May 1, 2001
Approval: 5/8/01

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 99/110

10:00 p.m., September 25, 1999

Contents

EXECUTIVE BOARD ATTENDANCE

M. Camdessus, Chairman
S. Sugisaki, Deputy Managing Director

Executive Directors	**Alternate Executive Directors**
	S.M. Al-Turki
A. Barro Chambrier	D. Ondo Mañe
T.A. Bernes	
A.G. Carstens	H. Oyarzábal
R.F. Cippà	W. Szczuka
B. Esdar	
N. Eyzaguirre	
R. Faini	
K.A. Hansen	
K.-T. Hetrakul	
V. Kelkar	
	J. Prader
K. Lissakers	
J.-C. Milleron	G. Bauche
	S. Rouai, Temporary
J.P. de Morais	
	I. Zakharchenkov, Temporary
S. Pickford	S. Collins
M. Portugal	
A.S. Shaalan	
G.F. Taylor	
Wei Benhua	
	E.J.P. Houtman, Temporary
Y. Yoshimura	

S.J. Anjaria, Secretary
G. Nkhata, Assistant

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

Also Present
External Relations Department: T.C. Dawson, Director. Legal Department: H. Elizalde. Policy Development and Review Department: J.T. Boorman, Director; N.L. Happe, K.H. Kang, G. R. Kincaid. Secretary's Department: A.S. Linde, Deputy Secretary; K.S. Friedman, P. Gotur. Treasurer's Department: E. Brau, Treasurer; M.G. Kuhn, Deputy Treasurer; B.V. Christensen, D.M. Hicks, B.E. Keuppens, J. Lin, P.R. Menon. Office of the Managing Director; M. Cross, Personal Assistant. Advisors to Executive Directors: J.A. Chelsky, J.L. Pascual, M. Yanase. Assistants to Executive Directors: T. Elkjaer, M.J. Fernández, C. Josz, B. Kelmanson, S.K. Keshava, Liu Z., A. Maciá, D. Nardelli, K. Ongley.

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

The Executive Directors considered a staff paper on the financial and operational modalities of off-market transactions in gold by the Fund (EBS/99/176, 9/15/99), together with a statement by the Managing Director (BUFF/99/121, 9/22/99). They also had before them a staff paper on the status of bilateral pledges for financing of the Enhanced Structural Adjustment Facility and the Initiative for Heavily Indebted Poor Countries (ESAF-HIPC) (FO/DIS/99/130, 9/15/99), and on contributions needed based upon quota shares and assuming gold sales of 14 million ounces of the ESAF-HIPC (FO/DIS/99/136, 9/23/99).

The Chairman made the following statement:

> I apologize for convening this meeting at such a late hour, but I consider it absolutely essential to be able to report to the joint Interim and Development Committees tomorrow morning that all the elements of the ESAF/HIPC financing package are in place and agreed. At this juncture, the only element that remains to be finalized is the amount of bilateral contributions.
>
> At our meeting yesterday, I concluded that bilateral contributions of around SDR 170 million on an "as needed" basis would be required to close the remaining financing gap, assuming ring-fenced gold sales of 14 million ounces. This already represents a formidable effort by a broad segment of the membership; 86 countries—including 53 developing countries and 10 countries in transition—have now pledged contributions, while 41 countries have pledged even more than the grant equivalent of their SCA-2 balances. However, some countries' pledges are still below the grant equivalent of their SCA-2 balances and their quota share, so our task has not yet been completed.
>
> I am aware that there has been hectic activity over the past 24 hours to secure additional pledges, and we welcome indications of additional pledges, including from the G-7, which would bring the total contributions closer to the target figure, although some of these pledges are conditional. I will now ask each Director to report on additional pledges so that we can conclude the financing package.

Mr. Al-Turki confirmed that Saudi Arabia would contribute an amount up to its quota-based share, and urged all other members to do likewise, as a minimum.

Mr. Bernes pointed out that Canada had already written off its ODA debt, and would cancel 100 percent of the debt of those HIPCs that met certain conditions. In addition, Canada had contributed far more than its quota share to the funding of both the loan and subsidy accounts of the current ESAF. As a strong advocate of an enhanced HIPC program with a strong commitment to poverty reduction, Canada attached considerable importance to efforts to assure the financing of the Initiative. Therefore, the government would be willing to bring its contribution up to the country's quota-based share, provided that other members of the G-7 were also prepared to do so. The precise modalities still needed to be worked out in the normal budgetary context, subject to parliamentary approval.

