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INTERNATIONAL MONETARY FUND  
Minutes of Executive Board Meeting 99/48  
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**Executive Board Attendance**

M. Camdessus, Chairman  
A.D. Ouattara, Acting Chairman

**Executive Directors**

A.A. Al-Tuwaijri

T.A. Bernes

R.F. Cippà

B. Esdar

N. Eyzaguirre

R. Faini

K.A. Hansen

K.-T. Hetrakul

W. Kiekens

J.P. de Morais

S. Pickford

A.S. Shaalan

M.R. Sivaraman

G.F. Taylor

Wei Benhua

J. de Beaufort Wijnholds

**Alternate Executive Directors**

S.M. Al-Turki

A.R. Ismael, Temporary

W. Szczuka

R.J. Singh, Temporary

W.-D. Donecker

A.G. Zoccali

P. Cabezas, Temporary

J. Spraos

J.L. Pascual, Temporary

O.-P. Lehmussaari

C. Harinowo

J. Prader

M. Sobel, Temporary

R. Fernandez

M. Dairi

M.A. Ahmed, Temporary

A. Lushin

O.L. Bernal

A.F. Al-Faris

A.G. Karunasena

D. Fujii, Temporary

A. Linde, Acting Secretary

J. Prust, Acting Secretary

S. Djumena, Assistant

P. Kunzel, Assistant

**Also Present:**

IBRD: K. Peters and C. Poortman, Europe and Central Asia Regional Office. European I Department: M.C. Deppler, Director; M. Knight, Deputy Director; A. Belaisch, R. Corker, J.J. Fernandez-Ansola, H. Flickenschild, R. Glennerster, B. Horvath, J. Kahkonen, A. Leipold, P. Marciniak, D. Rehm, H. Samiei, S. Thakur. External Relations Department: S.J. Anjaria, Director; S. Willson. Legal Department: F.P. Gianviti, General Counsel, R.C. Baban, R.B. Leckow, I. Mouyset. Policy Development and Review Department: J. Boorman, Director; A. Bennet, I. Kapur, R. Kincaid, Z. Murgasova, T. van der Willigen. Research Department: M. Mussa, Director and Economic Counsellor. Secretary's Department: J. Boughton, Historian; B.A. Sarr. Treasurer's Department: D. Williams, Treasurer; J.C. Corr, Y. Wang. Office of the Managing Director: D.A. Citrin, J.A.P. Clement. Office of Budget and Planning: E.-A. Conrad, Director; P.J. McPhillips. Advisors to Executive Directors: W.F. Abdelati, P.A. Akatu, S.S. Farid, N. Jadhav, M.F. Melhem, H. Mori, S. N'guiamba, H. Ogushi, S. Zádor. Assistants to Executive Directors: A.S. Alosaimi, M. Carlens, N. Goffinet, E. González-Sánchez, N.K. Gueorguiev, H. Hagan, M.S. Hililan, I.C. Ioannou, A. Kapteijn, K. Kpetigo, S. Le Gal, Lu A., W. Merz, D. Nardelli, J. Nelmes, K. Ongley, L. Redifer, Sugeng, M. Vismantas, Vongthieres O., S. Vtyurina, M. Walsh.

**1. ECONOMIC CONSEQUENCES OF KOSOVO CRISIS—PRELIMINARY ASSESSMENT OF EXTERNAL FINANCING NEEDS AND ROLE OF FUND AND BANK IN INTERNATIONAL RESPONSE**

The Executive Directors considered a paper, prepared jointly by the staffs of the Fund and the Bank, on a preliminary assessment of the external financing needs and the role of the Fund and the Bank in the international response to the economic consequences of the Kosovo crisis (EBS/99/59, 4/16/99).

The staff representative from the European I Department made the following statement:

This Statement provides some additional information on the impact of the Kosovo crisis.

Humanitarian aid to refugees. The line entitled “refugee costs” in Table 2 of the paper includes only the projected costs of humanitarian relief provided directly by foreign agencies. It does not include the direct incremental budgetary costs borne by the neighboring countries for providing humanitarian assistance. The staff has now been able to produce an initial estimate of this component of the overall budget gap reported in Table 2 of EBS/99/59. For the six most affected countries, the direct, host country budgetary cost of humanitarian assistance is estimated at US\$118 million under Scenario A and US\$52 million under Scenario B. This implies that the total direct refugee costs borne by both humanitarian aid agencies and the domestic budgets of these countries in 1999 amounts to US\$429 million and US\$191 million in the respective scenarios. The staff’s most recent discussions with country officials and relief organizations suggest that these figures probably underestimate the budget costs in host countries, implying that budgetary and associated balance of payments gaps for countries sheltering large numbers of refugees—Albania, FYR Macedonia, and, to a lesser extent, Bosnia and Herzegovina—could also be significantly underestimated at this stage. The risk that the large number of displaced persons still in Kosovo could swell the tide of refugees well beyond the levels assumed even in Scenario A provides a further source of potential underestimation.

Impact on economic activity. As emphasized in the paper, the economic effects of the Kosovo crisis vary widely across countries depending on the numbers of refugees present, the means used to shelter them, and the relative importance of different macroeconomic linkages. For the six most affected countries taken as a group the crisis is projected to have a significant overall impact on economic growth, even assuming that adequate external financing is made available. On a weighted average basis, the crisis is projected to knock nearly 5 percentage points off growth in the most affected countries (excluding Romania) in 1999 under Scenario A and 2 percentage

points under Scenario B. Those countries with the strongest trade links to the Federal Republic of Yugoslavia, particularly Bosnia and Herzegovina and FYR Macedonia, suffer the largest declines, although growth is also reduced significantly in Bulgaria.

Coordinating the response. The meeting of IFIs referred to in the paper (para 14) was held in London on April 18. Those present endorsed the approach taken in the paper as regards both the methodology employed by the staff in estimating the impact effects of the crisis and the paper's discussion of the broad modalities for addressing the resulting balance of payments gaps. In this context, concern was expressed that the crisis not be allowed to undermine either governance or policies of stabilization and reform in the affected countries. This raises again the question of the appropriate balance between financing and adjustment in meeting the gaps projected for 1999.

Mr. Wijnholds made the following statement:

The dramatic events in Southeastern Europe deserve our full and immediate attention. The countries of my constituency, five of which are among the most affected by the Kosovo crisis, are grateful that the regional economic impact of the conflict has been put on the agenda for this meeting. The countries in the region are affected in a variety of ways by the crisis, ranging from the hugely increased costs of providing basic needs to the swelling numbers of refugees, the loss of income through foreign trade and services, including tourism, to an expected sharp reduction in private capital inflows, particularly in the form of direct investment. The preliminary calculations for the six most affected countries are very likely to be on the conservative side, as the staff has candidly indicated. Therefore the impact on growth and employment and the external position of these countries is likely to be very substantial, albeit in varying degrees.

There is a clear task here for the IMF and the World Bank to ensure that the adverse, and potentially destabilizing effects of these developments are contained as soon as possible and as much as possible. I am pleased to note that both institutions have reacted swiftly to the Kosovo crisis and that missions are already active in most of the six countries mentioned before. Obviously the Fund and the Bank cannot face the task alone. Significant multilateral and bilateral donor support will be essential. The Netherlands has already pledged substantial financial assistance and we see encouraging signs of a preparedness to help by others. The EU countries as a whole have pledged nearly Euro 800 million in humanitarian aid, emergency financial support and longerterm assistance. While the duration of the conflict is uncertain at this stage, it can be said with certainty that after the cessation of hostilities, there will be an important postconflict task for our institutions, as well as for other IFIs and bilateral contributors.

The principles for providing external financing to cope with the crisis and the modalities of the Fund involvement are discussed in paragraphs 16 and 17 of the paper. While I generally agree with most of them, I would like to raise three points. First, these developments come as an external shock, clearly beyond the control of the respective authorities. As such, should not all budgetary and balance of payments gaps arising primarily as a consequence of the crisis be financed by multilateral and bilateral contributions? Domestic policy adjustment may be appropriate only to the extent that it is addressing structural and macroeconomic problems existing prior to the crisis. Second, external assistance should be done on highly concessional terms. For the ESAF/IDA eligible countries this should not be a problem; for the others, I would encourage bilateral donors to explore the scope for grants and low interest loans. Third, in light of the drastic worsening of the external environment and investor sentiment about the region (mentioned in para. 5 and 6) I would encourage staff working on these countries to show some patience and flexibility, especially with respect to privatization goals and rollovers of existing debt. It takes two to tango and previously feasible targets may not be so now.

The paper is admirably brief. However, it may have benefited from a more elaborate discussion on the channels of impact. Some important longer term possible effects like longlasting loss of market share on European markets, the negative effect of lower imports of capital goods on growth and loss of regional infrastructure projects are not mentioned, although they feature in the individual country assessments that I have seen.

Another area of improvement for future discussions is providing individual country assessments. I understand the staff's reluctance to disclose them before they have had the chance for discussions with the authorities. I also appreciate the importance of the regional perspective, as it gives potential donors a measure of the total support needed to preserve a modicum of stability in the region, both in macroeconomic and in political terms. However, here in the Fund and the Bank we discuss individual country programs and need to have an idea of the order of magnitude on a country basis. Since the size of the impact and the precrisis state of the economy vary widely between the six countries, the effects in terms of growth may range from 10 percent of GDP to a slightly positive effect. This calls for a countryspecific dimension as well. Therefore I strongly urge the staff to include such assessments in the next round of discussions on the Kosovo crisis. I do not find convincing the other possible objection that estimates are very tentative and may change dramatically. This is a general feature of the surrounding environment, which is valid for any Fund program for instance. We operate on the basis of the available information at the moment and our bestguess projections for the future; whenever any of these change, we simply update what we know and correct our actions if need be.

