August 13, 2001
Approval: 8/20/01

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 99/108

11:30 a.m., September 23, 1999

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Decisions Taken Since Previous Board Meeting

Executive Board Attendance

M. Camdessus, Chairman
S. Fischer, Acting Chairman
S. Sugisaki, Acting Chairman

Executive Directors	Alternate Executive Directors
	S.M. Al-Turki
	M.F. Melhem, Temporary
A. Barro Chambrier	A.R. Ismael, Temporary
	P. Charleton
	J. Nelmes, Temporary
A.G. Carstens	H. Oyarzábal
	E. González-Sánchez, Temporary
R.F. Cippà	W. Szczuka
B. Esdar	W.-D. Donecker
N. Eyzaguirre	O.A. Hendrick, Temporary
	P. Cabezas, Temporary
	J. Spraos
	C.A.E. Sdralevich, Temporary
K.A. Hansen	
K.-T. Hetrakul	
V. Kelkar	N. Jadhav, Temporary
W. Kiekens	J. Prader
K. Lissakers	
J.-C. Milleron	G. Bauche
	B. Couillault, Temporary
	M. Daïri
	S. Rouai, Temporary
J.P. de Morais	C. Rustomjee
	P.A. Akatu, Temporary
	L.J.F. Erasmus, Temporary
A.V. Mozhin	
S. Pickford	S. Collins
M. Portugal	
A.S. Shaalan	A.F. Al-Faris
G.F. Taylor	
	Luo Y., Temporary
	Y.G. Yakusha
	M. Takeda
	K. Harada, Temporary

S.J. Anjaria, Secretary
A.S. Linde, Acting Secretary
Z.R. Ahmed Assistant
G. Nkhata, Assistant

Progress in Strengthening Architecture of International Financial System—Report of Managing Director to Interim Committee
Staff representatives: Hicklin, PDR; Parkinson, PDR

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

Year 2000 Facility—Establishment
Staff representative: Leddy, PDR

Transforming Interim Committee of Board of Governors on International Monetary System into International Monetary and Financial Committee of Board of Governors—Report and Proposed Resolution to Board of Governors
Staff representative: Gianviti, LEG

Also Present
IBRD: A. van Trotsenberg, Africa Regional Office. External Relations Department: G.V. Bhatt, W.J. Murray, L. Wallace. Legal Department: F.P. Gianviti, General Counsel; W.E. Holder, Deputy General Counsel; R.C. Baban, H. Elizalde, H.W. Krull, H.V. Morais, I. Mouysset. Monetary and Exchange Affairs Department: V. Sundararajan, Deputy Director; P.L.C. Hilbers. Policy Development and Review Department: J.T. Boorman, Director; T. Leddy, Deputy Director; B. Banerjee, A.G.G. Bennett, A.R. Boote, M. Fisher, K.G. Fitchett, N.L. Happe, J. Hicklin, D.G. Jones, R.B. Kahn, K.H. Kang, G.R. Kincaid, N.L. Laframboise, Y.A. Metzgen, M.L. Parkinson, D.C. Ross, J. Seade, J. Toujas-Bernate, R. Weber. Secretary's Department: S. Bhatia, P. Gotur, A. Mountford, B.A. Sarr. Treasurer's Department: E. Brau, Treasurer; M.G. Kuhn, Deputy Treasurer; B.V. Christensen, C.P Clarke, M.M. Cuc, D.M. Hicks, B.E. Keuppens, S.T. Lurie, P.R. Menon, A.K. McGuirk. Western Hemisphere Department: S. Shah. Office of the Managing Director: M. Cross, Personal Assistant; D.A. Citrin, E-A. Conrad, P.J. McClellan, N. Sachdev, T. Wolde-Semait. Office in Paris: C. Brachet, Director. Advisors to Executive Directors: J.A. Chelsky, J.A. Costa, A. Del Cid-Bonilla, J.C. Estrella, S.S. Farid, O. Himani, E.J.P. Houtman, J. Jonáš, M.E. Kandil, W. Merz, H. Mori, Nguyen Q.T., L. Palei, J.L. Pascual, G. Schlitzer, M. Sobel, I.M. Woolford, M. Yanase, F. Zurbrügg. Assistants to Executive Directors: A.S. Alosaimi, S.A. Bakhache, J.G. Borpujari, P.A. Brukoff, M. Budington, M. Carlens, V. Dhanpaul, T. Elkjaer, M.J. Fernández, I.C. Ioannou, C. Josz, A. Kapteijn, B. Kelmanson, S.K. Keshava, S. Le Gal, Liu Z., W.C. Mañalac, D. Nardelli, K. Ongley, Peh K.H., C.-P. Schollmeier, R.J. Singh, Sugeng, Vongthieres O., M. Walsh, Wang X., P. Winje, I. Zakharchenkov.

1. PROGRESS IN STRENGTHENING ARCHITECTURE OF INTERNATIONAL FINANCIAL SYSTEM—REPORT OF MANAGING DIRECTOR TO INTERIM COMMITTEE

The Executive Directors continued from EBM/99/105 (9/16/99) their consideration of the revised draft report of the Managing Director to the Interim Committee on progress in strengthening the architecture of the international financial system (SM/99/229, Rev. 1, 9/22/99).

The staff representative from the Policy Development and Review Department made the following statement:

> It became evident in the last discussion that the terms core and non-core are being used with different meaning in different contexts. The staff has tried in some of the bilateral discussions to explain the issue, but perhaps it would be helpful to explain the matter again.
>
> In the context of the assessment of standards, for about the last year there has been the concept of core and non-core. The term core means those standards that are a direct operational focus of the Fund's work, which at this stage include the SDDS, the fiscal transparency code, the monetary and financial code, and the Basel Core Principles. That has been relatively clear. Our understanding from the Board discussion is that there is a consensus on those being the operational focus for the moment, and that we are looking for help in the non-core areas from other institutions.
>
> The phrase core and non-core has come up more recently in the context of the evaluation of surveillance, where it has a different meaning. There it means the traditional work of the Fund on exchange rate, macroeconomic, financial sector, and capital account issues. This is quite a different context. What the staff has tried to do in the latest draft report is to eliminate the core and non-core language to the extent possible.
>
> Regarding Box 5 on the recent experience involving the private sector, the Managing Director had asked that the staff take another look at perhaps removing the problematic language but to retain the four country examples. That has been done. After discussions with Mr. Yakusha, some additional language for the Romania example has been included.

Mr. Shaalan commented that he was concerned about the work schedule that had led to the preparation of the Interim Committee meetings. That morning he had received the revised draft on the Managing Director's report on strengthening the architecture, which included substantial changes. Those changes should have been highlighted, in view of the shortness of time. Moreover, in future greater effort must be put into planning in order to avoid such haste before Interim Committee meetings, as it did not contribute to the efficient management of the institution.

Messrs. Portugal and Donecker suggested that it would be useful if the staff could indicate where changes had been made, so that Directors could concentrate on what had been changed.

The Acting Chairman agreed with the comments of Messrs. Shaalan, Portugal, and Donecker.

Mr. Eyzaguirre asked whether Directors could receive a copy of the Report that indicated the changes that had been made.

Mr. Taylor suggested that the item be moved to the end of the agenda for that day so that Directors could have more time to review the Report.

The staff representative from the Policy Development and Review Department said that it was difficult to indicate in the document where changes had been made, and offered to highlight substantive differences orally. He said that the main changes concerned the differences between the language used in the paper and the language used in the summings up on capital account liberalization, private sector involvement, and exchange rate issues. The staff had also addressed some of the concerns raised by Mr. Donecker about trying to make the tone of the first page more optimistic. A box had been inserted to address Mr. Takeda's points about introducing the discussion on the external evaluation of surveillance and the internal reviews of processes.

Another staff representative from the Policy Development and Review Department noted that there was additional material on surveillance at the beginning of the Report. A point had also been added reflecting Directors' discussion of standards and transparency applicable to the private sector.

The Acting Chairman said that other than changes in drafting, there appeared to be agreement on paragraphs 2, 3, and 5.

Mr. Collins suggested that Box 1 should mention that the Board had already discussed the external evaluation of surveillance.

Mr. Takeda noted that paragraphs 9 and 10 mentioned the efforts to improve transparency and accountability within the Fund. In this regard he pointed out that paragraph 9, which covered what had happened to that point, was primarily about the transparency issue and not about accountability. He saw paragraph 10 as more forward-looking, and suggested that a sentence be added at the beginning of that paragraph saying that some effort had been made in the area of increasing Board involvement, and that the Fund would continue to pursue improvements.

The staff representative from the Policy Development and Review Department said that the staff had tried to encompass Mr. Takeda's point within the introductory sentence of paragraph 10, saying that the Fund would continue to pursue improvements of its procedures and practices. In terms of specifying procedures that would be changed, the staff considered that some of the views still needed to be discussed.

Mr. Chelsky commented that Box 1 on strengthening surveillance was useful, and pointed out that the section on surveillance should make reference to the surveillance evaluation; he also mentioned that there were clearly next steps that belonged in the final table.

