustment resist as long as they can before approaching the Fund, and there is a widespread market perception that to have a Fund program is a sign of problems. We are trying to change this dynamics and the perceptions, and to convince countries that do not need adjustment to approach the Fund for a program when they do not need it. This is the aim of the CCL.

I am sure that a number of countries that do not qualify for the CCL would like to apply. Whether we will get the countries that we would like to apply sufficiently early on would depend on changing the dynamics and perceptions about Fund programs.

I support Mr. Daïri's suggestion regarding the change in paragraph 14, line 6, as this conforms to the wording of the Explanatory Text.

Mr. Guzmán-Calafell submitted the following statement:

The revised paper on the CCL reflects the strenuous efforts of the staff to reconcile the different positions that have been expressed at the Board on this subject. I believe that the staff has done an excellent job in these endeavors, and that the new proposal lays the ground for a compromise on this difficult issue.

As explained in the paper, one of the issues that has given rise to more controversy relates to the eligibility for the CCL of those members that are using Fund resources for reasons other than externally caused disturbances. I have stressed on previous occasions that the CCL is conceived for countries with fundamentally sound policies and affected by contagion, and that I do not see a contradiction between these objectives and the use of Fund support. Furthermore, this position is fully consistent with the consensus at the recent meeting of Deputies, that the eligibility criteria must be defined on a non-mechanistic way and decided by the Board on a case-by-case basis. However, given the concerns expressed both by the staff and some Directors on the risks of setting the eligibility criteria on excessively wide terms, I can go along with the staff's proposal to allow access to the CCL to users of Fund resources only if the other eligibility criteria are met and drawings under the arrangement are caused largely by external events.

I fully agree that it would make no sense to treat the eligibility criteria described in numerals i) and ii) in paragraph 3 of the paper as absolute requirements, and that the Board's judgment will be essential in determining whether a critical mass of factors is in place that allows the member to meet satisfactorily these criteria. The language included in the explanatory text attached to the draft decision addresses adequately these concerns.

Like Mrs. Hetrakul and Mr. Sugeng, and Mr. Portugal, I am convinced that the introduction of some degree of automaticity in the CCL would enhance substantially its usefulness. Indeed, the impact on confidence expected from this facility will be much stronger if markets are aware that a significant part of the Fund's support will be immediately available in the event of contagion. It is true, on the other hand, that the Board needs to be reassured of the commitment and adequacy of the member's policies in the face of the adverse impact of contagion. The staff suggests as a compromise to signal the ready availability of resources by giving members the benefit of the doubt regarding access to up to 100 percent of quota. Although the proposed access limit is reasonable, the procedures contemplated to draw this portion of the financing may give rise to uncertainty as to the actual availability of these resources. In particular, the suggestion to give the Board the discretion to make this portion available only after a detailed review of the specific commitments to policy adjustment may result in unnecessary delays in drawing the resources. In my view, if the Board is satisfied that the member meets the criteria established in numerals i), ii), and iii) of paragraph 7, access to this portion of the resources should be automatic. Moreover, we need to be aware that automaticity is warranted in these cases since by definition we are dealing with sound and well-managed economies, which are being monitored closely by the staff. On the other hand, I note that when contemplating the possibility of policy adjustments in this paragraph, the staff makes an explicit reference to exchange rate policy. This is surprising, since contagion may force policy adjustments in many areas, and exchange rate policy is only one of them. Therefore, the reference to this policy instrument is unnecessary.

The staff suggests that the financing to be made available immediately upon activation comprise only resources from the CCL. I am not persuaded by the staff's explanation that this is justified since it would enable the purchase to be related to contagion only. In fact, one could easily argue the opposite; i.e., that since no policy errors are involved when the CCL is used, access to the cheaper resources from the credit tranches is warranted. In my view, it would be better to adhere in these cases to an approach like the one followed for the SRF, namely, financing from the credit tranches should be used until the access limits are reached.

On the cost of CCL resources, as I mentioned above, I see merit in the idea of making the surcharge on its use lower than that for the SRF, particularly in view of the fact that, as the staff noted in a previous paper, countries using the former will have a sounder policy stance than users of the latter. On the basis of a similar reasoning, I would support a lower commitment fee or its refunding if the CCL is not activated, as suggested by some Directors. Nevertheless, I am willing to join the consensus in this regard.

I appreciate the staff's efforts to illustrate possible orders of magnitude of the impact of the CCL on the Fund's liquidity, but it is very clear that in view of the nature of the CCL and the uncertainties that surround eligibility, any estimate is going to be highly speculative. This is not to say that we cannot have an idea of the possible impact of the CCL on the Fund's liquidity. In fact, the analysis presented in paragraph 12 in the paper is very illustrative in this regard. Contagion is likely to affect member countries and therefore the demand for Fund resources irrespective of whether the CCL exists or not. However, it is to be expected that, if anything, the creation of the CCL will moderate such demand vis-à-vis the present situation for at least two reasons: first, its potential impact on market confidence, and second, the stimulus that this facility is likely to provide to the implementation of sound economic policies.