I would also place more emphasis on the relative importance of the various channels of impact for the countries involved. For the countries of my constituency, the refugee situation is most difficult in FYR Macedonia, followed by Bosnia, on top of more than 600 000 internally displaced persons in this country. The stoppage of bilateral trade with Yugoslavia has the strongest adverse effects on Macedonia (15 percent of the total trade in 1998 was with the FRY) and Bosnia, while transit trade disruption and rerouting piles up heavy losses for Bulgaria (at over US\$ 1 million per day) and Macedonia. These losses are direct evidence that a second bridge between Bulgaria and Romania over the Danube is a vital necessity for the region, especially now that many bridges in Yugoslavia will be inoperative for a long time. Undoubtedly Croatia, but also Bulgaria, Romania and Macedonia will suffer from a sizable loss of tourism revenues if the conflict is not quickly resolved. Capital account effects lower foreign direct investment, including privatization revenues, higher cost of access to international capital markets will be most pronounced in Bulgaria, which is in the midst of extensive privatization efforts, Romania and Croatia.

In conclusion, I would like to convey once again the appreciation of the authorities of the affected countries for the willingness of the international community to extend sizable financial support, and their hope that the region will be further assisted by both institutions in the reconstruction effort after the conflict is resolved. I hope that next week's joint meeting will provide tangible signs of support from the international community. Mr. Faini made the following statement:

We would first like to express special appreciation to the staff for the timely preparation of the paper we have before us today. This is a time of great concern for the prospects in the Kosovo region, and, on behalf of the Albanian authorities as well, we welcome this Board discussion.

I think that the paper is very helpful since it clearly draws a distinction between the costs related to humanitarian aid and those stemming from budgetary and balance of payments impacts of the crisis. This approach is crucial for keeping an adequate focus on what the role of our institution should be in the crisis.

So far, the governments and international organizations have concentrated on the provision of humanitarian relief for a tragedy that has overwhelmed the international community. The gravity of the problems arising from huge refugee flights was such that prompt humanitarian aid was the priority. Looking ahead, in a medium-term perspective, we must work to preserve (or to build) economic stability in the countries affected by the crisis. Here, the role of the Fund will be substantial. The group of countries on which the staff analysis is focused is made of economies in transition, most of them with the aim, and the perspective, to join the European Union. The devastating

effects on the budget and balance of payments arising from the crisis might derail them significantly from their recovery efforts.

I am in line with the staff in saying that the Fund and the Bank could play a coordinating role in the financial response to the crisis. The Donors' Meeting on the Kosovo crisis held on April 2 was a very useful occasion for circulating information on the current situation and on the initiatives undertaken on the part of Donor countries, and I welcome the call for a Donors' meeting on Albania on Monday. These meetings and the others that will come for the other countries can help to build a regional approach to the problems arising from the Kosovo crisis. In this regard, we are quite skeptical about the staff proposal concerning the establishment of a regional donor group under the guidance of high-level political leadership. We think that the existing structures have proven to work well in mobilizing significant efforts toward the region and we are in favor of going on with the existing framework.

As regards the cost of the crisis, and the consequent evaluation of the Fund's support to the region, I suggest that we stick to the costs reported under Scenario A of the paper. In fact, even if I am not in a position to forecast the length and the further possible evolution of the conflict, I think that a series of additional costs might emerge from the crisis and, as the staff explains, the estimate of the paper could prove conservative.

Turning to the modalities of use of Fund resources, I would urge the Board to address expeditiously the problem of provision of additional resources. In fact, at the moment, individual governments are more concentrated on immediate humanitarian aid, and I think that the IFIs should exploit promptly their role in the provision of economic assistance. With regard to this point, I believe that the proposal of the staff that existing Fund arrangements should be rephased and augmented is indeed welcome. However, we strongly prefer to augment the arrangements rather than to rephrase them. However, the amount of the arrangements is such that, especially in the case of Albania and Bosnia and Herzegovina, very substantial revisions should be operated in order to provide significant support. In this regard we urge the staff to explore the possibility of extending access for these countries to existing programs to the largest possible amount; prompt action should be taken in order to explore with the remaining countries (Croatia, Romania, and FYR Macedonia) the necessity of economic assistance and consequent negotiation of new arrangements.

Finally, I would like to draw the attention to the large amount of resources that is likely to flow to these countries. In the current situation, with possible internal tensions and security problems that might arise in already weak institutional frameworks, we must ensure that the resources provided by IFIs and by the international community are used effectively. Therefore, I

invite management to consider the intensification of technical assistance and, to a broader extent, the presence of the Fund in the region. In this way, we may be more confident that national authorities are not strained by overwhelming targets and the provided resources will deliver the expected results.

In the very end of my intervention, let me briefly touch upon the resources deployed by the countries of my constituency in order to provide support to the region. For Italy, the estimated budgetary costs of operation "Rainbow" are projected at US\$ 75 million through June. Additional resources will be needed thereafter. US\$ 11 million have been budgeted for development co-operation. The government is drafting legislative measures to provide additional resources for US\$ 10 million. Private contributions of US\$ 28 million have been raised so far. Greece has budgeted 10 million euro for humanitarian aid and 35 million euro for long term assistance. I will not mention Albania since its situation is well described in the staff paper. Overall, the resources committed by the EU, amounting to 779 million euro, are very significant. I want to express my appreciation for such generous efforts and to thank the international community for the prompt response to the crisis.

Extending his remarks, Mr. Wijnholds noted that his authorities were very pleased that the meeting was being held, and were grateful for the speedy reaction to the crisis. He was also glad that the staff had provided a supplement statement, which pointed to the likelihood of the cost estimates being higher.

Mr. Donecker made the following statement:

Let me first make some general remarks, also on behalf of my colleagues from the member states of the European Union. We are very grateful to management for placing this most urgent topic on our agenda today. The Kosovo crisis is one of the most difficult challenges in Europe since World War II. This is a serious burden for southeastern Europe, the whole of Europe and the entire international community. We all want to see an end to the conflict to human suffering, ethnic cleansing and repression, as soon as possible. Besides the almost inconceivable tragedy for the Kosovo people, we are aware of the negative implications of the crisis for the neighboring countries, in particular Albania and the FYR Macedonia. They bear the main burden of the refugee outflow. Furthermore, the surrounding states of Bosnia Herzegovina, Croatia, and Romania are suffering economic consequences. Overall we have to face a serious threat to security and stability in the region.

The European Union is fully aware of its particular responsibility for the affected countries, and the challenge of urgently conceiving measures to deal with the immediate as well as the longterm situation to ensure political

and economic stability. For this reason, the European Union has already released major funds to meet the most urgent needs. In addition to the support for the region already underway, 150 million euro have been earmarked for direct humanitarian aid and another 150 million for assistance to Albania and the former republic of Macedonia, to help cope with the refugee problem.

Besides this, the member states of the European Union have already committed some 485 million euro bilaterally in the context of the crisis. However, with the volume of the financial assistance needed for the international reconstruction program for Bosnia Herzegovina in mind, considerable additional funds will be needed to support the region and prevent its alienation from an increasingly global economy. This will require the support of the entire international community.

The European Union, therefore, greatly appreciates the support envisaged from the international financial institutions and from other countries. In this context, I express my gratitude to the IMF, the World Bank, and the European Commission for the preliminary work already accomplished in order to access the economic consequences of this crisis.

After these words on behalf of the European member states, let me add some remarks on behalf of Germany.

We are very concerned about the humanitarian economic and financial implications of this catastrophe. Against this background, we have already contributed 100 million euro so far for immediate humanitarian aid and longer term assistance to mitigate human suffering. We will also provide temporary shelter to 10,000 refugees. Looking ahead, a longterm reconstruction program should be considered. This will call for a comprehensive analysis which can be finalized only after the end of the conflict.

The crucial issue for us here today has to deal with the possible contribution of the IMF and the World Bank to this international response. We therefore welcome the joint staff paper of the Fund and the Bank providing with us a preliminary assessment of the economic consequences and the external financing needs.

The Fund Bank response should mainly focus on the coordination of adequate external financing to deal with the adverse economic consequences. The basic principles for the provision of the external financing as outlined in paragraph 16 are very useful guidelines in this regard. They are also comprehensive since they cover the basic needs of the refugees, the balance of payments gaps for 1999, ESAF eligible countries, and the official debt relief.

The Fund and Bank, in close coordination, should play their part in implementing these principles by exploiting their comparative advantages.

With regard to the role of the Fund, the staff approach to provide policy advice and to rephase and augment access under existing Fund arrangements, if necessary, is reasonable. For countries with no arrangement, but balance of payments need, a new program should be negotiated as soon as possible. However, it must be clear that certain safeguards have to be observed. Fund support will need to be geared to the specific circumstances of each affected country. If needed such new programs could be frontloaded with regard to possible drawings linked to appropriate conditionality.

The most recent preliminary agreement between Romania and the IMF is, therefore, a welcome signal.

Concerning the modalities of such arrangements, staff's preference for standby arrangements seems appropriate. Social components based on the expertise of the World Bank should also be included. Recourse to the CCF may also be considered. It seems, however, rather likely that some of the Kosovo impact has medium or longer term implications which necessitate structural changes in the affected countries. Such changes should, however, be primarily supported by an EFF or an ESAF arrangement rather than a CCF credit. Also, the afflicted member countries should be able to request the use of Fund resources on an emergency basis.

With regard to the role of the Bank, here too, close cooperation is urgently needed.

Mrs. Hetrakul made the following statement:

The humanitarian tragedy that continues in Kosovo has brought about equally disastrous consequences not just for that part of the country but also the region surrounding it. The stark picture of refugees flooding the neighboring countries has now come to a full picture. Setting aside the tragic aspect of the crisis, i.e., human loss and suffering, financial consequences to the neighboring countries are of serious concern. Fund and World Bank staffs have been able to jointly prepare a very useful paper by quickly incorporating whatever information available. These commendable efforts have resulted in a framework which forms a good basis for today's discussion. This chair believes that early involvement on the part of the Fund and the World Bank on this worthy cause will contribute significantly toward strengthening the image that our institutions indeed have a human face.