Ms. Lissakers agreed with Mr. Takeda's point. The fact that the Board was considering ways to strengthen its role in surveillance had been a major point in the external evaluation report. Although the Board had not yet reached any firm conclusions, it was worth mentioning that it was considering ways to strengthen its role in surveillance. Box 1 should say that the Board was giving intensified attention to surveillance, the sustainability of exchange rate regimes, and debt management in the kinds of issues it was covering, such as capital account, financial sector issues, and vulnerability.

Mr. Luo suggested that Section I emphasize that increasing transparency was a voluntary decision for authorities.

The staff representative from the Policy Development and Review Department responded that the voluntary reference had been included in the context of standards. Paragraph 11 noted that in order to be effective, such voluntary standards needed to be implemented.

Mr. Luo reiterated that there should be a further emphasis on the voluntary nature of transparency.

Mrs. Hetrakul said that the wording of paragraph 8, saying that the Fund was working with others, including the World Bank, to develop mechanisms for the assessment of standards beyond its own areas of expertise, did not reflect the Board's discussion.

The staff representative from the Policy Development and Review Department replied that there had been two discussions on the issue. First, the Board had discussed standards and decided to experiment, particularly with the Bank, to develop mechanisms to assess standards beyond what had previously been called "the core areas." In addition, the Bank Board had also come to the conclusion that experimentation would take place in those areas.

Mr. Eyzaguirre agreed with Mrs. Hetrakul's viewpoint, which was further developed in paragraphs 17 and 18. If the Board agreed to changes in those paragraphs, perhaps the tone of page 3 could be reassessed. He also had some trouble with the language of paragraph 8.

Mr. Portugal supported Mrs. Hetrakul's comment. One issue on which the Bank Board had not reached a consensus was whether the Bank should develop a capacity to assess standards, as it did not have a surveillance mandate.

The Acting Chairman noted that the paragraph did not suggest that the Fund and the Bank should assess standards, but should work to develop mechanisms for such assessments, which was correct.

Mr. Yakusha agreed with Mrs. Hetrakul that there were different views expressed in the Board discussion on the matter. Some Directors were of the opinion that the Fund should not go beyond its core business, and the wording of the paragraph suggested that it was trying to do that.

Another staff representative from the Policy Development and Review Department replied that the sentence did not intend to say that the Fund should go beyond its traditional responsibilities in the area of standards. The Board had made that clear; it had also told the staff to work with other standard-setting bodies and agencies to encourage them to develop mechanisms for the assessment of standards, which is what the staff had done.

Mr. Taylor noted that Ministers had identified that issue as important. The Fund should therefore take the leadership in that area, although there might be some sensitivities and risks involved.

Mr. Portugal suggested that much of the confusion could be eliminated if it was noted that the Fund was trying to work with other standards-setting bodies. The language of the paragraph had caused confusion because the Bank was not a standards-setting body. That point also appeared in paragraph 18. It might help to say instead that the Fund was working with others to develop assessments in areas beyond its expertise.

The staff representative from the Policy Development and Review Department replied that in the summing up from the discussion on standards, Directors had invited the Bank to experiment in co-preparing reports and to indicate those areas for which it could take responsibility. It was recognized, however, that, even with the involvement of other organizations, assessments in non-core areas could likely only be prepared over time. In the Bank Board, there had also been different views expressed. The summing up noted that there would be a period of experimentation over the following year where the Fund and the Bank would try to work together to produce case studies.

Mr. Eyzaguirre agreed that the Fund should help encourage other standards-setting bodies in dual assessments in their own fields. However, the sentence being discussed did not appear to limit Fund involvement in non-core areas to that specific action, which left some ambiguity in terms of whether the Fund was going to be involved in non-core areas.

The staff representative from the Policy Development and Review Department noted that the summing up had said that for non-core areas, most Directors recommended a shared ownership approach that would require certain institutions to take primary responsibility and be accountable for non-core areas. Some Directors, however, considered that the Fund should not venture at all into non-core areas. There would be some involvement in assessments by standards-setters as well as non-standards setters, such as the Bank.

Mr. Collins remarked that the sentence was factually accurate. Some Directors did not agree with what was in that summing up, but the Fund was nevertheless working with others, including the Bank, to develop mechanisms for the assessment of standards beyond its own area of expertise. That might imply a more intrusive role for the Fund than some Directors would like, although others preferred such a role. It might be preferable to say that the Fund should encourage the development of mechanisms for assessment, which would not stipulate the extent to which the Fund would ultimately be involved in such assessments.

Mrs. Hetrakul agreed with Mr. Collins's proposed wording.

The staff representative from the Policy Development and Review Department said that the wording could be changed to say that the Fund should encourage mechanisms for the assessment of standards by others in areas beyond its own expertise.

Mr. Portugal said that, regarding paragraph 15, he did not agree with linking with the experimental assessments the Board's view that effective surveillance required a thorough understanding of country practices. That suggested that the only way that the Board could get a thorough understanding of country practices in relation to international standards was through such assessments. Different views had been expressed in the discussion of that issue and in the summing up as well .

Paragraph 18 should not read "the World Bank and other standards-setting bodies" but "the World Bank and other bodies as appropriate," so that the Bank would not be characterized as a standards-setting body, Mr. Portugal commented.

Paragraph 19 should say that the Bank was developing its own capacity to contribute in particular areas instead of assess standards, because the Bank did not have a mandate to establish standards, Mr. Portugal said.

Mr. Hansen recalled that the summing up from the discussion of the issue had contained a reference to the substantial workload and use of staff resources that would follow in the wake of the reports, which should be included in the Report.

The staff representative from the Policy Development and Review Department replied that a reference to the pressure on staff resources would be included.

Regarding Mr. Portugal's first point, the conduct of the experimental assessments would reflect the Executive Board's view, but that did not suggest that the only way the Board could get a thorough understanding of country practices in relation to international standards was through such assessments, the staff representative commented.

The language in paragraph 18 could be changed to say that the Fund should work with other standards-setting bodies and the Bank, the staff representative added.

The Acting Chairman wondered about the conclusions to be derived on the Bank's role as a standards-setter from the fact that the Bank had been cooperating in the development of standards for social sectors and corporate governance.

The staff representative from the Policy Development and Review Department replied that the Bank had been cooperating with the OECD on the code for corporate governance. However, in the Bank Board's discussion, the argument had been made and accepted that it could not be considered a standards-setting body.

The Acting Chairman asked where the principles used in the development of standards for social policy would come from.

The staff representative from the Policy Development and Review Department responded that those principles were not part of the overall set of standards and codes currently used. It was appropriate to say that the Bank would contribute to assessing standards, given that it participated in such assessments jointly with other agencies.

The Acting Chairman said that the Bank should not be excluded as a standards-setting body; using the language "the World Bank and other bodies" was appropriate.

Mr. Eyzaguirre said that paragraph 18 should not say that the Executive Board had determined that the Fund should focus "primarily" on preparing assessments, but perhaps "exclusively" on preparing assessments.

Mr. Shaalan suggested that the word "primarily" be removed entirely so that the phrase would say that "the Fund should focus on preparing assessments."

The Acting Chairman and Mr. Collins agreed with Mr. Shaalan's proposal.

Ms. Lissakers commented that the second topic in Box 2, on reserves adequacy, left the impression that the Fund would rely primarily or principally on early warning systems to assess the risk of crises. The earlier language, which said that the Fund and others had increasingly focused on ways to assess the risk of external crises, and had begun to test the comprehensive early warning systems for emerging market economies, gave a better impression of the situation.

The staff representative from the Policy Development and Review Department agreed with Ms. Lissakers's point.

Mr. Luo said that paragraph 22, saying that the FSAP was established by the Board in May 1999, should instead say that it was designed in May 1999.

The staff representative from the Policy Development and Review Department suggested that it say the FSAP was introduced in May 1999.

Mr. Luo agreed with proposed` wording.

Ms. Lissakers commented that while paragraph 18 correctly expressed the idea of shared ownership of the standards assessment, the question was whether some mention should be made there or in paragraph 20 of the shared ownership between the Bank and the Fund of the reform programs.

Mr. Collins said that he would expect that Box 3 would make mention of the FSSA.

The staff representative from the Policy Development and Review Department replied that the FSAP was a broader concept, which included both institutional and vulnerability issues. The FSSA, the document that came to the Fund Board, focused more on vulnerabilities. The staff had not specified the FSSA, partly to simplify the language. It considered that the FSAPS would contribute to the work of both institutions in the financial sector area, including the Fund's Article IV consultations. That meant that vulnerability aspects would be dealt with under the FSSA, while institution building aspects would be addressed through the Bank's particular instruments.

Mr. Collins commented that it would help if that aspect were clearly outlined in the document.

The staff representative from the Policy Development and Review Department agreed that that should be done.

Mr. Takeda suggested that the previous version of the Report was consistent with the preliminary version of the summing up on capital account liberalization, but since then the tone had shifted substantially toward anti-control and pro-liberalization. Paragraph 26 referred to the previous Board meeting, but, according to the record, the discussion had been inconclusive, as Directors had expressed the need to look into specific country cases in more detail and the discussion had been extended. In the subsequent discussion, evidence was presented on how capital outflow controls could result in a failure, but at least in the Malaysian case were considered to be successful. That understanding was different from the conclusion in paragraph 26.