On the issue of access limits, the staff suggests setting initial commitments under the CCL in a range of 300 to 500 percent of quota, absent good reasons for doing otherwise. Although this range is not unreasonable, given the serious difficulties in estimating potential financing needs when requesting support under the CCL, I would prefer not to apply access limits or ranges in the use of this facility. In fact, I was under the impression that this is the position of the majority of the Board, since as explained in the paper, most Directors are opposed to the idea of an access limit. In any event, I am willing to support the staff's proposal, if this is the view of a broad majority at the Board.

Finally, in addition to the above remarks, I would like to make a few more detailed comments on the draft explanatory text:

Paragraph 3, lines 7 to 10 - It is said here that "members which are using or intend to use Fund resources would also be eligible if the Board judges that their balance of payments problem stems primarily from contagion." When dealing with this issue the staff paper refers to "externally caused events" instead of contagion. I would like to know if the staff is considering that these two terms are equivalent. If not, I prefer the language used in the paper.

Paragraph 6, line 10 - The staff proposes here that "in examining a member's request under the CCL, the Executive Board would take account of its sovereign ratings in the private markets." Given the recent performance of rating agencies, this proposal may be subject to question marks.

Paragraph 7, lines 11-12 - When analyzing the policies that a member has implemented to limit vulnerability, the staff makes an explicit reference to the exchange rate regime. For reasons that I explained above, this reference should be deleted.

Paragraph 8, lines 4 to 6 - It is said here that "the member would thus be expected to ... have put arrangements in place that would involve the private sector in the event of a crisis." This language appears to be more restrictive than that used in paragraph 6, which in my view reflects more adequately the message we want to convey. Therefore, this sentence should be rewritten.

Mr. Eyzaguirre submitted the following statement:

Let me begin by thanking staff for their dedicated efforts to construct a consensus-building framework for the operation of the CCL. As reflected in SM/99/91, Supplement 1, today's proposal has covered significant ground and I believe we are very close to a final agreement. As Mr. Portugal, I welcome the incorporation among eligible countries of those that have precautionary Fund arrangements and those that are already using Fund resources for balance of payment reasons arising primarily from contagion.

The eligibility criteria succeeds in striking the right balance between the need to limit moral hazard and to provide an attractive window to sound members that feel the need to further forestall contagion. I am convinced also that, through encouraging the right policy choices, the CCL will, as by-products, further strengthen the resilience of members against unforeseen external shocks and pave the way to a more generalized use of private contingent arrangement.

At this stage I have only a few comments. First, we regret that no linkage is established between the quality of members' policies, as reflected in the fulfillment of the eligibility criteria, and the amount of resources potentially available. Moreover, in contrast with the good market practices we are further encouraging, the cost of the resources may end up having an inverse relation with the quality of the candidate's structural policies and macroeconomic stance. It is somewhat striking to observe that both the effective materialization of the purchases and the upper limit of the committed resources—although I welcome the new higher ceiling—are less expeditious and more limited in the CCL than in the SRF, while the costs and conditionality terms are the same. If the cost of the initial 100 percent of quota starts with the surcharge, we may find CCL countries paying higher average rates than members purchasing through other facilities. Since this development would have no logic, I believe the first 100 percent of quota should be priced at the normal rates and, as stated by Mr. Portugal, that those resources should be released automatically. At any rate, we may want to review in the coming months the overall incentive structure we are creating through the different outstanding facilities, including the CCL.

The critical mass approach, while unavoidable at this stage, gives substantial discretionary power to the Executive Board. It may be convenient, in the future, to work toward some specific values for different indicators, where possible, to restrain our own discretion and enhance transparency.

Turning to some specific points in the eligibility criteria, while I found the language of paragraph 6 of the draft explanatory text appropriate, I believe paragraph 8 pushes the desirability of private contingent arrangements a bit too far. I would like to reiterate our view that the more natural and comprehensive measure of the degree of involvement of the private sector is the debt profile itself and not the number or amount of private contingent arrangements in place. The latter is a "means," as others, toward an end that is to bolster the resilience of an economy to unforeseen external shocks. To accumulate reserves, to lengthen the maturity structure of the debt—an available alternative under blue skies, to establish stabilization funds in the

case of exports with volatile prices, etc., are also other alternatives. The choices should be made by each country on the basis of a cost-effectiveness analysis, and I see no reason to head toward a compulsory status of private contingent arrangements, particularly since, according to the last information we received about private market financing for emerging markets, international banks are becoming increasingly reluctant to extend contingent credit lines.