The staff rightly mentions that the economic implications of the crisis of this type and magnitude usually pass through various channels. The fulfilment of basic needs for the refugees is certainly the most immediate one. Disruptions in regional trade are another factor that would have considerable impacts on economic activities. In addition, heightened uncertainty generated by the crisis will lead to a sharp reduction in FDI and other investments

inflows to the region. Lastly, structural reforms that otherwise could proceed on track will also be disrupted. All these factors will finally end up in a real financial loss as well as loss of opportunities.

Staff has understandably come up with two scenarios of the economic implications of the crisis since no one could accurately predict the conclusion of the conflict. For the purpose of the present discussion, although we would wish to see the quick resolution like everybody else, we are inclined to choose the pessimistic scenario, judging from the prevailing condition and the many uncertainties surrounding the region. The impacts of the crisis are expected to be long-term in nature, possibly with multiple rounds of repercussions. And the Fund and the Bank should be maximally prepared to do the tasks called upon them with greatest precaution.

We agree with Fund and Bank staffs on the principles for the provisioning of external financing to the countries affected by the Kosovo crisis, as outlined in paragraph 16. We also agree in principle to the proposed modalities of the use of Fund resources. Above all, we wish to stress the need for emergency financing assistance that can be made possible through our emergency mechanism. This chair stands ready to consider requests from the crisis-affected countries for Fund resources on an emergency basis.

Mr. Fernandez made the following statement:

At the outset I would like to thank Mr. Donecker for expressing the views of the European Union, and also to say that I share almost all the comments he made for Germany.

I would like to commend the IMF and World Bank staff and management for providing us so quickly with the preliminary assessment of the economic and financial situation in the region. Although I welcome the regional dimension of this analysis, which will allow us to anticipate and better design our assistance, I agree with Mr. Wijnholds that the publication of the underlying countryspecific calculation would also be useful.

While I can understand that the country authority approval is sought for such a publication, more precise estimates will be indispensable when we come to the countryspecific donor meetings.

At this stage I will not discuss the estimates, nor the different scenarios, since we find the various assumptions globally relevant. However, it is clear that we must keep in mind the very high volatility of the situation and that the current worstcase scenario could prove conservative.

I agree with the principles laid down for the provision of external financing. There is an immediate need of humanitarian assistance as Mr. Faini

recalled, which is and will be provided by the relevant international agencies like the UNHCR and the bilateral donors. There is, also, a need for balance of payments and budgetary assistance where both the Bank and Fund have an important role alongside bilateral donors, and the European Union.

France has also proposed to its Paris Club partners a oneyear external debt moratorium for both Albania and Macedonia, and we hope to receive positive answers to this proposal very soon.

More specifically, on the role of the Fund, we agree with the view that additional policy advice and financing are required. Increased financing can be reached through rephasing and increasing access to Fund resources for those countries already under a program. We also agree that the broad program goals should be maintained even though it is obvious that some flexibility will prove necessary.

It is indeed difficult to set too high privatization targets in an area where there is reluctance to invest. While the improvement of the administrative capacity and governance issues will be important.

We are open to exploring all avenues to provide the necessary assistance, - both technical and financial -, to these countries, and this is where I agree with Mr. Donecker.

In addition, we should already prepare for medium and longterm challenges. As soon as the conflict ends, there will be a need for reconstruction in all these countries. In this context, we welcome that the Fund and the Bank are jointly organizing an ad hoc meeting, we could call it the Balkan committee during the spring meetings, and we thank management of both institutions for their efforts.

In our view, Tuesday's 6 o'clock meeting should be the focal point where the international communities would have an opportunity to assess the varied initiatives already underway. Furthermore, it should provide additional impetus to the process already engaged, in confirming the high political leadership necessary for the success of the forthcoming consultative groups and donors meetings.

At this occasion, ministers could give some guidance to the various actors in order not only to clarify the coordination of the shortterm assistance, but also to give these actors a vision for future reconstruction, bearing in mind the regional dimension of the problem. As you said, this meeting should, therefore, spell out the principles of action by which the international community could, first, direct the emergency assistance to the affected countries, and second immediately prepare conditions for reconstruction and development in the region.

Mr. Pickford made the following statement:

Let me also associate myself with Mr. Donecker's statement.

Like others, I welcome the general principle set out in the paper, and it is clearly right that the Fund should be taking an active part in helping to address the huge problems in the region.

I fully agree that the costs directly related to supporting basic needs of the refugees should not be financed by the Fund and Bank, but this is clearly a role for other international agencies and bilateral donors. I also agree on the requirement for efforts to close financing needs in this year. These efforts include domestic adjustment and use of international reserves where that is appropriate.

For the ESAF eligible countries, highly concessional financing is clearly desirable. I would be interested to hear from the staff if they have a preliminary assessment of how much concessional financing the Bank and Fund might be able to provide within their current operating constraints, and therefore to give us an idea of how much the burden might fall to others. I suspect that this is likely to be a topic of considerable interest at the Tuesday meeting. We really need to start identifying options for provision of other finance.

I agree with others, also, that debt relief should be explored where appropriate. For the Fund, in particular, I think there are likely to be some tricky decisions where countries are off track or don't have a program. Like Mr. Fernandez, I agree that as far as possible, the key structural reform goals of existing programs should not be compromised, but this may not be possible in all cases.

Macedonia seems to have a particular problem in this context, and I wonder if staff could comment on, the plan to establish a new standby arrangement, since this would presumably not be highly concessional.

Also, I would be interested if there is anything more to report on progress toward programs in Romania and Croatia. On the use of funds on an emergency basis, I still have to be persuaded that this is the best way for the Fund, I would welcome some comments from the staff on circumstances that might justify that.

Finally, on the issue of coordination of efforts, I think the Fund is, playing a crucial role in terms of providing accurate macroeconomic data and analysis, since this will clearly underpin the pledges and disbursements of others. We see this as a key role for the Fund to continue to play at this stage. This role has been very valuable and there is likely to be a continuing need for

some considerable time, as the uncertainties concerning the figures will mean that they will have to be revised on many occasions. I would continue to urge the Fund to carry on the very good work so far.

Mr. Wijnholds said that the five countries in his constituency were affected by external circumstances beyond their control. Under those circumstances, therefore, financing should be provided to the full extent of the need. In most of those cases, prior policies had not been perfect, and there was a need for adjustment. That situation was being taken care of in Romania and would be looked at in Croatia. It would be the focus of the mission to Macedonia, and it was also the focus of the staff in Bosnia. However, asking countries for extra adjustments because they had been affected by circumstances beyond their control was asking too much, and expecting them to increase their reserves was a problem, as the reserves were low or falling. As Mr. Faini had also said, full financing of the extra balance of payments effects of the crisis would be appropriate. Of course, it was underlined that adjustment had to continue, where policies had not been in order in the beginning.

Mr. Prader made the following statement:

At the outset, let me associate myself with the European statement made by Mr. Donecker, and also with the constructive remarks made by all other speakers. I would also like to thank the staff for its interesting analysis made under difficult circumstances and at very short notice.

At the moment I have only a few remarks on the analysis.

First, we must keep in mind that any assessment of the economic and financial effects of the crisis on Kosovo's neighbors is highly uncertain. Perhaps the only sure thing is any cost estimate is subject to a huge upside risk. It is hard to know what is meant by the "quickly resolved crisis" referred to in Scenario B, or to venture any predictions about the duration of hostilities.

Second, it is even harder to assess the secondary effects of the crisis under Scenario A. Here the only certainty is that the longer the conflict drags on, the larger the overall cost for the region will grow.

Third, focusing the staff's analysis on the so-called "six most affected countries" is appropriate. But there may be effects on countries other than the six mentioned by the staff. In fact, I think all economies in the neighborhood, not just those contiguous with Kosovo, will be affected to some degree. The disruption of trade flows and rerouting of transport in order to comply with official or nonofficial trade embargoes would also bring economic hardship to the neighboring countries, and besides lost proceeds from exports, tourism, and budgetary revenues, there can be difficulties in collecting debt service payments from Serbia and Montenegro. External borrowing is likely to become more expensive, and access to private financing more difficult. The issue is sensitive for some countries because of the effect of any discussion on

investor confidence. Investors are already noticeably adopting waitandsee behavior, not only for portfolio investment but also for direct investment, and the Kosovo crisis may have still more serious consequences for small, open economies dependent on FDI. This includes most countries in the region, since their development depends greatly on the stable performance of exports and services.

These problems will be dealt with when we come to Article IV consultations and program negotiations. Maybe there will be time for an extensive and intensive economic analysis.

Fourth, the staff paper mentions that there are consequences for Fund programs in the region. Budget deficits will be higher. As to the tradeoff between adjustment and borrowing, I join Mr. Faini in thinking that the balance should favor more financing rather than adjustment that may not be politically feasible, nor indeed even desirable under certain conditions.

Fifth, the immediate response of the international community should be strongly supportive and speedy; here I will not go into detail, but will simply endorse the remarks made by other speakers.

My last point is that I also think there should be enhanced Fund/Bank collaboration, and I think that the Fund's expertise in macroeconomic analysis gives it a useful role.

Mr. Donecker added that now was also the time to strengthen good governance in all the afflicted countries.

The Acting Chairman stated that striking the right balance between conditionality and financing in case of such a tragedy was a delicate matter.

The Director of the European I Department stated that the program for Albania was on track, but the external shock was creating governance problems, so staying on track could be viewed as amounting to additional adjustment. Financing could not imply additional adjustment, unless that financing was purely in the form of grants, because otherwise the country's debts payments would grow in the future. Therefore, the role of the international financial institutions might be less than originally thought.

Mr. Wijnholds noted that if the financing was nonconcessional, it would burden the country in the future. However, if concessional financing was clearly indicated because of the level of per capita income, and because of the present problems, more adjustment would be needed, possibly through a standby arrangement. He hoped that it would be possible to move back quickly to more concessional forms of assistance. There was a strong case for granting relief now, spreading out the adjustment over a longer term.