Ms. Lissakers commented that paragraph 26 accurately reflected the distinction Directors had made between controls on inflows and outflows. Both the staff paper and Board discussion had raised strong questions in the Malaysian case about the role that the capital controls had actually played in the outcome. There was not enough in either the discussion or the paper to shift the weight of opinion that the case for controls on short-term inflows was stronger than that for controls on outflows.

Mr. Kelkar recalled that the Board had expressed an appreciation for the need for controls on short-term capital, thus he had a problem with the last sentence of paragraph 26.

Mr. Luo shared Messrs. Takeda's and Kelkar's viewpoint that the paragraph should be more balanced.

Mr. Takeda commented that Ms. Lissakers had raised a valid point. However, when some controls resulted in a failure or even a disaster, it was often difficult to see to what extent the control itself was the reason for the failure or disaster.

Mr. Portugal shared Mr. Takeda's view that the tone of the revised Report had shifted substantially from the previous one, in the attempt to capture the flavor of the summing up, which had yet to be finalized. The phrase that was in the earlier draft should be reintroduced, saying that the case-by-case approach to capital account liberalization was needed.

Mr. Shaalan agreed with the points raised by Messrs. Takeda and Portugal.

The staff representative from the Policy Development and Review Department said that it had been difficult to summarize what had been a long summing up. A reference to the case-by-case approach to capital account liberalization could be incorporated in the Report.

The Acting Chairman added that the phrase should say "paying attention to individual circumstances."

Mr. Chelsky suggested that the point about the case-by-case approach had been made repeatedly in paragraph 27, for example in saying that the room for policy maneuver that capital controls were capable of providing had varied greatly across countries, reflecting a variety of factors.

Ms. Lissakers said that the tone was somewhat more balanced, although she found the Report still more embracing of capital controls than either the staff papers or the Board discussion had been. She was troubled by the third and fourth bullets of paragraph 27 because they seemed to suggest that the Board was indifferent between capital controls and prudential controls. That was not accurate; prudential controls were, broadly speaking, less distortionary than capital controls. The third bullet should include a reference to the fact that more work needed to be done to determine whether capital controls, particularly on short-term inflows, might temporarily and partially substitute for prudential arrangements. Similarly, the statement that such policies might to some extent be an alternative to capital controls made it sound as if capital controls were preferred, but that as an extreme measure one could resort to prudential regulation. That sentence should be eliminated, Ms. Lissakers stated.

The staff representative from the Policy Development and Review Department replied that that paragraph reflected some of the views on both sides of the issue that had been raised in the discussion of the summing up. If Ms. Lissakers's suggestions on the two bullets were accepted, in order to meet the concerns of other Directors, the beginning of paragraph 27 could be: "In more recent discussions, Directors agreed that there was no single best approach to securing the benefits of liberalization while limiting risks," putting a focus once more on liberalization, the staff representative suggested.

Mr. Takeda said that it was not clear why the paragraph should begin with a reference to liberalization, as there was no explicit discussion of whether Directors supported liberalization. That issue could have been raised if another issue that was postponed after the Annual Meetings had been discussed, but it was not.

Ms. Lissakers said that the staff was proposing to eliminate the reference to Directors continuing to support further liberalization, so that it would say that in more recent discussions, Directors had agreed that there was no single best approach to securing the benefits of liberalization while limiting the risk. It was hoped that the Board had not abandoned a general view that there were significant benefits from capital account liberalization.

Mr. Takeda said that there was an understanding that, although there were benefits to liberalization, one needed to be cautious in terms of its pace and sequencing. Unless that was addressed, one could not comprehensibly endorse the benefits of liberalization. It was necessary to review the costs and benefits of the capital controls, and the lessons learned from country experiences.

The Acting Chairman commented that he recalled the discussion on liberalization differently and thought that the last bullet point in paragraph 28 reflected it. It was not clear why Mr. Takeda wanted to remove the reference to liberalization from the summary.

Mr. Takeda said that he was not suggesting removing the reference to liberalization, but saying that it should be part of a gradualist approach to something broader.

Mr. Eyzaguirre wondered whether, in the second bullet of paragraph 27, the Board could agree that the nuanced second sentence, stating that controls on inflows could be used as a supplementary device, and in situations with large and persistent inflows, appropriately weighing costs and benefits, reflected the view of the Board in general rather than some Directors. That would appear to be appropriate, especially in light of what was said at the end of paragraph 26, that there was more support for the view that countries could help shift the composition of inflows to longer maturities.

On the third bullet, he agreed with Ms. Lissakers that the interface between controls and prudential measures needed to be further explored, Mr. Eyzaguirre said. He would propose dropping the last sentence of that bullet.

The staff representative from the Policy Development and Review Department said that in paragraph 27, the staff had tried to put the discussion that took place on controls into the context of what had happened previously. In more recent discussions, Directors had agreed that there was no single approach to securing the benefits of international capital flows while limiting their risks. That language could be used, if Directors wished. That would go further in the direction of Mr. Takeda's viewpoint.

The staff could put some reference to the case-by-case approach to capital account liberalization, probably in the last bullet of paragraph 27, the staff representative said.

In the third bullet, a phrase could be added, as Ms. Lissakers suggested, in the second line saying that more work needed to be done, the staff representative noted. It was not clear if the last sentence should be eliminated, as Mr. Eyzaguirre suggested, it included some flavor of the summing up, and captured the discussion that had taken place. There had been a further suggestion to drop the second sentence in the next bullet to avoid the issue of the confusion between the prudential measures and capital controls.

Ms. Lissakers agreed with the suggestion made by the staff to accommodate Mr. Takeda's viewpoint, which would focus on the debate the Board had had about capital controls and the trade-offs. It should be assumed that the Board supported liberalization, but she was satisfied with the formulation of that section, which would refer to the recent discussions, and say that there was no single approach to securing the benefits of liberalization while limiting the risks.

On the third bullet on the top of page 14, she agreed with Mr. Eyzaguirre that the last sentence should be removed, because it suggested that the Board had already concluded that capital controls on short-term inflows could be a useful substitute for prudential arrangements, Ms. Lissakers's remarked. The Board had said that it needed to study that issue further.

The staff representative from the Policy Development and Review Department agreed with Ms. Lissakers's point.

The Acting Chairman suggested that the staff check whether in fact all Directors had agreed, as Mr. Eyzaguirre suggested, that controls on capital inflows, as a supplementary device, and in situations with large and persistent inflows, might be warranted.

The staff representative from the Policy Development and Review Department explained that the staff had been careful not to suggest that paragraph 27 represented the exact balance of the summing up. The Report was not meant to capture everything that the Board had said in exactly the same weight as in the summing up. That was why the staff thought that it should add a qualification and put "some" rather than "all" Directors.

The Acting Chairman suggested that a careful look at the discussion would support the use of the phrase many Directors.

Mr. Chelsky suggested that the reference to improving incentives for voluntary agreements be expressed more explicitly in paragraph 33. The Report could note the broad need to enhance incentives for creditors and debtors to reach voluntary resolutions, as voluntary agreements could extend to areas besides sovereign bonds.

Mr. Yakusha proposed that the language in Box 5 be modified to clarify that while several cases relating to private sector involvement were ongoing, they were not all necessarily difficult cases. In addition, more cases than just the four noted in Box 5 should be referenced.

Mr. Collins suggested omitting Box 5, given the complicated and fluid nature of the cases to which it referred.

The Acting Chairman responded that the Board of Governors was expecting a report on the Fund's experience on the four case studies mentioned in Box 5, and therefore it would be better to keep Box 5. In addition, the Board of Governors needed to be informed of the difficulties the Fund was encountering in the area related to involving the private sector.

Mr. Spraos noted that Box 5 and the text in the Report on involving the private sector did not underline sufficiently the problems the Fund was experiencing in the area of private sector involvement. It was nonetheless important that the Fund report on that matter to the Interim Committee.

Mr. Yakusha proposed omitting Box 5, as some of the cases it included were ongoing.

Mr. Donecker suggested that ongoing country cases referred to in Box 5 be clearly noted as such, and that Box 5 would therefore only refer to developments up to the corresponding date.

The Acting Chairman agreed with Mr. Donecker's suggestion.

Mr. Portugal asked whether the reference to Brazil could also be modified.

Mr. Donecker said that, unlike the other cases referred to in Box 5, Brazil was not a case where the Fund's resources played a catalytic role.

The Acting Chairman noted that, while the Fund's resources did not primarily play a catalytic role in the case of Brazil, the approach to roll over the credit lines was an essential part of the agreement with Brazil and was therefore a good example of private sector involvement.

Mr. Donecker commented that the introductory paragraph of Box 5 made it clear that, while the private sector did get involved in the four country cases cited, the emphasis in Box 5 was on the catalytic role of the Fund.

The Acting Chairman noted that there seemed to be a disagreement with Mr. Donecker on the definition of the catalytic role of the Fund. However, it would be difficult not to include in that definition the use of the Fund's influence to involve the private sector.

Mr. Donecker said that he agreed with the Acting Chairman's comment.

The staff representative from the Policy Development and Review Department confirmed that the title of Box 5 would be changed to refer to the cases as examples of some recent experiences in the area of involving the private sector, and to replace the word "difficulties" in the third line of paragraph 33 with "several issues".