The list provided in paragraph 7 of the explanatory text is somewhat confusing. Although the paper states “including, inter alia ...” the list should not be arbitrary. In my view such a list should include indicators of the soundness of the macroeconomic stance, typically the current account deficit, the fiscal deficit, the inflation rate and the consistency between the exchange rate policy and the monetary and fiscal frameworks—as well as indicators of the economy’s resilience against unforeseen external shocks. The latter set of indicators should aim to answer the following question: how long can this member remain current in its obligations if markets become totally closed? It seems to me that, if that is the relevant question, the indicators are quite straightforward. First, the ratio of debt service—including amortizations—to exports and imports. That ratio will give us an idea of the room that can be acquired through expenditure reduction and/or switching policies. Second, we will need to look at the total need of external resources, that is, the envisaged current account deficit plus the amount of external debt that becomes due in the near future as a proportion of international reserves (with, of course, the put options and any contingent liability and/or lines fully factored in) plus “non-volatile” expected capital inflows. Third, a close inspection of the internal debt problem—for instance money base plus near-term public liabilities in relation to international reserves—and of the strength of the domestic financial sector to withstand the almost unavoidable shocks to output, asset prices and interest rates and/or exchange rates that will follow a discontinuity in market access seems warranted.

Against this background, I regret the almost complete absence of suggested indicators to assess my above-mentioned third point. I do not see the need to single out the “appropriateness of the exchange regime” as a specific point in the checklist. Moreover, I do not understand what we mean by an appropriate exchange regime. Is it a flexible exchange rate policy or do we mean the consistency of the exchange rate, monetary and fiscal frameworks? If, as I expect, what is meant is the latter, I do not see the need to highlight the exchange rate arrangement on top of the appropriateness or the soundness of the macroeconomic policy stance, which has been the language used this far. It is, in my view, quite misleading.

Finally, I would like to ask staff why the alternative of a separate facility, a choice that need also 85 percent of the voting power, was ruled out. I still find it the most convenient alternative for “signaling” purposes.

Mr. Ondo Mañe and Mr. N’guiamba submitted the following statement:

The staff paper raises very important issues that need to be addressed before the Board takes a decision on the proposed Fund-financed contingent credit line (CCL). This Chair expressed its general support to the

establishment of a CCL in the Fund during previous meetings. It also indicated its willingness to join the majority view on this matter. Let me provide a few comments on the issues to be addressed in today's meeting.

On the question of the eligibility of members that are under an adjustment program for reasons other than contagion and are already drawing on Fund resources in support of the program, this Chair agrees with the staff that to safeguard the signal associated with the CCL, countries using Fund resources under already existing arrangements be considered eligible only if it can be established that they meet all other eligibility criteria listed in the staff report. In addition, drawings under the arrangement must have become necessary largely because of external factors. A decision to declare a country eligible should also be preceded by an examination of the possibility to augment the existing arrangement. Apart from that, a member's progress towards adherence to internationally accepted standards and private sector involvement in solving the problems faced by the country will have to be taken into account.

On the availability of resources at the time of activation of the CCL in the event of contagion, we agree that a portion of the resources should be made available to the country. However, we wonder whether that portion should be set at up to 100 percent of quota. It is our view that some flexibility could be exercised in the determination of the portion to be made available. As regards the remaining amount, we support the view that its availability should always be subject to the Board's satisfaction of the country's implementation of required policies.

On the cost of CCL resources, while we take note of the staff's recommendation that the structure of charges and fees for the CCL be the same as those which apply to the SRF, we believe that the surcharge on the use of CCL resources should be somewhat lower than that for SRF resources. At the same time, however, we share the view that in the case of commitments under the CCL, the administrative costs involved should not be borne by the membership as a whole, in particular not by other members using Fund resources.

On the implications of the CCL for Fund's liquidity, this issue could become important if the number of eligible countries was to grow over time. We note that Fund liquidity is projected to remain sufficient to meet even a relatively high demand through the end of 2000. It is also encouraging to learn that the Fund's current and projected liquidity position would enable the Fund to provide substantial financing under the CCL, if required and maintain balance of payments support under existing facilities. In order to be effective in addressing the problem of adverse implications of the CCL on Fund's liquidity, we support the suggestion to make access policy for the CCL one of the areas of focus of the proposed review of the CCL.

The Deputy Director of the Policy Development and Review Department noted that the draft decision regarding the CCL could be amended during the discussion, which would also be supplemented by a summing up. The summing up would be an expression by the Board on how it intended the decision to operate.

The General Counsel noted that both the formal decision and the summing up would have the value of a decision by the Board. Therefore, it would be important to avoid conflicting statements in those two documents.

Mr. Taylor noted that there was a difference between a policy document and a legal document. Summings up always seemed to be a general indication of the conclusions of the discussion of Board matters, but did that mean that they had a legal status?

The General Counsel noted that summings up performed two different functions. One of them was to reflect views of individual Executive Directors. To that extent, it did not constitute a decision. However, to the extent that a summing up reflected the support of a majority of the Board for a proposed action, it became a decision.

Mr. Taylor wondered whether the draft explanatory text would be taken word-for-word as the summing up.

The Chairman confirmed that the draft explanatory text would be transformed word-by-word into a summing up.

It would be important to encompass the following issues in the creation of the CCL, the Acting Chairman noted. First, eligibility criteria were an important ingredient of the CCL, because the facility had to be strong. It would also be important to have a catalytic factor in bringing countries as close as possible to having arrangements in place with the private sector. Second, it would be important to address the complicated issue of the coexistence of CCLs with other arrangements. Third, it would be important to come to an agreement on access limits, and whether or not there should be any. Finally, the conditions for activation were also an element of the overall architecture of the facility.