The Chairman trusted that the necessary national procedures would be completed on time and that Canada could be added to the list of countries that had contributed up to the level of their quota share, in this case SDR 48.8 million "as needed".

Mr. Cippà indicated that Poland had now agreed to pledge SDR 5 million of budgetary resources in annual grants over the next five years, subject to parliamentary approval, in addition to the pledge to contribute its SCA-2 balances as a 20-year interest-free deposit.

The Chairman noted that this would bring Poland's contribution to the level of its quota share.

Mr. Esdar reconfirmed that his government was prepared to provide a noninterest-bearing loan equivalent to the grant equivalent of its SCA-2 balance, which would raise Germany's contribution far above the quota share, provided there was fair burden sharing among major bilateral contributors.

Mr. Eyzaguirre indicated that Argentina would pledge SDR 16.2 million "as needed", an amount that would correspond to its quota-based share. Uruguay had already pledged a contribution up to its quota share, and there was no further news on the contributions of Chile and Peru.

Mr. Faini was still waiting for a confirmation regarding Malta's contribution.

Mr. Carstens indicated that Mexico had ratified its contribution of SDR 54.5 million on an "as needed" basis, and further news was expected from Spain and Venezuela.

The Chairman noted that the conditions established by Spain for its contribution had been fulfilled so Spain could be expected to provide more than its quota share.

Mr. Hansen pointed out that his constituency as a whole would contribute at least SDR 64 million, substantially more than its quota share, with some countries contributing less than their quota share and others considerably more. Denmark, for example, had already contributed an amount exceeding its quota share. Some pledges still needed to be confirmed, but that amount would be the minimum, provided that the G-7 did its part, and that the real status of the financing could be reviewed at end-October, to ensure that the spirit of cooperation behind the current pledges did not fade away after the Annual Meetings.

Ms. Lissakers noted that the united states would contribute its full SCA-2 balance in the form of a grant, Congress willing, which would bring the contribution well above the country's quota share. The budget discussions were likely to be concluded in November.

Mr. Milleron noted that, although the French contribution was still below its quota share, the country had contributed significantly to poverty reduction and debt reduction efforts through other channels. The government had therefore been expecting a more significant effort on the part of its partners. Nevertheless, France was willing to contribute an amount commensurate with the level of its quota-based share, provided that the other G-7 countries did likewise. It was not clear whether the resources would actually be available before the end of the year, given the time needed for the implementation of the budgetary process, but the pledge would hopefully help to shift the Board from a noncooperative to a cooperative game.

The Chairman thanked Mr. Milleron, observing that the French contribution based on quota shares would amount to SDR 82.2 million “as needed”. Contributors facing difficulties in committing their full pledges in 1999, could provide a part of the contributions the following year, or even in subsequent years, if absolutely necessary.

Mr. Rouai said that he had no further information at this stage.

Mr. Morais indicated that South Africa had decided to pledge a total of SDR 20 million on an “as needed” basis in five equal annual installments, starting from May 2000, subject to legislative and Cabinet approval. This would raise South Africa’s contribution above its quota share. In addition, the authorities had decided to convert into an outright grant its SCA-2 balance, which was currently pledged as an interest-free loan.

The Chairman commended South Africa for its contribution, particularly for its decision to pledge an amount above its quota share.

Mr. Zakharchenkov stated that he had no further contributions to announce.

Mr. Pickford conveyed his Minister’s appreciation of the Managing Director’s efforts to ensure adequate financing of the ESAF and the HIPC Initiative. He stressed the need to take a wider view of the financing issues, and to ensure that all the relevant institutions had the resources to contribute. The plight of the African Development Bank (AfDB), which had large amounts of costs falling due, was a serious concern for a number of bilateral donors, including the United Kingdom. Thus, while seriously considering contributing further to the financing of the HIPC Initiative, the authorities preferred to do so through the AfDB HIPC Trust Fund, so as to leverage in further contributions. Over the past 24 hours, the Minister had been actively trying to make significant and sufficient progress on the HIPC financing, including in that broader context, so as to ensure a successful outcome at the Annual Meetings.

Mr. Portugal confirmed that Brazil would pledge its SCA-2 balance as a grant. In addition, Colombia was willing to contribute its balance as an interest free deposit, while the Dominican Republic and Trinidad and Tobago would contribute their balances as low interest deposits. Ecuador, which was in a very difficult situation, and a number of HIPC-eligible countries in the constituency, could not contribute at that stage.