Mr. Shaalan made the following statement:

We welcome today's important discussion to address the serious problem facing Europe. While the economic consequences of the ongoing crisis are as yet difficult to fathom, we have no problem with the preliminary assessment of the external financing needs, though these may be underestimated. We also have no problems with the presently perceived modalities for addressing them. I shall not address the size of the financing needs, but we understand that these will be reviewed periodically given the fluid situation. We would like, however, to underscore the importance that must be attached to the financing modalities, which have to be tailored to the circumstances of each country. We would like to underscore the importance we attach to the role of the international community in providing timely, adequate, and appropriately concessional assistance to the affected region. In this connection, three principles are worthy of note.

Like Mr. Pickford, we support the view that the basic needs of the refugees are to be financed totally by grants from bilateral donors, and institutions that are in a position to do so.

We are fully in accord with the assertion that the balance of payments gaps for 1999 for the neighboring countries will require increased bilateral assistance. To the extent possible, and depending on the circumstances of each country, this assistance should carry a grant element. This aspect may be critical in supporting realistic domestic adjustment. The international community should be ready to provide debt relief in cases that merit such assistance. This could, as Mr. Wijnholds has rightly noted, ease the adjustment burden for the present as well as the future.

The success of the Kosovo initiative will depend, in large measure, on the success of the coordinated efforts in providing the needed assistance to refugees. The emphasis is on coordinated efforts. Therefore, we see some merit in the proposal to establish a regional donor group under the guidance of a highlevel political leadership.

The role of the Fund has by necessity to be centered on balance of payments financing and the provision of technical assistance to the region. We can support augmentation of access for those countries with Fund programs. It would appear that in varying degrees program targets will need to be adjusted to take account of the new realities.

For those countries who may request use of Fund resources under the emergency facility, or the CCF, the relatively high costs of Fund resources under these facilities only underscores the importance that must be attached to the role of the international community in providing the assistance to the

needed assistance to the afflicted region. I would side with Mr. Faini's and Mr. Wijnholds's remarks on the question of financing and adjustment.

Mr. Bernal made the following statement:

We would like to thank the staffs of the Fund and the World Bank for preparing the joint document for today's discussion. It is clear that the Kosovo crisis is a huge human tragedy demanding a coordinated economic and financial response from the international community. We share the findings of the staff document and recognize the difficulties to measure adequately the economic and financial costs of the crisis.

To us, it is clear that the Fund can play a coordinating role in the financial response of the international community, and we welcome the collaboration with other IFIs, the donor community, and the affected countries to address the availability of external financing.

From the Fund's standpoint, we agree with the position that Fund support has to be provided through technical advice as well as financial resources. Fund support has to be tailored to the specific circumstances of each of the affected countries. The rephrasing of current programs with the Fund as well as the design of new programs will be done using the existing modalities and conditions of use of Fund resources and in response each member country's request, taking into consideration the principle of uniformity of treatment.

We sincerely hope that for the future of the region and the welfare of its people, this conflict is resolved in a prompt manner.

Mr. Al-Tuwaijri made the following statement:

I join Directors in thanking staff for their efforts in preparing this paper. I am encouraged by the cooperative approach between the Bank and the Fund on dealing with the impact of the Kosovo tragedy. As I am in broad agreement with the general framework in the paper, I will be brief.

The Kosovo Crisis is a major humanitarian tragedy and requires substantial humanitarian aid. Here, I welcome the response of the international community and urge all to contribute to such aid. The crisis also has a major impact on the regional economies.

It is clear that staff estimates regarding this impact are preliminary and subject to wide margins of error. In this regard, staff needs to continue efforts to update and refine those estimates. It would be useful to present a country breakdown of the cost estimates with the appropriate caveats on reliability given the fluidity of the situation.

I welcome the progress made in the preparations for donor meetings for a number of countries in the region and I also welcome the call of a donor's meeting on Albania on Monday as mentioned by Mr. Faini in his gray.

Mr. Sobel made the following statement:

The situation in Kosovo is a crisis that could have been avoided by the Yugoslav authorities. Instead, their actions have resulted in a human tragedy of epic proportions that has quite rightly outraged the international community. It is already imposing major humanitarian and economic costs and strains on the countries bordering the FRY, at a time when many of these nations are impoverished and undergoing difficult transformations. Clearly, a swift and generous response from official sources is needed to address the economic costs of the crisis. The United States is doing its part. President Clinton has already sent supplemental emergency legislation to Congress, which includes requests for \$386 million in additional funding for humanitarian assistance to address the Kosovo crisis and \$150 million in economic support for the Front Line States.

The IFIs, especially the IMF, World Bank and EBRD, should play a central role in this effort. They should develop a comprehensive assessment of the economic and financial effects of the conflict, formulate strategies for dealing with both the immediate and longer term economic challenges facing the countries in the region, and participate actively in the common effort to help front line states as they address these challenges.

We welcome staffs' rapid effort to begin assessing the economic costs of the crisis and the organization of the international community's response. The analysis is thoughtful and well outlines the transmission effects that will generate the increased costs. More generally, the distinction between refugee/humanitarian and economic costs is useful, particularly as the former costs require an immediate emergency response, whereas the economic costs will be difficult to quantify, let alone at this early juncture. In addition to refugee-related costs which may be higher than initially projected, the increased costs of transit trade due to the shrinkage of traffic along the Danube will be severe and the damage to the FRY itself will sharply limit countries' potential for a resumption of exports even when the crisis abates. Obviously, the welcome estimates in Table 2 are a work in progress and will need to be refined with the march of time. It will also be helpful in that context to clarify some of the relationships between the refugee and budget costs and the total financing needs. But the estimates in any case provide a useful preliminary quantification for the official community which will help frame future discussions on the international response. For that response, more comprehensive scenarios will be essential. In this regard, staff should clarify

its judgments “above the line,” including the roles of adjustment, debt relief, reserve movements, and IFI finance.

The section on coordinating the international response contains interesting suggestions on the organization of the coordination effort and the principles for the provision of external financing. Perhaps the most intriguing statement is that: “The coordination of assistance could benefit from the establishment of a regional donor group under the guidance of high-level political leadership.” We would find it most helpful if staff could elaborate and clarify what is intended. While we fully support the current efforts to work within the framework of individual country programs, we are also willing to explore ideas for a process through which the effects on all frontline countries, as well as donor responses, are considered together.

We are in broad agreement with the principles in paragraph 16 and would emphasize the importance of the IFIs’ role in addressing the economic costs of the crisis. But the modalities for using Fund resources merit further elaboration. Regarding countries where financial arrangements are currently operative — Albania, Bulgaria and Bosnia — we agree that rephasing and augmentation are a desirable, though not necessarily exclusive, means of providing additional support. But the room for augmentation in Albania may be limited by constraints on ESAF resources. Even under standbys, if the augmented amounts are not large relative to quota and phased over a year, additional up front support might be constrained.

We appreciate staff’s willingness to undertake new program discussions with Macedonia, Croatia, and Romania. Concerns regarding Macedonia’s ability to implement structural reforms has led staff to view the current ESAF as inoperative and a standby as the best means of promoting stability. Similarly, Bosnia is another country that is ESAF eligible, but is using general resources in light of difficulties on the structural front. In the first instance, we would strongly urge Macedonia and Bosnia to re-energize their macroeconomic and structural reform efforts. Yet, recourse to standby arrangements in some ways seems inconsistent with these countries’ acknowledged need for concessional financing. Also, the Paris Club is exploring further debt rescheduling for Macedonia and we strongly support this effort.

We welcome the recent ad referendum agreement between staff and Romania, which could lead to Board approval of a standby in June. We strongly hope this agreement signals a significantly strengthened Romanian commitment to implement reforms. On Croatia, it is absolutely critical that any program fundamentally attack deep-seated governance problems, facilitate a thorough restructuring of the banking and payments system, and eliminate on and off-budget subsidies or other unproductive support for activities beyond Croatia’s borders.

In terms of recourse to the CCFF, we have mixed views. On the one hand, the CCFF has been used flexibly in the past to help address crises, for example at the time of the Gulf War, and the additional macroeconomic costs for the countries affected by the Kosovo crisis may very legitimately and truly meet the standard of being temporary shortfalls in export earnings attributable to circumstances beyond the authorities' control. From this standpoint, we would be inclined to encourage staff to examine the possible use of the CCFF. But increasingly staff has used, or is seeking to use, the CCFF in cases where the central challenge facing countries is the need to undertake fundamental reforms, where there is little reason to view export shortfalls as temporary, and where the infusion of large up-front resources is upsetting the delicate balance between phasing and performance that lies at the heart of adjustment efforts and in fact may be undercutting the incentives for reform. On balance, we don't want to throw the baby out with the bath water. But we are concerned that given these latter circumstances, the wider use of the CCFF to address the Kosovo crisis, if not very carefully undertaken might create the misperception that the CCFF is an entitlement program. We strongly hope and expect that these views will be borne in mind as staff prepares for the comprehensive review of the CCFF.

Turning to emergency assistance, we would urge that staff consider a broadening of the approach that has been traditionally used, in order to allow emergency assistance to be used not only for natural disasters and post-conflict support, but also to address the spillover effects of conflicts in neighboring countries. Presently, the Fund has at its disposal instruments to address such spillover effects, but these might not be suitable in some cases due to differing terms regarding eligibility, conditionality and concessionality. It would be useful to look at these issues in a comprehensive and imaginative manner, while moving quickly to consider allowing those front line states now experiencing major influxes of refugees to tap emergency assistance.

Mr. Faini noted that the internationally recognized name for Macedonia was the Former Yugoslav Republic of Macedonia.