Mr. Daïri considered that the CCL facility should not have a major effect on the Fund liquidity if it worked properly.

While it would be important to have very stringent eligibility requirements, private sector involvement requirements should not be too ambitious, Mr. Daïri considered.

In principle the CCL should not be for countries that needed Fund programs or that were involved in Fund programs, Mr. Daïri considered. At the same time, the Fund would need to deal with the transitional period, where some countries were engaged in a precautionary arrangement. Those countries should be allowed to use the CCL, if they qualified.

The conditions of activation should be much simpler and much more automatic than what was being envisaged if the Fund wanted to give confidence to members and to markets, Mr. Daïri noted.

With regard to access limits, although it would be preferable to specifying a given amount, the proposal in the staff paper was acceptable, Mr. Daïri noted.

Mr. Guzmán-Calafell agreed with the comments made by the Acting Chairman at the outset of the meeting and also considered that if the facility functioned as expected, the impact on liquidity should be favorable. Eligibility criteria would need to be strict, although caution would be needed as regard the requirements for involving the private sector. The

facility should serve as a catalyst for private sector participation, but experience in that area was limited and a cautious and pragmatic approach would need to be taken.

With respect to the issue of eligibility to the facility for users of Fund resources, it would not make sense to deny program countries from obtaining the CCL, given its importance in crisis prevention, Mr. Guzmán-Calafell noted. The staff proposal, which restricted eligibility to those countries where external events were largely behind their balance-of-payments problems, was reasonable.

Given the enormous difficulties in estimating the potential financing needs of users for the CCL, it would be preferable to have no access limits, Mr. Guzmán-Calafell noted. However, setting a range of 300 to 500 percent of quota was not unreasonable, and would be acceptable.

One of the objectives of the CCL was to allow very rapid access to resources in case of difficulties, Mr. Guzmán-Calafell noted. A country should at least have access to a portion of the resources automatically. The amount that was contemplated in the staff report was reasonable, but the procedures could be made quicker.

The Chairman considered that if the Fund was able to strengthen its programs, the addition of an active program to the CCL would be less controversial.

Mr. Collins considered that if a country was in the middle of an adjustment program, it would be difficult to see how it would be eligible for a CCL, because it would, by definition, have an adjustment problem.

Mr. Esdar considered that the facility should be established for countries which were in very sound shape and which should be protected against contagion. If the Fund decided to include countries which would require the traditional balance of payments support under the Fund, that would undermine the signal that was intended by the CCL. A country with a precautionary arrangement should be allowed to have its arrangement transformed into a CCL. Similarly, if a country had an extended arrangement but was at the point of consolidating its position, it should be allowed to switch to the CCL. However, traditional program countries should not be allowed to qualify for the CCL.

Mr. Wijnholds agreed with Mr. Esdar that if a country experienced serious dislocation and required a program with the Fund, it should not be allowed to qualify for the CCL. On the other hand, a country with a precautionary arrangement could be transformed into a CCL.

The Chairman expressed concern that if countries were allowed to convert a precautionary arrangement into a CCL, the temptation would be for them to draw from the CCL instead of drawing from the precautionary arrangement.

Mr. Esdar noted that for countries to draw under the CCL, the balance-of-payments problems would need to be defined by contagion. The balance-of-payments need under the extended Fund arrangement was different.

The General Counsel agreed with Mr. Esdar that while the balance-of-payments need in the credit tranches was very broad, the CCL balance-of-payments need was limited to contagion.

Mr. Faini made the following statement:

We are trying to find a compromise between two conflicting needs. One is to preserve the seal of approval that the CCL will provide. The second one is not to preclude countries which have major progress within the existing arrangements and which are afraid of being exposed to contagion from using the CCL. I can see at least a couple of ways to address this problem. One would be to assess whether a country is willing to transform the existing arrangement into a precautionary arrangement, and then there is no objection on the fact that countries with precautionary arrangements should be eligible for the CCL. The second way would be to assess whether the conditions for an early repurchase are met. In this sense, we would be able to distinguish between countries which have an existing arrangement and that are expected to draw further and those which have made substantial progress.

The General Counsel noted that, by definition, all arrangements were precautionary. The difference between precautionary and non-precautionary arrangements was that the member did not intend to draw on precautionary arrangements, while the member intended to draw in other cases. But a commitment of the member not to draw would terminate the arrangement.

Mr. Faini wondered whether it may be possible to say that if the countries decided to draw under the precautionary arrangement, they would no longer fulfill the requirement for the CCL.

The General Counsel noted that the difficulty with Mr. Faini's proposal was in deciding how long of a time period would be required since the last drawing for a country to be eligible again for the CCL.

Mr. Eyzaguirre made the following statement:

I guess the subtleties in this difficult discussion spring from the fact that we have two different kinds of transition situations. One such transition arises when a country benefits from a Fund program and is on its way to graduating. In its final stage, our experience has been that countries try to benefit from Fund advice and from possible resources through precautionary arrangements. Those are the candidates for graduation, and it would be strange for us to preclude them from benefiting from the CCL.