Mr. Spraos suggested replacing "difficulties" with "problems."

The Acting Chairman accepted Mr. Spraos's suggestion.

Ms. Lissakers suggested that in paragraph 32 there should be more clarity in the distinction between a broad framework and more detailed rules or guidelines. The third line, saying that differences in country circumstances made it difficult to specify in advance the detailed framework, should instead say that they made it inadvisable to specify in advance the detailed framework, which was the issue. It was difficult to adopt one formula that would cover every country.

The next sentence, rather than starting with the word "however," should say "nevertheless," make reference to the G-7 framework, and then say that Executive Directors considered that over time it would be possible to refine further the approaches laid out in the framework, Ms. Lissakers suggested.

Mr. Portugal agreed with most of Ms. Lissakers's suggestions. The last phrase should say that Directors considered that the balance of the various considerations reflected in the report of the G-7 ministers represented a helpful base, which was in the summing up; not everyone had agreed that all of the principles and tools had to be refined further.

The staff representative from the Policy Development and Review Department confirmed that that was the language in the summing up. However, Ms. Lissakers had asked whether it would be possible to refine the principles further. One argument was that the set of principles was still general; to refine them further would suggest that they were more specific than they actually were. That was why the paragraph had suggested working toward a more general set of principles.

Ms. Lissakers commented that it would be logical to work down from the broad framework to something more defined, as one gained experience with the process. First, one would introduce detailed rules that would work for every case. Second, one would construct a broad framework, which was generally a good one. Third, it might be possible over time to refine the approaches laid out in that framework.

The staff representative from the Policy Development and Review Department said that he had no problem with Ms. Lissakers's proposal if other Directors agreed with it.

Ms. Lissakers noted that the first bullet of paragraph 33 on improving the incentives for voluntary agreements appeared to have arisen out of some comments she had made in the context of the Ukraine discussion. However, that phrase might lead people to the incorrect conclusion that the Board was looking for enhancements of the incentives, and it should be dropped.

The Acting Chairman supported dropping the phrase in question.

Mr. Chelsky said that he was concerned about that point being made in the paragraph on sovereign bonds as opposed to the general paragraph. With the changes, the first sentence would say that work was focusing on how to develop the principles and on developing further the tools to be applied in specific cases, and on enhancing incentives for creditors and debtors to reach voluntary agreement on appropriate terms.

Ms. Lissakers was concerned about saying that the incentives would be enhanced, which the Fund was not doing.

The Acting Chairman asked what the incentives would entail.

Mr. Chelsky noted that in his statement on the private sector, he had talked about a framework where one would raise the cost to creditors for non-cooperation and make default more credible by lowering the cost of default to debtors. Default was not credible, and it was impossible to get a voluntary resolution because the incentives were inadequate to allow that.

Mr. Portugal agreed with Ms. Lissakers that the mention of incentives should be eliminated, because those were not incentives.

The Acting Chairman noted that the Board appeared to be against the mentioning of incentives.

The staff representative from the Policy Development and Review Department said the last phrase of the first bullet would be eliminated and the second sentence would end after "voluntary agreements with creditors."

Mr. Chelsky explained that he was referring to incentives in the general sense. To the extent that no one wanted to have to impose an institutional solution, the incentive structure should be such that the parties involved would come to a solution that would lead to a satisfactory outcome. There was no hidden meaning behind incentives, unless there was another phrase that encapsulated what was meant by incentive structure, that was, who had an incentive to participate, and on what terms.

The Acting Chairman said that, given the sensitivity of the situation, particularly with Ecuador, where the parties believed that the Fund would propose some sort of incentives, it was perhaps better to leave out the mention of incentives altogether. A discussion of a stay was implicit in the last bullet point; it was better to be precise and not leave the incentive issue to be misinterpreted.

Mr. Eyzaguirre said that, regarding the second sentence of the first bullet of paragraph 30, the language of the summing up suggested that some Directors had more specifically underscored the possibility of industrial countries including collective action provisions in their sovereign and private bond issues. It would thus be more accurate either to retain the phrase "some Directors" and explain that particular feature to show what those Directors had underscored in the Board meeting, or say that it involved much more than "some Directors."

Ms. Lissakers noted that the second bullet of paragraph 33 included a typographical error, and should read "the" IMF. Furthermore, the phrase "should be limited to specifying" might be excessively restrictive, and it should be changed to "focus" or "concentrate on" specifying. It was not clear whether the Board wanted to rule out any other involvement.

The Acting Chairman agreed with Ms. Lissakers.

Mr. Portugal agreed with Mr. Eyzaguirre's comments about paragraph 30. He was one Director who had raised that point, and he had mentioned both the public and private sector.

The staff representative from the Policy Development and Review Department said that, regarding Mr. Eyzaguirre's point, the language of the summing up had been intentionally ambiguous. The staff had felt that to mention both sovereign and non-sovereign bonds would confuse the issue, because, in contrast to sovereign bonds, non-sovereign bonds were renegotiated against the background of a legal framework. Therefore, the term bond issues referred to sovereign bonds, which was why the staff had used the phrase "some Directors."

Mr. Eyzaguirre responded that if the phrase did not detail the type of bonds in question, it should note that support was widespread and not limited to some Directors.

The Acting Chairman stated that if that was the case, the phrase would be changed to "most Directors."

Ms. Lissakers suggested that the word "many" was more accurate.

The Acting Chairman accepted Ms. Lissakers's suggestion.

Ms. Lissakers said the third bullet of paragraph 33 created confusion about the Fund's role. The institution should not define financing packages, restructuring, or other such issues. Its primary task was to define the critical elements of medium-term debt sustainability, not decide on comprehensive bank analysis. That suggested that the Fund would have a much more direct hand in negotiations with creditors than it should. She suggested deleting the phrase "deciding how comprehensive financing packages should be," and substituting "the basis for defining the critical elements of medium-term debt sustainability," and substituting "needed" for "involved," which suggested that the Fund was dictating whether the restructuring of individual credits on an ad hoc basis sufficed or whether the member would need a comprehensive restructuring of such instruments.

The fifth bullet of paragraph 33 raised the question of the role the Fund should play in establishing creditor committees, Ms. Lissakers noted. The Board should not endorse or prescribe formulas for creditor committees; that was for the creditors themselves to work out. Instead of saying that the staff would work with the private sector, it should say that Directors indicated that there might be a role for the official sector to play with private market participants to develop principles for the operation of credit or committees. It was best to delete the reference to developing principles as well as the last sentence, as any principles the Fund laid down would likely be viewed by creditors as not being in their best interest. There was no history of officially endorsed bond holder councils that had been considered particularly useful.

Mr. Donecker understood Ms. Lissakers's point, but noted that the Fund had been asked to provide leadership in the field. The first sentence went in that direction. Although the last sentence could be eliminated, it would be useful to show that the Fund was willing to take an active role in developing principles or rules. The Board could offer its endorsement once the staff came forward with some proposals.

Mr. Portugal supported Ms. Lissakers's suggestion. It would be better to eliminate that phrase as well as the reference to broadening the endorsement. If that was not done, the paragraph should better reflect the discussion. The summing up said that although Directors acknowledged the principles, they were concerned about the Fund's involvement in developing them. Those were different issues.

Ms. Lissakers agreed with Mr. Portugal. The paragraph suggested that the Board had devoted much more time and attention to the issue than it actually had.

The Acting Chairman suggested that at the end of the second sentence it could be said that as experience was gained in the area, the staff would be encouraged to draw lessons that could be useful in the development of mechanisms for dealing with some of the problems in the future. That would suggest a more passive attitude; the Fund would watch with care, seek to draw conclusions, and make suggestions. But that would not imply that it was a high priority activity. That would also rightly point out that there were some differences in the views of some members of the Board, who wanted to ensure private sector participation but did not want to do much about it.

Ms. Lissakers agreed with the Acting Chairman's proposal. In the fourth bullet of paragraph 33 on lending into arrears, it should be said that such lending would only be on a case-by-case basis, in circumstances where early support was judged to be essential to the success of the adjustment effort and where the member was "pursuing corrective economic policies," Ms. Lissakers stated. Such wording would describe the good policies under which the Fund would consider lending into arrears.

The Acting Chairman agreed with Ms. Lissakers's suggestion.

Mr. Eyzaguirre said that the third bullet of paragraph 35 was not clear, as it contained too many ideas. If pegged exchange regimes were likely to continue to be the preferred choice of countries, the second sentence should read, "given that more capital flows are likely to be present, the requirements for sustaining a peg are going to be more extreme." Perhaps another bullet would be needed in the sense that, as a general matter, the more integrated countries became with capital markets, the more important the need for consistent exchange rate regimes, which would imply either a hard peg or a well-anchored float.

Another staff representative from the Policy Development and Review Department said the staff considered it acceptable to split the point into two bullets.

Mr. Donecker said that paragraph 36 should say that whatever form of exchange regime was adopted by a member country, Fund surveillance and programs must consider whether the member's policies were consistent with that regime "and vice versa." Part of the message of the staff paper was that there must be consistency. The Fund should look at the policy of the country and advise it as to whether the exchange rate supported that policy, or whether it should possibly use a different exchange rate system. It was not just a matter of accepting a chosen exchange rate regime and seeing whether the policies were consistent with that regime. The inverse was more relevant: the Fund should first look at the policies and advise whether the country's exchange rate system was consistent with them.