Mr. Wei made the following statement:

At the outset, we welcome today's discussion on the preliminary assessment of the economic situation and the external financial needs of the neighboring countries of the former Yugoslavia, and the role of the Fund in assisting those countries. The Kosovo crisis is really a humanitarian tragedy. We are deeply sympathetic to those who are affected and the difficulties they are suffering. We strongly hope that the crisis could end as soon as possible, and we would like to urge that the international community acts effectively and swiftly to provide the necessary assistance to those people in urgent need. Here, I would like to make the following comments on the principles of assistance and the role of the Fund in the Kosovo crisis.

First, there is no question that this man-made war is the cause of the difficulties facing the Kosovo crisis countries. Therefore, only if the war itself ends soon will it be possible for those affected to find a way out. The international community as a whole should try its best to end the war and maintain peace. A Fund program can only be effective in a peaceful environment. Moreover, the countries who started the war should bear the obligation of offering the major part of the assistance to the people and countries affected by the Kosovo crisis. The Fund and the World Bank should play first a coordinating role in this respect, then a role within their respective mandates.

Second, regarding the principle of assistance, we fully support the staff proposal that bilateral donors and relevant international agencies should finance the immediate needs of the refugees. We also concur with the staff that bilateral donor assistance should be increased to close the BOP gap. Although the Fund, theoretically, has the responsibility for BOP problems, differentiation should be made on the reasons for the occurrence of BOP difficulties. In this regard, I would like to listen to the staff's view on this matter. What is the interpretation of the relevant Articles of the Fund? In this sense, we do not think it should be the Fund's obligation to fill the major portion of the BOP gap brought about by the Kosovo crisis.

For the debt relief consideration of the former Yugoslav Republic of Macedonia, or providing concessional support to affected countries, we wonder if Macedonia is eligible for the HIPC or any new official debt relief initiatives. In the spirit of uniformity of treatment, other developing members should be equally treated as well.

Third, on the modality of use of Fund resources, we generally agree that the Fund could play a certain role in helping countries affected by the Kosovo crisis through modification of existing Fund programs or the establishment of a new program.

Finally, it seems necessary for the Fund to consider developing a general policy guideline or framework to deal with different types of crises, apart from financial crises. Like others, we believe the close cooperation and coordination between the Fund and the Bank is of particular importance at this juncture.

Mr. Cabezas made the following statement:

Mr. Chairman, at this stage of the discussion I will make only three brief comments.

The first one relates to the presentation of the information to be extended to our authorities at the Interim Committee. I suggest staff to include a measure of the assistance already disbursed by the international community

toward helping what is referred to as the refugee cost in the staff paper. With this information at hand it will be easier to put into perspective the effectiveness of the involvement of our institution in this matter.

My second comment relates to the proposed modalities of Fund resources to be used in helping the troubled economies of the Balkans. I believe that at this time of evident external unexpected balance of payment shock, our institution should extend highly concessional funds, with no further commitment other than an explicit compromise from the authorities to consider our suggestions for policy implementation. I agree with Mr. Wijnholds that policy adjustment may be appropriate only to the extent that it addresses macroeconomic problems existing prior to the crisis. At the same time, Mr. Chairman, I do not believe that this extreme period of social tension should be linked with any additional requirement of pressing further with structural economic transformation other than the voluntary advances that each individual country chooses to pursue.

To finalize Mr. Chairman, I want to associate this Chair with Mr. Wijnholds' comment in that the Fund should show special flexibility with those Balkans countries that already have economic reforms commitments with the Fund, recognizing that previously feasible targets may not be so at this moment.

The Director of the European I Department noted that on the question of financing versus adjustment, the Board seemed to be in favor of financing. However, it was important to remember that unless financing was on highly concessional terms, that meant financing today and adjustment tomorrow; that might not be the optimum solution for rebuilding the region. The grant element under the ESAF-supported program was 38 percent; the rest was debt that needed to be repaid.

The staff would view the Fund's role as catalytic, the Director observed. The World Bank, bilateral donors and the European Union had been forthcoming in providing financing. He did not see a large role for the Fund.

In the case of Albania, the costs of dealing with the refugee influx were equal to was three times the balance of payments, the Director pointed out. The costs of the refugees also loomed large in Macedonia. However, the refugee costs affected the economy much less in Bosnia, Bulgaria, and Croatia. The staff's estimate of the impact on growth in Bulgaria and in Croatia was a shortfall of 3 to 4 percent of GNP.

While the staff and the authorities had agreed on a macroeconomic framework for Macedonia, they had not agreed on the structural component, the Director commented. The staff believed it inappropriate to recommend an ESAF arrangement—which presupposed structural adjustment—when structural reforms were lagging behind. For that reason, a Stand-By Arrangement had been recommended instead. In that connotation, GRA resources for the stand-by arrangement were expensive and somewhat inappropriate for Macedonia,

and that was why the staff had called for subsidies from donors to help cover the cost of the arrangement.

The program for Bulgaria was doing very well, and had been supported, by donors from the international community at the Consultative Group meeting in Brussels, the Director related. The authorities were quite concerned about their situation, as Bulgaria had become extremely dependent on one single bridge over the Danube where the waiting time to cross the bridge was seven days. That would have severe implications for exports of produce, in particular, to Western Europe. The authorities were also concerned about the use of their air space by NATO and how that was going to affect their future relations with Yugoslavia, and the future use of transit routes through Yugoslavia.

Political difficulties perhaps not unrelated to what was going on in the region more generally were holding up an agreement with Bosnia, the Director said.

The Croatian authorities had approached the Fund about a program, and the staff was planning a mission to work on a standby arrangement. Croatia needed strengthening of policies, particularly as regarded the banking sector and the current account. Those problems had been exacerbated by the crisis, and tourism in particular was expected to decline.

Romania had achieved an agreement ad referendum on a program with the Fund, but implementation of several prior actions would be necessary before the program could be brought to the Board, particularly with regard to restructuring of the banking sector, the Director concluded. There was also a need to complete the requirements of the World Bank, which included liquidating bank OBEX, and to bail in the private sector in tandem with the Fund—supported program.

The staff representative from the Policy Development and Review Department associated himself with the Director of the European I Department remarks about the issue of financing adjustment. One of the motivations of the staff paper was to show the magnitude of the extreme financing problem, so that the international community could come to grips with the financing implications. The staff hoped money would be provided on grant terms.

The Articles of Agreement permitted the Fund to provide financing to countries in emergency circumstances, the staff representative confirmed. There had been numerous precedents. While the Fund would not wish to provide assistance to countries that were at war with each other, the Fund could provide assistance as a consequence of exogenous shocks. This would promote a legitimate basis for Fund financing.

The staff saw advantages, but also some disadvantages, in the use of emergency assistance in this situation, the staff representative considered. In the past, emergency assistance policy had been limited to natural disasters and postconflict situations. If the emergency assistance policy were broadened to the case of the Kosovo crisis to include refugee costs, a question of equality of treatment would arise, and the Fund would have to apply the new, broadened policy to other countries in similar circumstances. In that connection it needed to be borne in mind that refugee situations were widespread in the

world, particularly in Africa. In his view, humanitarian assistance from donors was needed to cope with the refugee problem, and that assistance was the proper mandate of other specialized institutions, as well as bilateral donors.

The policy on emergency assistance stated that it was preferred that financing be provided within the framework of standby and extended arrangements, and ESAF arrangements, the staff representative continued. Such arrangements with countries affected by the Kosovo crisis were the appropriate vehicle for Fund support. The amount and the phasing of each arrangement would take into account the balance of payments needs and the strengthening of their economic programs, on a casebycase basis. At present there were enough ESAF resources available to support the ESAFeligible countries in that region owing to their relatively small size, even though the Fund was running critically short of ESAF resources more generally. He hoped that the Fund's request for ESAF loan capitals would also be considered by ministers when they considered how to react to the present circumstances in the region.

Mr. Bernes made the following statement:

The international community needs to assist those countries most deeply affected by the tragedy unfolding in Kosovo. I would like to join others in thanking the staff of both the World Bank and the Fund for their quick work in providing us with a preliminary assessment of the economic situation in the Balkans. Clearly, the estimates of the economic costs are subject to a large degree of uncertainty, but the analysis provides a good framework for considering the channels through which the crisis in Kosovo will affect the neighboring countries. The framework can help us to determine the appropriate modalities of Fund involvement in providing assistance to countries affected by events in Kosovo.

Financial assistance from the Fund clearly has to be seen as part of a coordinated and coherent international effort. Fund, World Bank, and bilateral donor support must be coordinate and targeted to their most appropriate and efficient uses. I agree with the staff that the direct cost related to supporting the humanitarian needs of the refugees should be financed by grants from bilateral donors. Furthermore, budget gaps arising from the Kosovo crisis shock should be financed by primarily the World Bank or bilateral donors on appropriate terms and conditions.

I agree with the staff that some domestic adjustment is appropriate to help close balance of payments gaps arising as a direct consequence of Kosovo and I would not repeat the comments on this which Mr. Deppler has made. I share his views and concerns.

New Fund programs could also be used to help close balance of payments gaps. However, in our view, such programs should be guided by the principles of uniformity of treatment, especially with respect to conditionality,

prior actions and efficient use of Fund resources. We would not like to see conditionality compromised.

The appropriate terms and conditions for Fund programs will depend critically on an understanding of the nature of the shock arising from the Kosovo crisis. Is this a structural shock to the affected economies? In which case, ESAF or an EFF is the most appropriate response, or is it a temporary shock to the balance of payments where a standby arrangement, emergency assistance or a CCFE is a more appropriate form of assistance? Our analysis is preliminary and a fuller understanding will depend importantly on the highly uncertain length and outcome of the crisis. This in turn will affect the choice of appropriate access to Fund resources.

We agree that the financing for the poorest countries should be kept on concessional terms. However, we should not make use of ESAF resources if the shock arising from the Kosovo crisis is deemed to be a temporary shock to the balance of payments, or if unaccompanied by appropriate prior actions and other conditionality. The ESAF is constrained as Mr. Kincaid just reminded us by funding issues. In any event, ESAF funds are not intended to provide emergency temporary balance of payments support arising from an external shock.