Maybe an even more difficult transition springs from the fact that we are discussing this in the middle of contagion. There are countries that may need to draw because their conditions for market access is difficult now. If that is the case, and if the country is sound by all eligibility criteria, but given some market indicators like spreads or terms of trade, it is clear that the balance of payments needs are arising from external factors, I believe it is absolutely appropriate to allow a transition to those countries to join the CCL.

The Deputy Director of the Policy Development and Review Department noted that when a country requested and received approval for a CCL, it would be in the framework of a stand-by or extended arrangement. When a country had a precautionary arrangement, they could be eligible on that criterion for a CCL, but when the CCL was approved, the old precautionary arrangement would die.

Mr. Fernandez made the following statement:

On the possibility of having a coexistence of an arrangement and a CCL, the main problem I see is that we are trying with this CCL to change the way markets see a Fund program. We may regret it, but the fact is that today a program is more a stigma than a mark of excellency. We are trying to change this, and if we want to have a very strong seal of approval I am afraid that, in terms of communication, it will be much more difficult if we have to sell the image of two simultaneous programs; the traditional program and a CCL. It will weaken the signal of the high quality of the member in question. This is why I would not go along with a scenario in which we would admit a country entering both into a program with a purchase and a CCL. However, as long as the country makes it clear that it does not intend to purchase under an arrangement, I would agree that the country is eligible for the CCL.

Mr. Bernes made the following statement:

With respect to the eligibility criteria and the private sector, this chair has argued that there should be not only very strong linkage, but we would have made it a mandatory requirement. We understand that is not where the critical mass of the Board is, therefore with some adjustment to the language I can go along with what is being suggested. But certainly from this chair's perspective, there would be a presumption that there would be active private sector involvement to ensure that the role of the Fund has a catalytic role.

On the question of program countries, I agree with Mr. Esdar and Mr. Fernandez. The CCL should have a signaling effect. While I recognize that there may be countries on the border who may be disqualified as a result of the need to have a strong signal, I think that as we are trying to establish a new facility, it may be a price we are going to have to pay. We will have a chance to revisit that issue in a review in two years. Experience over time may allow us to adjust, but I think that establishing the CCL as a very different facility is critical.

The Board has asked the staff to come forward with suggestions on access limits and when they did, Directors considered that it may not be such a good idea. There are trade-offs, but given the other elements of the program, the approach that the staff has proposed is appropriate.

As we move forward, I hope that the explanatory notes become the summing up, which should precede the actual decision.

Mr. Kiekens made the following statement:

I will only comment on the apparently difficult issue of the interaction between a CCL and other arrangements. First, I will repeat for the last time a position on which I was defeated. I am profoundly concerned that with this CCL exercise we are classifying our member states into different classes of economies. This is not the reality of the world. There is a continuum of economies. I was very much concerned that the stigma of the precautionary arrangements, which are so profoundly defended and argued in favor of, will be made worse by the CCL.

We must make a distinction between different types of arrangements. I do not see any difficulty in having a CCL together with a Stand-By Arrangement which is precautionary in nature. Any member has the right to ask for a Stand-By Arrangement as a precaution against any kind of difficulties be it pure contagion, external shocks, or policy slippages. For that reason, the CCL can be supplemented by access to Fund resources in the credit tranches to meet balance of payments needs arising from circumstances that are largely beyond the member's control.

The CCL and the EFF are incompatible. An EFF is accessible for economies suffering serious payment imbalances relating to structural maladjustments in production and trade and where prices and cost distortions have been widespread. All this requires extended periods of repurchase. For that reason, it is clear that when a country is under such a program, it cannot be eligible under a CCL.

There is a last issue relating to what the policy should be for members who no longer have an arrangement, but still have outstanding drawings. These instances should be taken into consideration for the CCL.

Ms. Lissakers made the following statement:

We are trying to create an exclusive instrument on the one hand that is clearly identified by the rest of the world, but at the same time, we are trying not to make it so exclusive that it is not useful to our members. I thought the staff had done a pretty good job by not excluding a CCL for countries that have active programs, but narrowing the right to use resources under a standard program to the contagion circumstances. But I recognize that does create a gray area. A country that has a precautionary arrangement that does not intend to draw should be eligible for a CCL. I also agree in principle that countries that have an EFF should not be CCL eligible. I am not helping to narrow the differences, but I think the Board is getting closer to something that is workable, even if we have not found the precise definition.

Mr. Portugal made the following statement:

I agree that liquidity is a very important concern, but it is difficult to be more precise on this issue because if the facility works and encourages countries to maintain good policies then it will be rarely drawn on. If the CCL works, the impact on the liquidity will be small.

On the question of eligibility, I do not have anything more to add. The critical mass approach is the right way to go.

It is important not to be too prescriptive on the ways of achieving private sector participation. We should be prescriptive on what the objective is, which is to have constructive relations with the private sector that gives confidence that the country will be able to meet a reasonable portion of its financing needs if a crisis emerges. But, we should not be prescriptive on the ways of achieving that. We should be flexible because we do not know yet which are the most efficient ways of involving the private sector.