Mr. Prader indicated that the Belgian authorities had agreed to increase their bilateral contribution to the ESAF-HIPC Trust by contributing their share of the SCA-2 balances as a grant instead of a deposit. This would increase their bilateral contribution to SDR 35.2 million “as needed”, which exceeded the quota-based share. The additional contribution would be implemented according to the normal budgetary procedures. Austria would contribute a major portion of its SCA-2 balance in the form of a grant equivalent to SDR 10.2 million on an “as needed” basis, subject to parliamentary approval. In line with the Canadian and French approach, if all G-7 members individually contributed their share, Austria would be prepared to increase its pledge to an amount equivalent to its full quota-based share. A review of the status of contributions at end-October would also be essential. Subject to a decision of its National Bank, the Czech Republic would provide its SCA-2 balances as a 20-year deposit. The contribution, amounting to SDR 4.1 million, “as needed”, would be equivalent to 65 percent of the Czech quota-based share. The Hungarian Minister of Finance had informed the Fund that the authorities were exploring the possibility of providing a portion of the country’s SCA-2 balance in the form of an interest free loan, in line with the principle of equitable burden sharing. The Slovenian Minister of Finance and the Governor had indicated that their contribution would be similar to that of other central European countries.

The Chairman noted that Slovenia’s contribution would raise the number of contributing transition countries to 11. He welcomed the Austrian contribution, and the indications that the amount might be increased at a later stage.

Mr. Shaalan announced that the central bank of a major country in his constituency had recommended that the government increase its SCA-2 deposit with the Fund by 50 percent. The government was likely to support that recommendation.

Mr. Kelkar had no further indications of contributions from his constituency.

Mr. Taylor pointed out that Korea’s contribution was significantly above its quota share. Another country in his constituency could not take a formal position until Monday, when the Governor would meet with the Managing Director. In the case of Australia, it was not yet clear whether there was any improvement on the existing commitment to contribute the equivalent of the SCA-2 balance as a grant.

Mr. Houtman had nothing further to add to his previous indications. He supported the suggestion that a review of the status of financing should be carried out in October.

Mr. Yoshimura reconfirmed the Japanese contribution. In addition, he indicated that the Japanese authorities were willing to consider advancing disbursements of the grant contributions once the financing package had been finalized, if there was a liquidity problem. He hoped that this fact, which should normally have been disclosed after the financing package had been finalized, would contribute to accelerating the momentum of the financing operation.

The Chairman expressed appreciation for sharing this information with the Board.

Mrs. Hetrakul stated that Fiji had decided to provide the equivalent of its SCA-2 balance as an interest-free deposit. There was no further news regarding the other countries of the constituency, but discussions were proceeding in a positive direction.

Mr. Wei highlighted the continuing efforts of his country to finalize its position on this matter. The recent briefing would undoubtedly contribute to further progress, but a list of the 53 developing countries that had pledged contributions would be helpful.

The Chairman emphasized the importance of China's contribution to the financing package, and requested further elaboration on the intentions of the central bank and the Government.

Mr. Wei stated that he could not provide any further details at that stage.

The Chairman asked when more information could be obtained.

Mr. Wei replied that the Governor would elaborate on the Chinese contribution in his forthcoming meeting with the Managing Director.

Mr. Carstens indicated that the Spanish authorities would contribute an amount up to their quota-based share.

The Chairman hoped that the Executive Director could persuade the Spanish authorities to augment the contribution to above their quota share.

Mr. Barro Chambrier indicated that the Governor of the Central Bank of Mauritius had confirmed Mauritius's intention to make an extrabudgetary contribution in addition to providing the SCA-2 balance as a grant. However, the definitive figure, was still being worked out, and was likely to be conveyed to the Managing Director in his discussions with the Governor.

Mr. Hansen noted that, while there had been some encouraging news from many Executive Directors, there were also many strings attached to contributions, related mainly to fair burden sharing among major bilateral contributors. He wondered how the Board would proceed from that point, and what would happen if the various contributions from major players were not in place by the end of the Interim Committee meeting. Would a press statement be released?

The Chairman believed that the Fund would have to be transparent and admit that the bilateral contributions had not been sufficient, particularly if the contributions of the G-7 were not forthcoming, which would unravel the whole process. Unless the financing package was completely finalized, there would be no package at all. The Fund had done its part, and, in addition, its offer on the optimization of the use of its reserves was still on the table. However, given the impact press statements were likely to have on public opinion, caution had to be exercised in making press statements, whether or not the financing package was concluded. It was hoped that the financing package would be concluded during the Interim Committee's pledging session scheduled to take place the next day over lunch.