Another staff representative from the Policy Development and Review Department replied that Mr. Donecker's suggestion would make the sentence longer. It might be better to make the point that Fund surveillance in programs must address the consistency between the exchange rate regime and the policies pursued by the member.

The Acting Chairman accepted the staff's suggestion.

Ms. Lissakers agreed with Mr. Donecker. It was important to reflect that the Fund did not take the exchange regime as a given.

The third bullet in paragraph 35, saying that pegged exchange rates were likely to continue to be the preferred choice, should instead say that they "may continue" to be the preferred choice, which would indicate that the Fund was not necessarily endorsing them, Ms. Lissakers stated. The word "however" should be inserted before "other things being equal" in that bullet.

In the fourth bullet, there should be a period after "monetary policy," Ms. Lissakers considered. The next sentence should say that inflation targeting was one option, which would suggest that there were others. At the end of paragraph 36, a sentence should be added saying that the Fund should "indicate clearly to the government if it is not" to reinforce the message.

Mr. Donecker noted that the staff had proposed a different wording that stressed consistency, which was appropriate.

Another staff representative from the Policy Development and Review Department said that the wording proposed was that Fund surveillance in programs had to address the consistency between the exchange rate regime and the policies pursued by members.

Ms. Lissakers and Mr. Woolford agreed with the proposed wording.

Mr. Donecker supported Ms. Lissakers's suggestion of putting a period after the term "monetary policy" in the last bullet of paragraph 35, and saying that inflation targeting was only one option.

Mr. Yakusha wondered whether it was possible to soften the universality of the prescription for corner solutions. In the Board discussion there had not been overwhelming support for that.

Another staff representative from the Policy Development and Review Department replied that it was possible to put something like "tendency toward more flexible" to soften the phrase somewhat.

Ms. Lissakers remarked that the bullet had lost any sense that there had been a discussion and there was a strong preference on the part of the some Directors for corner solutions. The way it was written, and the sequence, suggested that pegs were the first choice and the Board more or less had endorsed that. While many members of the Board did agree with it, many others did not.

Another staff representative from the Policy Development and Review Department replied that that had not been the intention. Some of the nuances had been dropped in the interest of brevity, and could be reintroduced.

Ms. Lissakers suggested adding a bullet to that paragraph, referring to Fund-financed support in the summing up on exchange rate regimes. A bullet could say, in effect, that Directors stressed that the Fund should not provide large-scale assistance to countries intervening heavily to support an exchange rate peg, except in limited circumstances, for example when they were supported by credible institutional arrangements and consistent domestic policies.

The staff representative from the Policy Development and Review Department agreed to the proposed addition, as it had been part of the summing up.

Mr. Donecker proposed a shorter sentence, with the basic message of the summing up saying it should not support an unsustainable peg.

The Acting Chairman recalled that the revised summing up had dealt with the concern about making a statement implying that the Fund was in the habit of intentionally supporting unsustainable pegs with large sums of money. The Fund had never intentionally done that. In two recent failed cases, the U.S. Director had supported such programs.

Ms. Lissakers noted that the Fund had learned some lessons from those experiences.

Messrs. Portugal and Bauche agreed with the Acting Chairman's comment that such a bullet point was inappropriate in the Report, because it was not clear how it would be interpreted.

Mr. Donecker commented that there would always be a judgment call by the staff and the Board as to what was sustainable in a particular country case, such as those of Russia or Brazil. It was correct to stress that the Fund as a rule did not finance unsustainable pegs.

The Acting Chairman said that he agreed with Mr. Donecker's point if there was Board consensus.

Mr. Eyzaguirre said that he supported not financing unsustainable pegs or floats. However, he did not see why it should be continually emphasized that unsustainability was restricted to pegs.

Mr. Yakusha supported Mr. Eyzaguirre's viewpoint.

Ms. Lissakers agreed with the reference to not supporting unsustainable regimes.

The Acting Chairman said that the statement suggested that the Board believed that it had made mistakes in previous cases. However, the Board had not had that discussion, and should not. It was inadvisable to draw such a conclusion and release it, because of how it would be interpreted.

Ms. Lissakers commented that her authorities had drawn some conclusions from the experience with the cases of Russia and Brazil that had indicated a clear bias in favor of corner solutions and skepticism about large-scale Fund support for massive unsustainable pegs.

The Acting Chairman noted that the Board had not reached the conclusion that pegs should not be defended. Directors wanted to say implicitly that pegs should not be defended, not that unsustainable pegs should not be defended, because one frequently could not be certain whether pegs were sustainable.

Ms. Lissakers said there should be language saying that such pegs would not be defended except in certain limited circumstances, for example when they were supported by credible institutional arrangements designed by a currency board and consistent with domestic policies. That was consistent with the summing up of the Board discussion on exchange rate regimes.

The Acting Chairman noted that the summing up in question had been written to avoid sensitivities. If the matter was phrased as a leading decision that had been taken, it would be read as the Managing Director's view.

Mr. Portugal recalled that Ms. Lissakers had said in the discussion on the private sector that not everything in the summing up should be reflected in the Report, only a few points. That also applied to the situation the Board was currently discussing. He thus supported the position that there should not be an extra bullet saying that the Fund should not support countries that were intervening heavily in the market.

Mr. Luo agreed with Mr. Eyzaguirre.

Mr. Collins was not sure that the language of the summing up contributed much to the discussion, but he could support incorporating it if there was strong consensus. There was a recommendation that the Fund should not lend to support unsustainable pegs, except when it was appropriate to do so.

Mr. Donecker agreed with Ms. Lissakers, because the point was also covered in the Articles of Agreement.

Mr. Eyzaguirre remarked that the two positions were close. There was a general sense that countries that were relatively less integrated with capital markets could afford to be in the middle, but they were advised to strengthen their regimes as they got more integrated. Further, there was a sense that for those emerging markets that were far more integrated or for small industrial countries, those requirements were far more demanding. Fund lending into any unsustainable regimes would be inappropriate.

The Acting Chairman remarked that it was management's Report, and management did not want to tie its hands or the hands of the Board in cases such as Argentina, by releasing such a statement. It was clear that there would be a certain interpretation of the statement vis-à-vis Argentina, because there were few pegs left where the issue could possibly arise, and it was the biggest case.

Mr. Rouai commented that the discussion on exchange rates was ongoing, and there was a reference that the Executive Board had had a preliminary discussion. It was therefore not important to take a strong position on such a sensitive issue.

Mr. Melhem remarked that perhaps it was best to leave the point out of the Report for the time being.

Mr. Spraos commented that it was wrong to include a bullet saying that the Fund should not support countries that were intervening heavily in the market, because that had not been the sense of the Board.

The Acting Chairman asked why Directors wanted to add the point when paragraph 36 was adequate.

Ms. Lissakers replied that that was because paragraph 36 dealt with exchange rate regimes, while the staff said that the larger issue dealt with both surveillance and programs.

Mr. Himani supported the position of the Acting Chairman.

The Acting Chairman concluded that it was management's decision whether to include the point. Management's view was that the statement would be regarded as referring to the case of Argentina. However, the Board had not yet taken a stand on that issue. Paragraph 36 was sufficient in urging consistency of policies with the regime. The Board would revisit that issue in time in a particular case or in general. Putting it in the Report as a conclusion of the Board would imply that that was how management wanted to leave the Report on the issue. That did not preclude that position being taken in individual cases.

Mr. Chelsky noted that in the matrix, in the section on Article IV staff reports under the heading next steps, national authorities were encouraged to volunteer for a pilot project that would be reviewed before the 2000 Annual Meetings. His understanding was that the Board was supposed to get a preliminary review or an information note on the status of the pilot project, and he suggested that that be included.

The Acting Chairman said the matter would be examined and the point added if needed.

Ms. Lissakers asked whether there should be some reference to post program compliance under next steps on the use of Fund resources.

The staff representative from the Policy Development and Review Department said that he was not aware that anything was missing, but if there was something specific, it could be added later.

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

The Executive Directors continued from EBM/99/106 (9/20/99) their consideration of a statement by the Managing Director (BUFF/99/121, 9/22/99) on financing issues related to the Enhanced Structural Adjustment Facility (ESAF) and the Initiative for Heavily Indebted Poor Countries (HIPC). They also had before them a paper elaborating on the financial and operational modalities of off-market transactions in gold by the Fund and addressing a number of questions and concerns raised during the discussion of the financing for the continuation of the ESAF and HIPC initiatives at EBM/99/95 (8/30/99) (EBS/99/176, 9/15/99), as well as tables updating information on the status of bilateral pledges distributed to Executive Directors on September 3, 1999 (FO/DIS/99/130, 9/15/99).