On the more difficult issue on the coexistence of the CCL with other Fund programs, I agree with the points made by Mr. Kiekens. At least in the case where programs are precautionary, or programs that are aimed to address balance-of-payments problems that were created for external conditions, it makes sense to allow these countries, if they meet the eligibility criteria, to apply to the CCL.

I would have preferred to have no access limit, but I am prepared to accept any compromise.

With respect to the question of activation, I am not suggesting that we have complete automaticity. The Board should be involved in the moment of activation. At some point the Board had to decide whether the contingency had materialized and whether the contingency was covered by the CCL facility. What I am not very comfortable with is having nonautomaticity with additional uncertainty. The CCL is for good performing countries that pass a very demanding eligibility criteria, that have their program on track and then are hit by external events. The need to have major policy adjustments in this case would be the exception rather than the rule, because the country should be in good condition. To cover the unlikely event that countries had experienced slippages after CCL approval, introduced an element of uncertainty in the scheme that perhaps would both reduce the attractiveness to members and weaken the impact of that program in the markets. It would therefore perhaps be useful to have 100 percent of quota immediately available, which could be included in the decision itself instead of in the explanatory notes to make it more visible and to provide assurance to the market.

Mr. Palei considered that it would be useful to have 100 percent of quota available automatically upon approval of the CCL.

The Deputy Director of the Policy Development and Review Department noted that the staff's intent had not been to make resources available immediately, but to make resources subject to a determination by the Executive Board that the country was carrying out its program, and that the reason for which it was drawing on the CCL was contagion. That would be useful to safeguard the use of Fund resources, and check that the purpose for which the resources were drawn was the purpose for which the facility was designed. An outright entitlement of up to 100 percent of quota without being subject to those checks was not something that staff would recommend.

Mr. Eyzaguirre was inclined to follow the proposal suggested by Mr. Portugal in terms of accessibility. At the same time, the Fund considered that it was important to convey to the market that the amount of resources would be big enough. If that was important in order to forestall contagion, the availability of 100 percent of quota immediately would not make that much of a difference. What mattered was that the markets were reassured that the members that qualified for the CCL would have a strong backing from the Fund.

Mr. Faini considered that the 100 percent commitment would be insufficient to reassure markets in the event of contagion. At the same time, it was important to take into account the fact that, if there was a large commitment with respect to a large number of countries, there would be some question about the ability of the Fund to finance such a large commitment. The liquidity issue was a very difficult one, but it could not be neglected.

The Chairman agreed with Mr. Faini about the importance of the liquidity position of the Fund, and considered that it would be important to have periodic assessments of the liquidity of the Fund.

Mr. Sivaraman made the following statement:

After hearing the excellent commentary by Mr. Kiekens, I had a doubt in my mind as to what was meant in regard to the sentence in paragraph 11 of the text which states that, "upon a commitment of CCL resources, a small purchase of credit tranche or EFF resources would be made available, typically 5 percent of quota." In paragraph 13, it is mentioned this amount would consist entirely of CCL resources. I think these two paragraphs will have to be reconciled in the context of what Mr. Kiekens said about combining the EFF and the CCL.

The eligibility criteria are difficult to interpret, given that it is difficult to define what contagion actually is. But assuming that a country fulfills all its eligibility criteria and it is still hit by contagion, then something has gone wrong with the country. In that case, it should lose its eligibility for a CCL.

With respect to liquidity, a problem that arises is whether countries that qualify for the CCL will be considered as a contingent liability only when there is a drawing, or when they qualify. This is another problem which we will have to contend with.

How to involve the private sector is another very difficult issue. If the Fund decides that a country will become eligible if it has entered into some kind of an arrangement with the private sector, it may also be that the private sector will make demands on the country to enter into an arrangement with the Fund.

Mr. Cippà made the following statement:

The main problem of this chair with the proposed draft decision is the coexistence between the CCL and other arrangements. In this regard, I strongly support Mr. Esdar's position, and I hope we can reach a compromise by the end of this Board session.

Another issue with which we are not really satisfied is the degree of judgment involved in defining the eligibility criteria. In this respect, I would like to see a minimum of mandatory requirements. I would also have liked to be more specific on the private sector involvement, but I recognize the difficulties, and I could accept the position that Mr. Bernes expressed that there must be a strong presumption that the private sector will be involved.

On other eligibility criteria, I would suggest to add two more conditions. Regarding the criterion on the positive assessment by the Fund of the last Article IV consultation, we should supplement this point by requiring the publication of the staff report. By so doing, the member would clearly demonstrate to the markets its willingness to put all the relevant facts on the table. Regarding the adherence to standards, I recognize that full adherence to all the standards would not be feasible at the present, given the different

degrees of progress in the various work. However, as a minimum, we should make adherence to the SDDS mandatory. Work on the SDDS is well advanced and should pose no difficulties for a potential CCL candidate.

Mr. Esdar considered that it would be a good idea to make access to the CCL facility more subject to market incentives by introducing an interest escalator, whereby higher access would automatically require higher charges. That would make the CCL different from the SRF.