The staff representative from the Treasurer's Department noted that with the additional contributions of SDR105 million "as needed" that had now been announced, the estimated shortfall was SDR 65 million "as needed", excluding "checks in the mail".

The Chairman noted that a number of contributions, including those of France Germany and Canada, were contingent on the United Kingdom making available an amount equivalent to its quota share.

Mr. Pickford assured the Executive Directors that he would report back to his Minister, who would reflect on all these pieces of information, while continuing his efforts to unlock resources for other parts of the HIPC financing jigsaw puzzle.

Mr. Shalaan pointed out that the shortfall was greater than SDR 65 million, if one took account of the link between the contribution of the United Kingdom and those of other major bilateral contributors.

The Chairman commented that it was difficult to precisely identify the shortfall in the absence of a definite response from the United Kingdom. If that country contributed the equivalent of its quota share, then the financing gap would fall to SDR 18 million, and, as that would prompt other contributions, the financing package would be rapidly completed. A number of Directors had particularly emphasized the importance of the contributions of each of the G-7 countries, particularly of the United Kingdom, which had been so forcefully promoting the initiatives.

A remarkable effort had been made by the membership as a whole. Of the 88 countries that had pledged contributions, 55 were developing countries, 11 were countries in transition, and 42 had contributed in excess of the grant equivalent of their SCA-2 balances. There was reason to expect that every effort would be made to ensure the finalization of all bilateral contributions, so that the Joint Committee or the Interim Committee could be informed that all the elements of the financing package were in place, the Chairman noted. Even after reporting to the Committees, the door would remain open for further contributions. Some countries were at the relatively low end of what they could contribute and would no doubt wish to increase their contributions, while several countries were actively considering contributions that would be firmed up in the days ahead.

Details on individual pledges would not be published at this stage. Each Executive Director would be consulted on the content and the presentation of information before publication. Management also intended to present concluding remarks to the Executive Board on all the elements of the ESAF/HIPC financing at some stage.

The staff representative from the Treasurer's Department [Christensen] indicated that the concluding remarks could be presented to the Board any time after the final pledges had been made.

The Chairman pointed out that the final communiqué of the Interim Committee would reflect the Board's statement on ring fencing of the gold transactions.

Mr. Hansen suggested that the concluding remarks should include a reference to the need for a review by end-October to assess the status of financing.

The Chairman agreed that it would be useful to conduct such a review at end-October.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/99/109 (9/24/99) and EBM/99/110 (9/25/99).

2. OFF-MARKET TRANSACTIONS IN GOLD BY THE FUND—PROPOSED BOARD OF GOVERNORS RESOLUTION

The Executive Board approves the attached draft Resolution for submission to the Board of Governors for adoption at the 1999 Annual Meetings.

Decision No. 12069-(99/110), adopted
September 24, 1999

ATTACHMENT

Resolution of the Board of Governors on Off-Market Transactions in Gold by the Fund

WHEREAS the Executive Board is considering off-market transactions in gold consisting of sales of up to 14 million ounces of fine gold on the basis of prices in the market to cooperating members with repurchase obligations to the Fund falling due, and acceptance of the same amount of gold from those members in payments of their repurchase obligations falling due to the Fund; and

WHEREAS those off-market transactions will enable the Fund to place an amount of the sales proceeds equivalent to SDR 35 per ounce of fine gold in the General Resources Account and the balance in the Special Disbursement Account for investments for the benefit of the ESAF-HIPC Trust; and

WHEREAS the Interim Committee has requested the endorsement by the Board of Governors of this approach as a one-time operation of a highly exceptional nature, NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

The off-market transactions of up to 14 million ounces of fine gold by the Fund that are envisaged will be a one-time operation of a highly exceptional nature that is part of a broader financing package to allow the Fund to contribute to the resolution of the debt problems of the Heavily Indebted Poor Countries at the turn of the millennium and to the continuation of concessional operations to support countries' efforts to achieve sustained growth and poverty reduction.

3. YEAR 2000 FACILITY—ESTABLISHMENT

1. From October 15, 1999 through March 31, 2000, the Fund will be prepared to extend financing, in accordance with the provisions of this Decision, to a member that encounters balance of payments difficulties arising from loss of confidence or other problems related to potential or actual failures of computer systems, within or outside the member's territory, to recognize the year "00" as the year 2000 (hereinafter referred to as "Y2K-related problems").