The Managing Director made the following statement:

> For the Executive Board discussion of the financing of the ESAF and HIPC initiatives on Thursday, September 23, I would suggest that Executive Directors—in addition to providing further indications of bilateral pledges—also focus on the issue of ring-fencing and on the mitigation of the effect of the Fund's off-market gold transactions on the Fund's net operating expenses.
>
> Ring-Fencing
>
> I had earlier suggested this formulation on ring fencing:
>
> "The off-market transactions in gold by the Fund that are envisaged

will be a one-time operation of a highly exceptional nature that is necessary to allow the Fund to contribute to resolution of the debt problems of the HIPCs at the turn of the millennium and to a continuation of ESAF operations or a successor facility in the Fund."

Mr. Taylor has proposed a slight reformulation of the first part:

"The transactions in gold by the Fund that are envisaged—which would be entirely off-market—will be a one-time operation of a highly exceptional nature... ."

Ms. Lissakers has subsequently proposed the following reformulation:

"The off-market transactions in gold by the Fund that are envisaged will be a one-time operation of a highly exceptional nature that is a necessary part of a broader financing package to allow the Fund to contribute to the resolution of the debt problems of the HIPCs at the turn of the millennium and to continuation of concessional operations to support countries' efforts to achieve sustained growth and poverty reduction."

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

Mitigation of the Costs of Off-Market Gold Transactions

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

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

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

Extending his remarks, the Chairman noted that the Board was now within striking distance of its objectives on the financing of the ESAF and the HIPC initiatives. The G-7 as a group had contributed an amount that slightly exceeded its quota share, with the United States, Japan, Germany, and Italy demonstrating welcome leadership in this regard. If other G-7 countries followed suit, that would encourage other countries, including Austria, Finland, and Spain to confirm their own contributions. Some good news were also likely to be announced by developing countries and emerging economies, including Mexico, Korea, and possibly Argentina, and China. However, the situation was not entirely satisfactory because some countries were not yet on board. If the financing package could not be completed before the end of the day, then another meeting would have to be convened, to ensure completion of the financing package before Sunday morning.

Mr. Taylor made the following statement:

The Korean authorities have advised the Managing Director that they will make their full SCA-2 balance available as a grant. This will require completion of legislative processes, and the authorities are ready to proceed as soon as the body of the membership moves. Korea's contribution would amount to SDR 10.6, or 15.9 on an "as-needed" basis.

I have no more news, except that, in one other country, good progress has been made, but it was derailed by the recent U.S. announcement. The authorities wish to reconsider their contribution together with the issue of the financing of multilateral institutions as a whole.

In a third country, the logistics have defeated the authorities' disposition to contribute generously to the package. Some progress might be made during their next meeting, but perhaps an intervention of the Managing Director would be helpful. I have no news from the fourth country.

Ms. Lissakers made the following statement:

I have nothing to add to the IMF package, but I would like to clarify the announcement made yesterday on the President's supplementary budget request for debt relief. The President asked congress to approve an additional US $ 850 million for debt relief for bilateral and multilateral contributions, which would go to the World Bank's HIPC Trust Fund, and not to the Fund. This is over and above the SDR 332 million from our SCA-2 balances, which we intend to provide for the Fund's contribution. In total, between this supplementary request and the previous budget request, the administration has asked for almost US$1 billion from Congress for debt relief over and above the SCA-2 amounts.

Mr. Pascual made the following statement:

Our position is well known. Spain would consider favorably a contribution of an amount equivalent to our holdings in the SCA-2, if the G-7 and other developed countries also contribute amounts beyond their quota share. This is a particularly important consideration for our government.

Mr. Carstens is making efforts to increase Mexico's pledge, which as you know, intends to contribute well beyond its quota share. This is a good example for all of us.

The Chairman welcomed Spain's intention to contribute the equivalent of its SCA-2 balances, which were significantly larger than its quota share. He also welcomed Mexico's efforts, pointing out that there were positive indications that the Mexican authorities were considering contributing SDR 55 million on an "as-needed" basis in 5 installments of SDR 8 million.

Mr. Kiekens made the following statement:

We welcome the news that the G-7, as a group, has now confirmed pledges amounting to its quota share. Consequently, my Austrian authorities are willing to reconsider their former position, but that is all I can say, at this stage.

The Czech Republic is willing to reconsider its initial pledge in light of further pledges by leading countries. I will report to the Czech authorities the valuable new information that we now have on the contributions of the G-7. I am optimistic that that will encourage an additional contribution from the Czech Republic.

In the meantime, I will continue consulting with my authorities, including in central Europe to encourage pledges at an appropriate level.

The Chairman asked whether the Czech contribution would amount to the equivalent of the country's quota share.

Mr. Kiekens said that that was being considered, but he could not confirm the decision yet.

Mr. Spraos made the following statement:

> I have nothing to add to the statement made by Mr. Faini on Monday. The large countries in our constituency—which make up 97 percent of the total in terms of quotas—are all intending to contribute their full quota share. Indeed, Portugal will contribute its entire SCA-2 balance as a grant, which will amount to a contribution exceeding its quota share. Italy and Greece will make up with bilateral contributions the difference between the values of the SCA-2 balance as a grant and their quota share.

The Chairman expressed his appreciation, but wondered whether Italy, Greece and Portugal would together take care of the remaining 3 percent of the quota share.

Mr. Spraos said that the members of his constituency would consider that possibility.

Mr. Shaalan made the following statement:

> As you probably know, 10 of the 13 countries that I represent have decided to contribute their SCA-2 balances as zero interest-rate deposits through 2018. I have not had much success in contacting them over the past few hours. Many of them are traveling, and they prefer to act as a group. It has thus been difficult to establish a consensus.

The Chairman thanked Mr. Shaalan for his efforts, and commented that the deposits would closely resemble grants. He asked if a confirmation of pledges could be expected before Saturday evening.

Mr. Shaalan replied that some of the delegations would be arriving the following day, so he could work toward that goal.

Mr. Pickford made the following statement:

> My authorities have not instructed me to make any statement about further contributions as yet. They continue to be prepared—as they have been from the beginning—to go along with your proposal that the Fund should proceed with additional gold sales of up to 14 million ounces, provided all SCA-2 contributors provide at least the grant equivalent of their SCA-2 balances to the ESAF-HIPC Trust.
>
> The United Kingdom was early in providing money for the HIPC Initiative, and that, I suspect, has been to our disadvantage in this end-game process. My authorities are acutely aware of the overall HIPC financing problem, and, indeed, my ministers continue to consider this at the highest level. They are, however, also acutely aware that the success of the HIPC as a whole hinges on ensuring that all institutions' costs are covered. I will simply point out—although it will be of no consolation to this institution—that the

United Kingdom has already pledged to the HIPC Trust Fund more money than any other country except the United States. Even with the U.S. contribution that was announced yesterday by Secretary Summers, in terms of contributions to the HIPC Trust Fund, the U.K. would still be the second largest contributor, contributing 15 percent of the total, which, I note, compares to our quota of around 5 percent.

The Chairman thanked Mr. Pickford for his statement, noting that it was an eloquent plea for not contributing. He emphasized that even if the financing problems of other institutions were resolved, for as long as the Fund faced a financing problem, the HIPC Initiative's success would still not be guaranteed. Given that the United Kingdom had played a decisive leadership role in the Initiative—and even encouraged the Fund to put its reserves on the table, despite the reluctance of many Directors—it would be extremely surprising if the U.K. did not reconsider its position. The U.K. contribution was crucial; it would be extremely difficult to explain why, when the G-7 as a group had exceeded its quota share, countries such as the U.K., Canada and France, which had demonstrated strong ownership of the facility, had failed to contribute commensurately.

Mr. Hansen made the following statement:

I do not have much to add to what I said in the previous meeting, except that, there may be a check in the mail from Denmark for an amount exceeding our quota share. I would be grateful if you could, without going into individual cases, elaborate more on the G-7 contributions. Do these contributions represent real money or are they simply a result of an accounting exercise, as implied by the U.S. chair on a previous occasion?

The Chairman noted that the quota share of the G-7, as a whole, was SDR 753 million, "as needed" and their contribution of SCA-2 balances as grants had reached SDR 776.8 "as needed." Thus, the group as such had exceeded its quota share, but three leading countries had not pledged the anticipated amounts He welcomed the news on Denmark's contribution, and asked if there was also "a check in the mail" from Finland, which had also indicated that it would be willing to make an extra contribution if the G-7 did its part.

Mr. Hansen said that he had no further news on Finland's contribution.

Mr. Chelsky made the following statement:

I was inspired by Mr. Pickford's courage. I do not have anything to add to my statement of September 15, but the substance of your response to Mr. Pickford is communicated to my authorities on an almost daily basis. There is still time before the meetings, and we will continue to express those views at every opportunity.

The Chairman expressed his appreciation for Mr. Chelsky's continuing efforts. He was optimistic that Canada would achieve its proper ranking in this exercise.

Ms. Lissakers, in response to Mr. Hansen's question on the nature of the G-7 contributions, pointed out that the United States intended to transfer to the Fund its SCA-2 balances as a grant—up front—as soon as authorized by Congress.

The Chairman said that up-front contributions would be greatly appreciated, given the need to finalize decisions for three quarters of the beneficiary countries before end-2000.

Mr. Taylor noted that not all countries would be able to contribute their SCA-2 balances as grants without legislation. The sooner the mechanics involved were identified country-by-country the better. Two countries in his constituency that had committed to providing their SCA-2 balances as grants did not have the necessary legislation before their congresses at the moment, and it could be some time before they did.