If an ESAF is inappropriate for the poorest countries, then concessional terms on new external financing from general resources account resources on new SBAs, for example, should be funded by bilateral donors. This concessionality could take the form, for example, of interest subsidies from bilateral donors or possibly through the creation of a trust fund similar to the central American emergency trust fund. For existing Fund programs, a rephasing of access may be appropriate. However, augmentation would depend critically on the ability of the country to continue to deliver the broad program goals in the face of the shock. I would ask the staff whether Bosnia's program is sufficiently on track to allow for this option as suggested by them given that Bosnia has missed three reviews under its 1998 standby arrangement.

Since March 30th, 1999 Canada has committed 30 million dollars in emergency relief for refugees, as well as working with others in the Paris Club context to provide support should the crisis persist, and we will continue to consider further assistance for refugees in light of the developments.

Mr. Sivaraman made the following statement:

Like others I welcome this opportunity to discuss the refugee problem. A refugee influx to any country has multiple dimensions. Each dimension has both direct and indirect costs which may be subject to measurement right now. Over and above this, it is also social costs which may not be visible now, but

may become visible after some time. The countries which are receiving an influx of refugees will have to face these complex issues in the future. One of my constituency members has passed through this, the only difference being that the numbers were several times more and it lasted for more than half a decade.

The cost estimate that has been given by the staff is about 429 million dollars, under scenario A. This works out at approximately 1.7 million dollars a day which seems to be a gross underestimate and will have to be subject to quick revision.

I recognize the points raised by Mr. Bernes that we have limitations in dealing with the demands for resources by these countries. But nevertheless, these countries are going to be severely affected, both on their budget side as well as on their balance of payments side.

It may be necessary for us to provide whatever little help given the constraints on the use of Fund resources, in augmenting the resources under the existing programs or working out new programs for these countries. This chair will certainly support these initiatives by the Fund.

As far as program conditionality is concerned, I see serious problems in having conventional prescriptions for these countries, as the shocks could be very severe. Therefore, it may be necessary for us to be more realistic and less theoretical in deciding upon conditionality, although we should not give up our normal approach to such issues.

I agree with Mr. Donecker a good governance in these countries, however, when 100,000 refugees suddenly descend on your country, any government may find the situation difficult. A lot of governance issues may be coming up which the countries may not be able to address immediately and may require technical or administrative assistance.

My chair would go along with everyone here in providing whatever assistance necessary.

Mr. Singh made the following statement:

Like other speakers, we welcome this meeting and thank the staff for providing us with these preliminary figures. It is no easy task to estimate the external financing needs of the countries neighboring Kosovo, as the crisis is still unfolding. It is, however, important to contain the crisis and prevent it from spreading. External financial assistance could contribute to this objective in an important way. Therefore, although sketchy, the data presented here by staff provides a valuable contribution to focus attention of the international community and to serve as basis to discuss possible ways for the Fund to intervene.

Before turning to the proposed principles for the provision of external financing, I would like to make three preliminary remarks. First, as Mr. Fernandez and Mr. Wijnholds, we regret that the paper did not further elaborate on the channels of transmission through which the countries neighboring Kosovo are economically affected. And we also hope that the staff would be a bit more country specific in the next round of discussions. Second, as Mr. Prader pointed out, the adverse effects of the Kosovo crisis may not be limited to the six countries identified here. The situation will need to be reviewed and ways to incorporate other countries in this framework be found. Finally, we fear that we have here a situation that will be with us for some time. Therefore, the estimations provided by the staff under the pessimistic scenario seems to me, on the contrary, quite optimistic.

This being said, let me now turn to the modalities of a Fund intervention. Here are some preliminary comments:

Helping the most affected neighboring countries to deal with the economic consequences of the crisis will require a concerted international effort. Therefore, beyond policy advice and technical assistance, the Fund with the World Bank could play an analytical and coordinating role in the financial response of the international community to the crisis. In our view, the importance of coordination cannot be overemphasized. It will not only be important to assure coordination between the Fund and the Bank, but also with the EBRD, the EU, the Social Development Fund and other European institutions.

As regards financial assistance, Fund involvement should remain within the limits of its mandate. Therefore, we agree with the staff that the costs directly related to supporting the basic needs of the refugees should be financed by grants from bilateral donors and from relevant international agencies. Any provision of Fund financial resources should focus on assistance to finance balance of payments difficulties.

Economic progress achieved so far should be preserved as far as possible and any deterioration in governance and in the macroeconomic environment be limited. Fund support should therefore encourage countries to carry through adequate economic policies and be provided through regular Fund programs. In this respect, we share Mr. Faini's skepticism toward a rephrasing of Fund programs and think that augmenting access under existing Fund arrangements for countries that are on track would be more appropriate. For the other countries, we would encourage the conclusion of SBAs, as a stepping stone for a successor ESAF or EFF agreement. In this context, we welcome the details Mr. Deppler just presented us on the status of the negotiations with the countries concerned.

Mr. Ismael made the following statement:

We are deeply concerned by the humanitarian and economic consequences caused by the crisis in Kosovo. We agree that the international community should do everything possible to help the people in the countries affected by this major crisis. We are encouraged to learn that several initiatives from the donor community and financial institutions are under way to assess the type of assistance that can be brought to these countries. We are pleased to note that the Fund and Bank are collaborating with the donors and are envisaging a coordinating role in the financial response to the crisis.

Regarding financial modalities, I associate myself with the views expressed by Mr. Shaalan. Given the unique circumstances facing these countries, I agree that there is a need for concessional financing, including grants, as well as debt relief.

As regards financial assistance, we are of the view that it should be part of a broader financial effort and should be both financial and technical so as to help the affected countries implement the appropriate economic strategy.

Given the type of shock that these countries are undergoing, access to Fund financial assistance may be under a combination of facilities. I also agree that flexibility should be shown regarding performance criteria and the level of financing for countries in the region which are presently under program.

I know that some of the countries may benefit from ESAF. Given the exceptional needs of these countries, I think it would be critical that the Fund examine the implications of its funding authorized to secure financing for its current and additional commitments under ESAF.

Mr. Pascual made the following statement:

I would like to show my full support for Mr. Donecker's European declaration. We want to assure you that we are going to work to help this matter go ahead.

It is very important to coordinate humanitarian aid.

On the question of augmentation versus rephasing, I think both should be addressed together. Augmentation of the resources should be useful, as Mr. Faini and Mr. Wijnholds have commented, but the rephasing is also possible.

We don't want to change the Fund policy on the uses of resources, so in the case of emergency situations, we would like to be very careful. We are not sure that we have to extend this particular treatment to this conflict.

We would like to support more frontloaded programs, provided external conditionality is not compromised.

Mr. Morais made the following statement:

I would like to associate myself with the views expressed by other Directors and commend the Fund's approach to assist these countries affected by the Kosovo crisis. Like Mr. Bernes, I see the need for a close coordination among international institutions as a key factor given the nature of the problems to be addressed. I can support the need to refine the modalities of financial assistance from the Fund. This chair represents some countries who have had similar catastrophes a result of military conflict in neighboring countries. When the time comes, we would like to see the same degree of response in assisting those countries.

Mr. Fujii made the following statement:

It is crucial for the international community to provide concerted assistance to neighboring countries affected by the Kosovo crisis. My authorities have furnished humanitarian aid particularly for refugees and will continue their support. I can agree in principle that the Fund in close collaboration with other IFIs and bilateral donors will strengthen its assistance to those countries through its policy advice and provision of financial resources if necessary.

I think principles and possible modalities for the Fund to assist countries affected by this as outlined in paragraph 16 and 17 of the staff paper are generally headed in the right direction. As previous speakers noted, I note that there is a delicate balance between adjustment and external financing needs, and we need to examine this issue carefully in the period ahead. I encourage the staff to accelerate their efforts to assess the situation of individual countries bearing in mind this issue and to explore potential modalities of assistance including further clarification of the financing gap of individual countries.

Mr. Lushin made the following statement:

We welcome the opportunity to discuss the consequences of the ongoing crisis in Kosovo for the countries in the region. We think that it is appropriate for the Fund to be involved in assessing damage and exploring opportunities for assistance already now, when the full scale and possible consequences of the ongoing tragedy are far from being clear. At this stage we can only guess about the magnitude of the impact of the crisis on the region's economic situation, especially if there is a further escalation of the war. The staff emphasizes that its estimates of the additional financing needs are highly sensitive to the assumptions. To this we would add that the assumptions

themselves, as presented in paragraphs 10-12, are very sensitive to decisions about future courses of action that are still under consideration.

We agree completely with the suggested coordinating role of the Fund in the international response to the crisis as presented in Section III of the staff report. The Fund in cooperation with the Bank and other relevant IFIs should continue the evaluation of regional and country-specific financing needs and assessing the availability of external financing. The Fund staff's views on the principles for the provision of external financing as formulated in para 16 are very reasonable and well balanced. Among these, we would like especially to emphasize the point that both costs relating to the needs of the refugees and the balance of payments gaps arising directly from the impact of the crisis should be covered primarily by bilateral grants and highly concessional official financing. We also agree that the appropriate balance must be found between financing and adjustment in meeting the projected gaps.

We broadly agree with the modalities of the use of Fund resources as presented in Section IV. However, we would like to make two points in this regard. First, we do not favor any additional use of Fund resources while the crisis is in the stage of intense warfare. Under such conditions no meaningful estimates of financing gaps can be made or reasonable economic programs compiled. Second, we think that in the context of already existing or forthcoming Fund programs for the countries suffering from disruptions to trade or loss of investor confidence, Fund resources should be used to accommodate only a very limited part of new BoP needs, if at all. The rest should be covered mainly by concessional bilateral credits and grants.

Finally, Mr. Chairman, we would like to re-iterate the position of the Russian authorities that the best way to proceed with arresting the devastating consequences of this crisis, including for the regional economy, is to seek peace through negotiations and not through the further build-up of military pressure.