In addition the CCL was more challenging than the SRF, Mr. Esdar noted. Therefore, it would be a good idea to see whether it was possible to start with the first level of charges below the SRF.

Mr. Wijnholds supported Mr. Cippà's suggestions regarding eligibility and Mr. Esdar's suggestion for an interest rate escalator.

Ms. Lissakers considered that the interest escalator idea was one way of dealing with the access issue. However, starting the cost below that of the SRF risked making the terms less attractive in the SRF, which would be contradictory to the facilities' objective. Also, given that the facility was meant to substitute short-term liquidity for market access for countries that had temporarily lost market access, it should not be cheap.

Mr. Guzmán-Calafell considered that it would be useful to have an interest rate on the CCL below that of the SRF because CCL countries had fundamentally sound economic policies. However, it was not acceptable to increase the interest rate on the SRF because of the relative implications to the CCL.

Mr. Palei considered that with regard to the eligibility requirements, the vehicle for the Board's evaluation of the progress on transparency issues could be transparency reports.

Ms. Lissakers noted that caution was required on the eligibility criteria, because the Fund had not yet developed all the standards. That was why it would be important to have a sunset clause. Mr. Pickford had also suggested an early review, so that as the standards were refined and as the adherence became more realistic, it would be possible to tighten up the eligibility criteria.

The Chairman agreed with Ms. Lissakers that the standards underlying the eligibility criteria would take some time to refine and for compliance to them to be made operational. Nevertheless, the more modest suggestions made by Mr. Cippà, such as SDDS membership and publication of the PINs and the CCL itself, should be achievable. It would then be possible to strengthen the standards for eligibility at the time of the review.

Mr. Guzmán-Calafell noted that with respect to the issue of the publication of the CCL report, there was a discussion recently on transparency during which there were very strong reservations about the publication of staff reports on the use of Fund resources. The danger was that there could be conflicting views on a program that was recently approved, which could have an adverse impact markets. The agreement had been that the chairman would make a statement instead.

The Chairman considered that countries that expected to benefit from the CCL should not mind having the views of the staff made public.

Mr. Faini considered that the problem of conflicting view arose only in the PIN which reported the Board discussion. The publication of the staff report of the CCL report should not be too controversial since there should not be conflicting views in them.

Mr. Cippà agreed with Mr. Faini on the publication of the CCL report, particularly since the problem for countries would arise from external contagion.

Mr. Yoshimura and Mr. Collins agreed that the publication of the CCL staff report was important to assure the transparency of the new facility.

Mr. Kiekens considered that what was really important was the publication of the letter of intent, but the publication of the CCL report should not be made a stringent condition.

Mr. Portugal agreed with Mr. Kiekens that publication of the CCL staff report should not be an absolute criterion, to avoid reducing the incentives for eligible countries to join.

Mr. Hansen made the following statement:

We should not mix the CCL and other programs. Current programs should lapse by definition, if they are no longer necessary.

There is a long list of interpretation issues that will exert a heavy work load, both for the staff and Directors. The discussion today goes in all kinds of directions, and is intangible. The most important problem is the financing aspect of the facility. We should have a very clear linkage between a CCL drawing and the liquidity situation. A certain percent drop in the liquidity ratio should either cap the CCL, or release a concurrent discussion of the Fund liquidity's situation. I would also recommend that in the computation of Fund liquidity ratio, that the CCL should be valued at 100 percent, and should not be available at the time of activation. Some linkage should be established between activation of the CCL, the time of the proposal for the program, and the liquidity ratio in one way or the other.

Ms. Lissakers noted that all facilities were subject to a continuous liquidity review, and that the CCL should not be treated differently.

Mr. Wei made the following statement:

First, let me say, that I can go along with the analysis and the proposals in the staff papers. The liquidity issue is very complicated. I agree with Mrs. Hetrakul regarding the possibility to mobilize resources under the NAB or GAB. Directors of the GAB or NAB member countries could perhaps indicate, at least on a preliminary basis, what their views on this issue are. Maybe we should consider other possibilities, such as rich countries providing bilateral resources in parallel with the Fund.

I cannot agree with the publication of Article IV reports and transparency reports. This is not a good context to discuss publication issues.

I support having no limits on access, but could go along with the consensus.

Mrs. Hetrakul made the following statement:

We are of the view that eligibility criteria for members should be stringent. This is essential to build credibility of the facility as well as for the country itself.

I also support the catalytic role of the CCL, so that the private sector is encouraged to get involved.

Given the nature of the CCL, a signal of readily available resources for members with access to the CCL is essential. Inadequate resources could jeopardize the purpose of the CCL. Putting no access limit on the CCL would help achieve the goal of the CCL. However, I could go along with the consensus of the Board, if the access limit is put on the range between 300 and 500 percent of quota.

The key element of this facility will be activation. Some kind of automaticity to the first release of the facility should be there when a contagion sweeps a country. A quick release without any discussion in the Board would then become the main characteristic of this facility.

I am of the view that a normal charge should be put on the CCL, if the amount is within the range of a normal purchase. A surcharge may be justified for exceptional financing in excess of that amount.