I. Eligibility and qualification

2. Requests for financing under this Decision will be met where the Fund is satisfied that:

(a) the member has a balance of payments need arising from Y2K-related problems and is taking steps necessary to deal with such problems that are within its control;

(b) it has adequate assurance of the member's capacity to make repurchases in accordance with this Decision, taking into account the relevant actions taken by the member, its plan of further measures to be implemented, and, if applicable, the measures taken and to be taken in other countries, to resolve the member's Y2K-related problems;

(c) the member is pursuing sound general economic and financial policies, including policies to address other sources of balance of payments difficulties, if any;

(d) the member is making appropriate use of its reserves and other available sources of external financing to meet its balance of payments difficulties; and

(e) the member is cooperating with the Fund in accordance with paragraph 5.

II. Access

3. Financing under this Decision shall not exceed 50 percent of the member's quota, unless there are exceptional circumstances, and shall be in the form of one or more outright purchases. Each request for a purchase shall satisfy the requirements set forth in this Decision.

4. In providing financing under this Decision, the Fund, as under any other policies, shall pay due attention to the member's capacity to service its financial obligations to the Fund, and, having regard to the outstanding financial obligations of the member to the Fund, may determine the amount of financing to be provided accordingly.

III. Cooperation

5. A member shall be deemed to be cooperating with the Fund if :

(a) the last Article IV consultation with the member was completed broadly in accordance with its consultation cycle and thereafter the member's authorities have provided to the Fund timely information on economic developments and maintained a constructive dialogue with Fund staff on their economic and financial policies;

(b) the member has a Fund arrangement, under which performance is satisfactory; or

(c) the Fund approves an arrangement at the time of the request.

IV. Charges

6. During the first six months from the date of each purchase under this Decision, the rate of charge under Article V, Section 8(b) on holdings acquired as a result of purchases under this Decision shall be 300 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing. Such surcharge shall be increased by 50 basis points at the end of that period subject to the provisions of paragraph 7. Pending a decision on the use to be given to the income generated under this Decision, such income shall not be taken into account when determining the amount of net income in excess of the net income target for purposes of paragraph 2 of Decision No. 11944-(99/49), April 30, 1999.

7. The provisions of Decision No. 8165-(85/189) G/TR, December 30, 1985, except Section IV, shall apply to overdue financial obligations arising under this Decision, subject to the following provision:

The rate of charge on overdue repurchases shall be determined by the Fund but shall not be less than the maximum rate of charge determined under paragraph 6.

V. Repurchases

8. A member making purchases under this Decision shall repurchase the outstanding amounts of its currency resulting from such purchases within one year from the date of each purchase.

9. The member will be expected to repurchase the outstanding amounts of its currency resulting from purchases under this Decision after six months of each purchase, provided that the Fund may, upon the request of the member, decide to extend each such repurchase expectation until the repurchase becomes due under paragraph 8.

10. The Fund shall not approve, and the Managing Director shall not recommend for approval, a request for the use of the general resources of the Fund by a member that is failing to meet a repurchase expectation under paragraph 9. Provision shall be made in each stand-by and extended arrangement for the suspension of further purchases under the arrangement whenever a member fails to meet a repurchase expectation under paragraph 9.

VI. Other provisions

11. Purchases under this Decision and holdings resulting from such purchases shall be excluded for purposes of the definition of reserve tranche purchase pursuant to Article XXX(c).

12. Except for the purpose of determining the level of conditionality applied to purchases in the credit tranches, the Fund's holdings of a member's currency resulting from purchases under this Decision shall be considered separate from the Fund's holdings of the same currency resulting from purchases under any other policy on the use of the Fund's general resources. In cases of concurrent requests for purchases under this Decision and for purchases in the credit tranches, purchases under this Decision shall be deemed to be made first.

13. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

14. When requesting a purchase under this Decision, the member will represent that, as long as it has outstanding purchases under this Decision, it will consult with the Fund from time to time, at its own initiative or at the request of the Managing Director. (SM/99/241, Sup. 1, 9/24/99)

Decision No. 12058-(99/110) Y2KF, adopted
September 24, 1999

4. MYANMAR—ARTICLE IV CONSULTATION—POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance Over Exchange Rate Policies," attached to Decision No. 5392-(77/63) adopted April 29, 1977 as amended, the Executive Board decides that the period for completing the next Article IV consultation with Myanmar shall be until October 31, 1999. (EBD/99/110, 9/17/99)

Decision No. 12071-(99/110), adopted
September 24, 1999

APPROVAL: May 8, 2001

SHAILENDRA J. ANJARIA
Secretary