Mr. Gueorguiev hoped that Mr. Lushin's remark about not using any Fund resources while intense warfare was going on did not pertain to programs that had already been negotiated. Additionally, he supported Mr. Bernes' point about the advisability of creating a Kosovo or a Balkan trust fund, to subsidize to some extent the use of General Resources Account resources.

Mr. Lushin assured Mr. Gueorguiev that his remarks about the need to cease war to effectively use resources concerned only additional use of Fund resources related to the disruptions stemming from the warfare. He did not mean to suggest that any existing programs or programs under consideration should be affected.

The Director of the European I Department stated that regional crises had dynamics that caused the problems that arose to be worse than initially estimated. The staff was

prepared to provide information on a country basis in the near future. Refugee costs were defined to be either expenditures within the budgets of the national authorities, or balance of payments assistance that formally appeared in the balance of payments accounts of the country in question.

The Acting Chairman made the following summing up:

Executive Directors voiced their strong support for a rapid and coordinated response by the international community to the economic consequences of the Kosovo crisis. Such a response was urgently needed to ensure that sufficient relief aid was provided to alleviate the terrible human suffering of the refugees from Kosovo and to ensure that countries in the vicinity of the crisis had access to sufficient external financing to help them maintain macroeconomic stability.

Directors welcomed the preliminary and timely assessment of the economic consequences of the Kosovo crisis that had been prepared jointly by the staffs of the Bank and the Fund. They appreciated these initial estimates of the financing needs of the most affected countries. With the situation exceptionally fluid, Directors recognized that any estimates at this stage were subject to a wide margin of uncertainty, and that the economic costs of the crisis in the most affected countries could substantially exceed the estimates.

Accordingly, Directors requested that the staffs of the Bank and Fund, in cooperation with other relevant institutions, continue to refine the estimates so as to provide a reliable picture of effects on individual countries as well as on the region as a whole. Directors stressed the need to take into account all of the various channels of transmission of the impact of the crisis as well as its possible longer term effects. They noted that these estimates would be useful in shaping the international response.

Directors noted the important role that the international financial institutions would play in helping countries to cope with external shocks. They emphasized the critical importance of effective cooperation between the Fund and the Bank and other institutions. In particular, they requested Bank and Fund staffs to continue their efforts to coordinate the timely mobilization of assistance, including assistance on highly concessional terms. In this regard, Directors took note of the assistance already provided bilaterally and multilaterally, and they expressed the hope that the meeting to be held in Washington on April 27 on the economic impact of the Kosovo crisis on the neighboring countries will further strengthen the program of support from the international community. Several Directors considered that a regionally focused process among donors might facilitate the coordination of assistance, including that related to future reconstruction and development needs.

Directors generally agreed with the proposed principles for the provision of financing to affected countries outlined in the joint paper of the Bank and Fund staff. In particular, they stressed that all humanitarian relief costs, including those being borne by governments in affected countries, should be financed by external grants. Other external financing needs arising as a direct consequence of the crisis should be met both from bilateral and multilateral sources and from the international financial institutions. Directors emphasized the importance of assistance being on appropriately concessional terms and conditions. Directors welcomed the ongoing discussions within the framework of the Paris Club regarding debt relief.

Regarding the provision of financial support and policy advice by the Fund, Directors agreed that a casebycase approach geared to the circumstances of each country was desirable. Directors generally emphasized the need for flexibility regarding policy objectives in the present difficult external environment. However, they also stressed that the overriding goal should be to ensure that the crisis does not derail the process of stabilization and reform. There was, therefore, a need both to sustain sound policies and good governance, and to provide external financing that was timely, adequate, and appropriately conditional. Most Directors agreed that in cases where countries had existing arrangements with the Fund, access to Fund resources could be rephased and augmented if the broad goals of the program could be maintained. However, in other cases, new arrangements might be needed. Some Directors considered that the affected countries could appropriately draw under the Fund's emergency assistance policy. A few Directors supported the establishment of a trust fund to subsidize the cost of GRA resources.

In sum, Directors endorsed the broad approach to responding to the crisis suggested by the staffs of the Bank and Fund.

The Acting Chairman suggested that if Directors agreed, this summing up would be forwarded to the Interim Committee, together with the staff paper.

## **2. CONTINGENT CREDIT LINES—FURTHER CONSIDERATIONS— DECISION AND COMMENTARY**

The Executive Directors considered a revised draft decision and commentary on further considerations toward a contingent credit line (SM199/91, 4/15/99; and Supplement 1, 4/19/99)

The Chairman made the following summing up:

Directors have given extensive consideration to a role for the Fund in providing members with contingent credit lines (CCLs). There is now agreement to proceed with this concept, essentially as an important instrument

of crisis prevention, creating further incentives for the adoption of strong policies and adherence to internationally accepted standards, encouraging the constructive involvement of the private sector, and thereby reducing the risks of contagion, and Directors have approved the decision establishing the CCL. There are, however, a number of elements in this decision which require some elaboration in order to express the Board's understanding as to how they will operate.

Foremost among these elements are the four eligibility criteria referred to in paragraph 14 of the decision. As is clear from the decision, and as Directors have agreed, for a member to be eligible for the CCL, it must satisfy all four of these criteria. Directors have also agreed, however, that in assessing whether an individual criterion is satisfied, the Executive Board would take into account a range of factors, and would exercise judgement as to whether a sufficient "critical mass" of factors relevant to the criterion is in evidence.

Let me start with the first criterion. It is agreed that, for a member to be eligible for the CCL, the member's policies should be such that, absent a future balance of payments problem of the type for which CCL resources are intended, the member would not otherwise be expected to need to use Fund resources. This criterion would not exclude members with arrangements in place where members are treating these arrangements as precautionary or where drawings are outstanding but the need for further drawings under the arrangements is judged to have ceased as confirmed by the member.

As indicated by the second criterion, the member's policies should "have received a positive assessment from the Fund at its last Article IV consultation" and its policies should have "continued to be assessed favorably by the Fund thereafter based on economic indicators reflecting domestic stability and external sustainability, and taking into account the extent of the member's adherence to relevant internationally accepted standards". It is understood that by a "positive assessment", it is meant that the Board should have expressed its broad satisfaction with the member's policy stance and prospects, although this does not necessarily mean an assessment entirely devoid of recommendations for changes in policy. But it would be important that the Board should be of the view that the member's policies themselves would not expose it to significant risk of balance of payments pressure, and this should be true both of the member's policies in the recent past and of the policies it plans to implement in the future. This broadly satisfactory assessment should have been expressed at the time of the most recent Article IV consultation, and reaffirmed, with respect to the policies the member has been implementing and the policy plans it has framed since the Article IV consultation, at the time of the commitment of CCL resources. If the member has not already done so, the Fund would strongly encourage a member that contemplates use of the CCL to volunteer for the pilot project and publish its Article IV staff report.

Directors are agreed that, in judging eligibility under this criterion, the Board should take into account the member's progress in adhering to relevant internationally accepted standards. The member would have subscribed to the Special Data Dissemination Standard and be judged to be making satisfactory progress toward meeting its requirements. In addition, at this early stage, the Board would take into account the member's adherence, or progress toward adherence, to the Basle Core Principles for Banking Supervision, the code of transparency in the area of fiscal policy and, when it is agreed, the code of transparency in monetary and financial policy. Other standards, some of which are still under development, could also be added as they are developed, so long as the Fund is able to assess adherence, possibly taking into account the views of other organizations. As standards are developed and experience is gained, the question of requiring adherence to certain standards could be reviewed.

The third criterion provides that a member would be eligible if it is maintaining constructive relations with its private creditors with a view to facilitating appropriate involvement of the private sector, and has made satisfactory progress in limiting external vulnerability through the management of the level and structure of its external debt. This is a complex area, and many aspects of it remain to be fully worked out. Directors have accepted that a judgmental approach to assessing overall progress in this area will be needed, and they have pointed to a number of factors and considerations that would be relevant to this criterion. For a member to be judged to have constructive relations with private creditors, for example, it would seem essential that the member not have external payments arrears on sovereign debt, nor on private debt as a result of exchange controls. In examining a member's request under the CCL, the Executive Board would take account of market assessments of the country's situation. In addition, a member should have in place, or demonstrate that it is making credible efforts toward putting in place, appropriate arrangements to involve the private sector. These might include, by way of example, (i) contingent private credit lines or similar arrangements, (ii) call options in debt instruments, which would permit the debtor to extend their maturity, (iii) terms and conditions in recent and forthcoming bond contracts that include provision for the adjustment of terms by qualified majorities, collective representation provisions, and sharing clauses, (iv) as they are developed, other debt instruments designed to provide efficient and appropriate insurance against shocks, (v) a framework for debtor-creditor discussions, (vi) effective debt management procedures, and (vii) strong domestic bankruptcy regimes. It has to be recognized that most of these arrangements are not yet in general use, and we will need both to evaluate what countries have achieved in this area relative to changing practices, and be prepared to learn from experience. As experience is gained and instruments are developed, this checklist will need to be adapted and, as in the area of standards, we could consider whether it would be possible to define more concretely a critical mass of steps that

should be expected. It would be appropriate to consider all these issues in the context of the review of the CCL.

In assessing the member's external vulnerability and the management of its external debt profile, the Board will take into account a range of factors or "sustainability checks" including, inter alia, the evolution of the real exchange rate (to establish that this has not moved to an unsustainable level), the level and composition (currency denomination and maturity profile) of public debt (including with reference to derivatives, and with consideration of creditors' put options), the level and composition of external debt (including with reference to derivatives, and with consideration of creditors' put options), the level of gross and net international reserves, the share of short term external debt unmatched by private contingent credit lines or reserves, the net foreign asset position of commercial banks, and the evolution of domestic credit in relation to GDP. To assist the Board's assessment in this respect, the staff and the authorities should work to provide quantified "stress simulations" which will aim to take into account both potential outflows and secured inflows in the event of a crisis. The policies the member has implemented with a view to limiting vulnerability would also be taken into account. The appropriateness of the exchange rate regime will be important in this respect, but other factors will also be relevant, such as the degree to which the member has avoided bias (for instance, in its regulatory and tax system) in favor of short-term borrowing and the existence of a system to monitor private external liabilities.