The Chairman confirmed that several countries would have difficulty contributing before end-1999, for a variety of reasons, including the budgetary calendar. Those countries that had a real problem with immediate disbursement could thus contribute as much as possible through an immediate installment, and then disburse the remaining amounts before end-2001. It was hoped that this would enable as many countries as possible to join in the financing operation, which needed to be universal.

Mr. Cippà made the following statement:

> As you know, we decided on our contribution very early on in the process, and we obtained parliamentary approval. However, I fear that this may not be an advantage now, because you are changing the rules of the game somewhat. We decided, at that time, to provide the contribution in ten annual installments. I am not sure we can modify our decision at this stage.

The Chairman said that his comments had been directed at those countries that had not done as well as Switzerland.

Mr. Houtman made the following statement:

> We were also one of the early contributors to the ESAF and the HIPC Initiative. At this stage, I cannot make any new announcement, but will relay the welcome information on the G-7 contribution to my authorities. Would it be possible for the staff to provide an updated list of the contributions?

Mr. Cabezas made the following statement:

> Two countries in my constituency—Argentina and Chile—have indicated that they will pledge amounts equivalent to their SCA-2 balances as deposits, and they are even willing to go beyond that. Peru is making all

efforts to pledge a contribution equal to providing its SCA-2 balances as a deposit.

The Chairman noted that Directors had provided valuable indications of pledges and there might still be further news before the end of the day. He did not wish to prolong this meeting, which apparently could not be the last. The Board could meet again briefly at the end of the day to see if there were any more indications of pledges. Alternatively, a meeting could be convened the next day, or on Saturday.

Mr. Donecker considered that it would be appropriate to continue the discussion at the end of the day.

Mr. Chelsky had no objection to that idea, but believed that a meeting early the next day might be more constructive.

The Chairman suggested that the meeting should continue the next day at 9:30.

Mr. Hansen reiterated his concerns about the G-7 contributions. The quota share of the G-7 was SDR 1 billion not SDR 776.7 million.

The staff representative from the Treasurer's Department pointed out that the tables distributed to Directors on September 15 included the total of the bilateral contributions sought, which amounted to SDR 2 billion on an "as-needed" basis, but that figure was based on the previous gap of SDR 750 million. However, if 14 million ounces of gold were sold, then SDR 1,540 million was the amount actually needed. Based on quota shares was rescaled to that figure, the G-7 would account for around SDR 750 million.

Mr. Houtman pointed out that, while the initial objective had appeared to be to sell an amount of gold as possible to 10 million ounces, the impression being given now was that the aim was to sell the full 14 million ounces.

The Chairman noted that, with the rapidly approaching deadline, there would need to be many more countries contributing in excess of their quota share for 10 million ounces to suffice.

Mr. Hansen expressed concern that there would be no new money. The required G-7 pledges would be reduced by around 250 million simply because the Fund would be selling more gold than previously anticipated.

The Chairman pointed out that the more bilateral contributions there were, the less gold would have to be sold. With so little time left, a solution needed to be urgently found. The sale of 14 million ounces would help to achieve the objectives before the deadline.

The pledging session was adjourned and the discussion on other related issues continued chaired by Mr. Fischer, Deputy Managing Director.

Mr. Hansen reiterated his request for an updated table on contributions for the next round of discussions.

The Director of the Policy Development and Review Department indicated that the table could be updated to reflect the new quota base on which shares were being calculated. However, the changes in the contributions of individual countries were still in a state of flux, so it was perhaps not the right moment to update the figures.

Mr. Carstens emphasized the need for an updated table before the next meeting. He believed that it would not be too difficult to produce a table showing the required bilateral contributions distributed according to quota shares, assuming that 14 million ounces of gold were sold.

Mr. Taylor, while recognizing the sensitivity of some of the figures in the September 15 table, insisted on the need for an update. If all the confirmed numbers were to be presented as a new percentage of quota shares, there would be no basis for comparison between like countries.

The Director of the Policy Development and Review Department pointed out that there were only a few countries for which an updated figure could be included with confidence at this stage.

The staff representative from the Treasurer's Department agreed that it might not be an appropriate time to update the figures. Very few additional contributions had been announced, and further pledges were likely to be forthcoming shortly.

Mr. Taylor asked the staff to confirm that none of the figures in the September 15 table overstated commitments.

The staff representative from the Treasurer's Department indicated that for Mexico, the figure had been revised from around SDR 90 million on an "as-needed" basis to around SDR 55 million on an "as-needed" basis.

The Acting Chairman asked the staff to point out any other changes to avoid having to revise the table.

The staff representative from the Treasurer's Department pointed out that some revisions had been made before the meeting. The only new pledges made during the Board discussion were Korea's pledge of 15.9 million, Spain's additional pledge of around SDR 16 million, and Mexico's pledge, which, while lower than the original SDR 90 million, was higher than the figure announced in the previous Board meeting.

Mr. Carstens emphasized that the issue was not so much the amounts pledged, but what the table would look like with gold sales of 14 million ounces of gold. The table presented had been estimated assuming gold sales of 10 million ounces.

The staff representative from the Treasurer's Department confirmed that there would be no problem in providing a revised column on the quota-based calculations for each of the countries concerned before the next meeting.

Mr. Spraos observed that the contributions of those countries that had pledged to raise their bilateral contributions up to their quota share needed to be reinterpreted in the light of the new figures.

The Director of the Policy Development and Review Department noted that this exercise had been ongoing for three years, which partly explained the predicament surrounding Mexico's contribution.

As regards the calculations, Directors had correctly focused on the need to review the figures in light of the proposal to sell 14 million ounces of gold, the Director continued. The Managing Director had proposed selling 14 million ounces of gold, if bilateral contributions could reach a particular threshold. That is why the figures had been recalculated based on a lower total of bilateral contributions. Throughout the current, and previous, exercises to raise resources for the ESAF, the Board had not been keen on establishing any particular key. Each country contributed according to its potential, and its relations with the institution. The figures were an attempt to show, on a quota basis, a broad burden-sharing basis for the Fund.

Mr. Taylor wondered if he had misunderstood the information previously provided. He noted, as an example, that in the table dated September 14, Portugal was shown as contributing SDR 4.8 million, as needed, while Argentina and Chile were shown as contributing less than the deposit share. Were those figures correct?

Mr. Carstens pointed out that there was a slight misunderstanding regarding Spain's contribution that he wished to discuss bilaterally with Ms. Christensen.

The staff representative from the Treasurer's Department noted that some important information had been made available since September 15, including the increased contributions of Portugal, Italy, Germany, and Greece.

The Acting Chairman indicated that a revised table would be circulated and called Directors' attention to the Managing Director's statement on ring fencing.

Mr. Donecker strongly recommended that the formulation suggested by Ms. Lissakers should specify the amount of gold sales to be ring fenced—up to 14 million ounces. He also believed that referring to the transactions as "a necessary" part of a broader financing package, would weaken the statement. He thus proposed the following formulation: "The off-market transactions in gold by the Fund of up to a maximum of 14 million ounces that are envisaged will be a one-time operation of a highly exceptional nature, that is part of a broader financing package to allow the Fund to contribute to the resolution of the debt problems of the HIPCs at the turn of the millennium and to continuation of concessional operations to support countries' efforts to achieve sustained growth and poverty reduction."

Mr. Hansen supported Mr. Donecker's proposal.

Mr. Houtman also supported Mr. Donecker. However, he expressed concerned about dropping the explicit reference to the financing of the ESAF or a renamed successor facility. While the omission of the reference to the ESAF would make the text more palatable for domestic U.S. consumption and accelerate the approval of the financing package by congress, it could change the basic principles underlying the comprehensive financing package which had three main purposes: to finance the Fund's contribution to the enhanced HIPC Initiative, to fund the interim ESAF, and to create a self-sustained ESAF. Did the phrase "continuation of concessional operations to support countries' efforts to achieve sustained growth and poverty reduction," refer to ESAF and/or HIPC operations? Would the proposed change be consistent with the intention of creating a self-sustained ESAF?

Ms. Lissakers explained the rationale for the proposed formulation. First, the facility had not yet been renamed; once that had been done, the new name could be included. Second, the language was intended to partly reflect the debate in which the Board had engaged on the change in the design of the ESAF and the HIPC in the context of the poverty reduction strategy that the Fund was about to adopt.

Mr. Donecker's proposal to insert the phrase "up to 14 million ounces" was acceptable, Ms. Lissakers continued. However, removing "a necessary" would be inconsistent with the reality. The gold sales, as indicated by the earlier discussions, were, indeed, a "necessary" part of the package. She recognized that dropping those words might make it easier to sell the package in the Netherlands, but in reality, there would be no HIPC financing without those gold transactions.

Mr. Houtman explained that he was merely asking for confirmation that the new formulation did not imply that the Fund was dropping its goal of achieving a self-sustained ESAF.

Ms. Lissakers pointed out that the gold would only provide part of the financing for the interim ESAF and not finance the self-sustained ESAF.

Mr. Houtman stated that he had thought that both the interim ESAF and the self-sustained ESAF were to be covered by the financing package.