The Chairman noted that, although there were still areas of the facility where differences of view were apparent, there was nevertheless a growing consensus in the Board. With respect to transparency clauses, Directors seemed to agree that language requiring subscription and adherence to the SDDS would be useful. In addition, the facility could require the publication of the letter of intent and the policy statement, while the staff report on the CCL would be guided by the same policy as other staff reports.

Liquidity concerns would have to be taken very seriously, and the staff would propose language for Directors to review, the Chairman noted.

Another element where a consensus appeared to be gaining momentum was with respect to the access issue, the Chairman noted. While some Directors did not want limits to access, others expressed concern about not having access limits, and the staff had suggested an access range of 300 to 500 percent of quota, which appeared to be a second-best option. It would be important to find the appropriate language in the explanatory text on that issue.

Mr. Esdar considered that it may be useful to state that in general there should be no access limit, but that, unless warranted by exceptional circumstances, while paying due regard to the liquidity position of the Fund, commitments under the CCL would be expected to be in a range of 300 to 500 percent of quota.

The Chairman noted that the draft explanatory language also addressed the issue of the Fund providing a catalytic factor to countries, and of the need for members to take steps to involve the private sector. Perhaps the staff could comment on the underlying philosophy of that paragraph.

The Director of the Policy Development and Review Department noted that, while private sector involvement was important, consideration had to be given to the fact that demanding that members involve the private sector would hand over a great deal of authority to the private sector regarding the success of the facility. In addition, the Fund was still at a very early stage of its policy toward the private sector, and it was not exactly clear what type of arrangements would best serve the interest of members and the Fund.

Mr. Hansen agreed with the staff, and considered that in the explanatory language it would be useful to state that private sector involvement should be based on market-oriented schemes.

Ms. Lissakers considered that paragraph 8 of the explanatory text on private sector involvement did not add very much to creation of the facility, and noted that much of that paragraph was already mentioned more generally in paragraph 6.

The Chairman noted that paragraph 8 was intended to be more instrumental in catalyzing private sector contribution, and would be a useful part of the facility. At the same time, it was important to recognize the points made by the staff regarding the problems associated with private sector involvement. These issues would need to be taken into account when providing the language of the explanatory text.

Mr. Esdar considered that it would be important to have language in the explanatory text that a member would be expected to seek private sector involvement. That was a crucial and necessary component of the CCL.

Mr. Fernandez considered that private sector involvement should be in place at the time of activation of the CCL, not at the eligibility stage. That should be reflected appropriately in the explanatory language.

Ms. Lissakers considered that it would be important to emphasize that members seeking access to the CCL should have sought private sector involvement, instead of requiring private sector involvement, to avoid placing the CCL candidate at the mercy of the private sector.

Mr. Faini considered that moving the conditions on private sector involvement to the activation phase would overload the activation phase. By requiring further control on whether the private sector was appropriately involved could increase the uncertainty about whether the Fund would become involved, and would not at that juncture be appropriate. It would be more useful during the assessment stage to insist that a member had sought to put in place effective arrangements to involve the private sector.

Mr. Bernes considered that it would be important that the language of the explanatory text clarify that a member would be eligible to the CCL if it was maintaining constructive relations with its private creditors. Perhaps the text could say that Directors had accepted that a judgmental approach to assessing overall progress in involving the private sector would be needed and had pointed to a number of factors and considerations that would be relevant to making that assessment.

Mr. Esdar considered that the language of the explanatory text should make it clear that there was a strong presumption that the member should have put in place appropriate arrangements to involve private creditors.

Mr. Fernandez considered that a strong presumption of private sector involvement at the activation stage would make the facility such that no country would have access to it.

Mr. Hansen noted that an expectation of private sector involvement would not make it a binding condition for access to the CCL.

Mr. Guzmán-Calafell considered that the text could spell out that members seeking access to the CCL should have made good faith efforts to put arrangements with private sector creditors in place.

Mr. Bernes considered that it would be useful to clarify that members should demonstrate that they had put in place, or that they were making good faith efforts to put in place, appropriate arrangements to involve private creditors.

Mr. Esdar considered that it would be useful to keep the language proposed by Mr. Bernes that the member should be making good faith efforts to involve the private sector, but to take out the portion requiring that it demonstrate that arrangements with the private sector had been put into place to avoid that the private sector could take the member hostage.

Mr. Cippà agreed with the language proposed by Mr. Bernes, and the change suggested by Mr. Esdar. It would also be important to keep the language in the explanatory text that members were expected to have taken steps to limit external vulnerability.

Mr. Wijnholds considered that in the explanatory text it was important to avoid making reference to banks being called blackmailers, because there was a very fine line between blackmail and market discipline.

The Chairman noted that the staff would redraft the explanatory text by taking into account the comments made by Directors, and present a new version of the text to the Board shortly.

2. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors, by Advisors to Executive Directors, and by Assistants to Executive Directors as set forth in EBAM/99/57 (4/19/99) is approved.

APPROVAL: May 4, 2001

SHAIENDRA J. ANJARIA
Secretary