The final criterion requires that a member should submit for the Board's approval "a satisfactory economic and financial program, including a quantified framework, which the member stands ready to adjust as needed". As is customary in support of a request for access to Fund resources, the member would present to the Board a description of its planned economic policies for the period for which access to CCL resources is approved, including a quantified framework that will guide its macroeconomic policies, and the structural policies it intends to implement. There would be a strong presumption that this statement of policies would be released to the public. Such policies would be expected to be of sufficient quality and strength that they would meet the standards required of drawings in the upper credit tranches. The quantified framework should be specified in such a way that the staff and the Board would be able to form a rapid assessment of the member's compliance with it and thereby facilitate the rapid release of resources upon the request for activation of the CCL. While this would not necessarily involve monthly benchmarks, it would involve regular and timely provision of relevant data to the staff and continuous monitoring by the staff of the country's economic situation.

I turn now to the subject of access. While there is no general access limit, it is accepted that, unless warranted by exceptional circumstances and

while paying due regard to the liquidity position of the Fund, commitments under the CCL would be expected to be in a range of 300-500 percent of quota. Access policy under the CCL would be an important part of the focus of the review of the CCL, scheduled for one year from its inception.

In its consideration of a member's request for a commitment of the Fund's resources under the CCL, the Executive Board will also consider the potential impact on the Fund's liquidity position and on the level of the Fund's usable and potentially available resources over the period of the requested commitment. The Executive Board will monitor the Fund's liquidity position on a continuing basis paying particular regard to the possible evolution of commitments under the CCL as well as under the Fund's other facilities. The Executive Board will also consider in the light of experience the appropriate method to assess the impact of CCL commitments and possible purchases on the Fund's liquidity position.

CCL resources would be committed under a stand-by arrangement. In accordance with the principles on access under arrangements, upon Board approval of an arrangement establishing a contingent credit line, a small purchase of credit tranche resources (typically 5 percent of quota) would be immediately available. Beyond this, activation of the credit line will require a Board review. This approach would also be applied if CCL resources are committed in the context of an existing arrangement (namely an arrangement that the member treats as precautionary).

A member for which a CCL has been approved may, at any time, request access to CCL resources, which would require a special "activation" review by the Board. The Board would expeditiously complete this review, and make available the associated purchase, if it were satisfied that: (i) the member is experiencing exceptional balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves, (ii) these difficulties are judged to be largely beyond the member's control and to be primarily from adverse developments in international capital markets consequent upon developments in one or several other countries, (iii) up to the time of the crisis, the member has successfully implemented the economic program that it had presented to the Board as a basis for its access to CCL resources, and (iv) the member is committed to adjusting policies to deal with any real economic impact that may follow from contagion. The monitoring arrangements already in place would allow this review to be completed rapidly. At the time of the activation review, the Board would decide on the amount to be released immediately and on the phasing of the remaining amount through the remainder, or extension, of the arrangement, as well as on the related conditionality.

Upon approval of the arrangement committing CCL resources, the Board will schedule a mid-term review to be completed by a specified date if the activation review is not completed before this date. After this date has passed, the mid-term review will need to be completed before a purchase associated with the activation review can be released. At the mid-term review, the Board would satisfy itself that the member was successfully implementing the economic program earlier presented to the Board and had adjusted that program appropriately in response to any changes in circumstances. The introduction of the CCL is an important initiative for the Fund. It involves several aspects that are new or still under development, and we will need to approach it experimentally, with a view to learning and, if necessary, adapting it. In any case, we will have a full review in a years time.

The Executive Board took the following decision:

Effective April 26, 1999, Decision No. 11627-(97/123) SRF, adopted December 17, 1997, as amended, on the Supplemental Reserve Facility shall be amended in the following manner.

1. The title of the decision shall be amended to read “The Supplemental Reserve Facility and Contingent Credit Lines” and the title immediately before paragraph 1 shall be amended to read “I. Supplemental Reserve Facility.” References to “this Decision” in paragraphs 1 through 12 shall be replaced by “this section”.

2. The following shall be added immediately after paragraph 12;

#### **“II. Contingent Credit Lines**

13. Through May 4, 2001, the Fund will be prepared to commit and provide financial assistance to a member under the terms and conditions specified in this section.

14. Financing under this section will be committed to a member: (I) that, at the time of commitment, is implementing policies that are considered unlikely to give rise to a need to use Fund resources, and is not facing balance of payments difficulties of the type described in paragraph 15; (ii) whose policies have received a positive assessment from the Fund at its last Article IV consultation and whose policies have continued to be assessed favorably by the Fund thereafter based on economic indicators reflecting domestic stability and external sustainability, and taking into account the extent of the member’s adherence to relevant internationally accepted standards; in particular, the member would have subscribed to the Special Data Dissemination Standard and be judged to be making satisfactory progress toward meeting its requirements; (iii) that is maintaining constructive relations with its private creditors with a view to facilitating appropriate

involvement of the private sector, and has made satisfactory progress in limiting external vulnerability through the management of the level and structure of its external debt and international reserves; and (iv) that has submitted a satisfactory economic and financial program, including a quantified framework, which the member stands ready to adjust as needed.

15. Financing under this section will be provided where, as a result of circumstances that are largely beyond the control of the member and that stem primarily from adverse developments in international capital markets consequent upon developments in other countries, the member is experiencing exceptional payment difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves, if there is a reasonable expectation that adequate financing and the implementation of any necessary adjustment policies will result, within a short period of time, in an early correction of such difficulties.

16. Financing under this section will be committed and provided under a Stand-By Arrangement, in addition to resources in the credit tranches. Financing will be committed under this section in cases where purchases in the credit tranches or under the Extended Fund Facility, taking into account outstanding purchases, would otherwise exceed either the annual or cumulative access limit.

17. The Fund may commit resources under this section at any time under an arrangement but will only make such resources available when it finds that the member meets the conditions specified in paragraph 15. The arrangement will specify the amount of resources committed under this section and will normally provide for the continued availability of such resources beyond a specified date to be subject to the completion of a program review by the Fund. When the Fund decides to make such resources available to a member, it may phase such resources in as many purchases and subject to such conditionality as it considers appropriate. The Fund may commit resources under this section for a period of up to one year and, after it decides to make such resources available, may extend such period for up to one year from the date such resources are made available.

18. Notwithstanding the provisions of paragraph 16, financing under this section may be committed and provided under any Extended Arrangement in effect at the time the provisions of this section become effective.

19. Paragraphs 6 to 11 of this Decision shall apply to purchases under this section.

20. This section and its operation will be reviewed no later than May 5, 2000.” (SM/99/91, Sup. 2, 4/24/99)

Decision No. 11942-(99/48) SRF/CCL, adopted  
April 23, 1999

### **DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING**

The following decisions were adopted by the Executive Board without meeting in the period between EBM/99/47 (4/22/99) and EBM/99/48 (4/23/99).

#### **3. ANNUAL LEAVE POLICY REVISION**

1. The annual leave policy will be amended to require staff members to take a minimum of 15 days of annual leave each financial year, beginning with FY 2000. The minimum usage requirement will apply to anyone on the staff on May 1 each year. Any portion of the required 15 days of annual leave not taken will be forfeited, and staff members will not be compensated for the loss of this leave. Other than as described in paragraph 2, no exceptions will be made to the “use or lose” principle with respect to these 15 days.

2. For staff members entering on duty after May 1, the minimum usage requirement will be waived until the beginning of the next financial year. This requirement will also be waived for staff members who separate before the end of a financial year or are absent from the office for more than 60 working days during the financial year on leave without pay, sick leave, maternity leave, adoption leave, or study leave.

3. Subject to meeting the yearly minimum usage requirement, the ceiling on the amount of annual leave that may be carried forward from one financial year to the next will be increased to 120 days with effect from May 1, 2000.

4. Immediately prior to their separation from the Fund, staff members may use any amount of their accumulated annual leave that is in excess of the number of days for which they elect to receive payment, provided that the period of leave does not extend beyond the month in which they reach age 65 and they do not take up employment elsewhere during this period.

5. A department approving a staff member’s request for an extended period of annual leave (i.e., defined as a period in excess of 30 consecutive working days) shall receive compensating leave replacement resources from a central pool established by the Office of Budget and Planning. The department would bear the cost of any leave replacement

during the first 30 consecutive days of the staff member's leave. The central pool would cover the cost of leave replacement for the remaining portion of the absence in excess of 30 consecutive days.

6. Management is authorized to decide whether to create a Staff Emergency Leave Account and approve associated operating procedures. The purpose of this account would be to assist, in special and unusual circumstances, staff members who do not have sufficient annual or sick leave, as applicable, to meet their needs. The account would be constituted from the collective amount of annual leave forfeited by staff members who fail to meet the minimum usage requirement applicable to FY 2000 and subsequent financial years.

7. The modifications to the annual leave policy outlined in paragraphs 1, 2, 4 and 5, above shall become effective on May 1, 1999. The modification described in paragraph 3 shall become effective on May 1, 2000.

8. The Administration Department will report to the Committee on Administrative Policies after three full years of experience under the revised annual leave policy (i.e., after FY 2002 has ended). (EBAP/99/44, 4/16/99)

Adopted April 22, 1999

#### **4. EXECUTIVE BOARD TRAVEL**

Travel by Executive Directors as set forth in EBAM/99/58 (4/21/99), and by Advisors to Executive Directors as set forth in EBAM/99/51, Supplement 1 (4/21/99) and EBAM/99/58 (4/21/99) is approved.

APPROVAL: May 16, 2001

SHAIENDRA J. ANJARIA  
Secretary