The Acting Chairman noted that the formulation was factually correct, so there was perhaps no need to delve into the motivations and the debate on the permanent, versus the transitory, ESAF.

The Director of the Policy Development and Review Department clarified that the resources that were being sought were intended for concessional lending during the Interim ESAF period.

Mr. Estrella proposed the following formulation, which he felt combined the proposals made by Mr. Donecker, Mr. Taylor, and Ms. Lissakers: "The transaction in gold by the Fund of up to 14 million ounces that are envisaged will be entirely off market. They are envisaged as a one-time operation of a highly exceptional nature that is a necessary part of a broader financing package to allow the Fund to contribute to the resolution of the debt problems of the HIPCs at the turn of the millennium and to a continuation of concessional operations to support countries' efforts to achieve sustained growth and poverty reduction."

Mr. Chelsky feared that that formulation would generate a host of problems. He preferred Ms. Lissakers's wording with only the amendments proposed by Mr. Donecker, and perhaps deletion of the words "that are envisaged," which he found repetitive. In Ms. Lissakers's proposal, the subject was rightly defined as "off-market gold transactions." In the formulation suggested by Mr. Estrella, the subject was "gold transactions," which made a substantive difference. The Canadian chair also shared Mr. Houtman's concerns about ensuring a self-sustained ESAF.

Mr. Hansen, while supporting Mr. Donecker's idea of including a reference to "14 million ounces" agreed with Ms. Lissakers that gold sales were, indeed, a necessary part of the financing package, as illustrated by the previous discussion on bilateral contributions. He thus did not see why the words "a necessary" should be deleted.

Ms. Lissakers considered that, while it was obvious that the gold sales were a necessary part of the financing, it was not necessary to mention this in the statement on ring fencing. She could thus support Mr. Donecker's proposal to delete the words "a necessary."

Mr. Shaalan agreed with Ms. Lissakers's formulation, and Mr. Donecker's suggestion to add "up to a maximum of 14 million ounces." He nevertheless considered that whether that phrase was included or excluded was unimportant.

Mr. Bauche supported Ms. Lissakers's proposal, as amended by Mr. Donecker.

Mrs. Hetrakul supported Ms. Lissakers's formulation with the proposed changes, but suggested adding in the penultimate line "ESAF-eligible" or "low-income" before the phrase "countries' efforts to achieve sustained growth and poverty reduction."

Ms. Lissakers considered that her own formulation was more straightforward. It covered both the eligibility and the objectives, without getting into the issue of what the facility would be called.

The Acting Chairman stressed the need to accommodate various political sensitivities. The elimination of the words "as necessary" would address some concerns, while avoiding the reference to the ESAF would address others.

Ms. Lissakers reiterated that her formulation conveyed the message, without changing the nature of the financing package.

The Director of the Policy Development and Review Department confirmed that there was no inconsistency between Ms. Lissakers's formulation and the idea of a self-sustaining

ESAF. The interim ESAF would begin when the resources allocated to the current ESAF operations had been exhausted. The resources currently being sought were intended to make lending under the Interim ESAF concessional. When those resources had in turn been exhausted, the expectation was that the resources that were currently accumulating in the reserve account would be used for rolling, self-financing, continued ESAF operations.

The Acting Chairman noted that there appeared to be a consensus to adopt Ms. Lissakers's reformulation, with the inclusion of the words "up to 14 million ounces" or "up to a maximum of 14 million ounces."

Mr. Donecker maintained that it would be preferable to make it crystal clear that 14 million ounces would be a maximum.

Mr. Spraos considered that inserting the words "a maximum of" would be repetitive.

Mr. Chelsky suggested removing the words "up to," which would leave "a maximum of 14 million ounces."

Mr. Shaalan insisted that, in an operational sense, the phrase would not, in any case, make much difference.

Ms. Lissakers considered that adding "a maximum of up to" would be an overkill, and suggested using the language of the decision, i.e., "up to 14 million ounces."

Mr. Donecker said that he could reluctantly go along with that proposal.

The Acting Chairman concluded that the following wording would be reflected in the Interim Committee communiqué and in a resolution by the Board of Governors:

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

The Acting Chairman called on the staff to introduce the discussion on the mitigation of the costs of the gold transactions.

The staff representative from the Treasurer's Department noted that the acceptance of gold instead of currencies or SDRs in payment of repurchase obligations would enlarge remunerated positions—or reduce the Fund's SDR holdings—thereby increasing the Fund's net operating expenses. This would, without action to mitigate the impact, result in a somewhat higher rate of charge on the use of Fund credit. Several proposals on how to mitigate costs had been put forward thus far, including distributing the costs between debtors and creditors, or letting the Fund assume part of the cost through a reduction in its net income target. Based on views expressed in recent Board discussions, the Managing Director was now proposing that the mitigation of the cost of gold transactions of up to 10 million ounces should take the form of a reduction in the rate of remuneration, while the mitigation of the cost of an additional 4 million ounces of gold would be absorbed by the Fund through a reduction in its income target.

Ms. Lissakers outlined her alternative proposal, which had been circulated to Directors. The thrust of the proposal was that, rather than shifting the cost directly to members in the form of either higher charges or lower rates of remuneration, the Fund could use excess reserve accumulation to absorb the cost, by reducing the net income target. That would still allow for a prudent rate of reserve accumulation and adequate ratio of reserves to outstanding purchases. Reserves were accumulating at a very high rate, and no real decision had been taken about what to do with them.

Mr. Houtman said that the proposal had been received too late for his constituency to consider it in depth, so he looked forward to staff's comments.

Mr. Shaalan said that he could fully support the proposal given the high level of accumulated reserves.

The Acting Chairman called on the staff to comment.

The staff representative from the Treasurer's Department highlighted the differences and similarities between the two proposals. Under the Managing Director's proposal the mitigation of costs of the sale of 10 million ounces of gold would occur through the rate of remuneration, and the rest through a reduction of the Fund's income target. In Ms. Lissakers's proposal, the cost of the entire 14 million ounces would be mitigated by reducing the Fund's income target. In 1999, the annual impact of gold transactions of up to 14 million ounces would amount to around SDR 70–72 million. If the gold transactions took place in the middle of the financial year, at end-October for example, this would have an impact of SDR 36 million on the cost. Under the Managing Director's proposal, the Fund's income target of SDR 128 million would be reduced to about SDR 115 million. In Ms. Lissakers's proposal, income would decline to around SDR 90 million. The following year, if the income were projected at around SDR 140 million, then under the Managing Director's proposal, the income target would be reduced by SDR 20 million to SDR 120 million, while under Ms. Lissakers's proposal it would decrease by the SDR 70 million to SDR 70 million. In both cases, the rate of charge would remain unaffected. It was also worth noting that by the end of FY2000, the Fund would have accumulated in the General Reserve about SDR 560 million from the SRF.

As regards the impact on the Fund's levels of reserves, under the U.S. proposal, by the end of the financial year, free reserves, conventionally adjusted, would amount to 5 percent of outstanding credit.

Mr. Luo considered that Ms. Lissakers's proposal deserved further consideration by the staff. The staff's proposal would lead to a reduction in the rate of remuneration by 9 basis points for all members with a remunerated reserve tranche position in the Fund. Several elements embedded in such cost mitigation were a cause for concern. First, some creditors were developing countries, whose economic strength and financial capacity could not parallel that of developed countries, so applying an equal reduction to the rate of their remuneration would be unfair. Second, as it seemed that there was no time limit for the reduction, the accumulated total costs could be very high. Third, it was not clear how this implicit contribution would be classified. Would it be counted as part of a current bilateral grant contribution other than the Fund's contribution? Clearly there was a need to pay more attention to these issues and to work out appropriate and fair mitigation arrangements, Mr. Luo concluded.

Mr. Rouai welcomed the Managing Director's proposal. His chair had for some time been calling for a reduction of the net income target to less than 3 percent of reserves.

Ms. Lissakers elaborated on the reasoning behind her proposal, noting that the net income target was set partly to account for a desired allocation to the General Reserve and the SCA-1, and largely ignored the accumulation of SRF income in General Reserve. SRF income was building up; SDR 30 million would accumulate this year, and more than SDR 200 million in 2001. The Fund was accumulating reserves at a faster rate than needed, at least relative to previous benchmarks. It thus made sense to use precautionary reserves to cover costs from losses from debt reduction. Both as a matter of principle, and for practical reasons, this was a sensible way to approach the setting of the net income target for the year, Ms. Lissakers concluded.

Mr. Chelsky was prepared to support the Managing Director's approach, but thought that Ms. Lissakers's proposal offered some valuable improvements. However, he was not willing to support a free reserves target that was significantly below the top end of the 3–5 percent target range. If at a later stage there was a need to depart from the top end of that range, then the Managing Director's proposal would need to be revised and the rate of remuneration adjusted accordingly. That way, the rate of charge would not, at any time be affected by the transactions.

Mr. Shaalan said that he had understood Ms. Lissakers's proposal to apply on an annual basis, with annual reviews of the situation.

Ms. Lissakers indicated that her understanding was that the decision would apply through April 2001, at which point there would be a new decision on the income target, and prudent reserve accumulation. The fact was that the SRF income was uncertain, but there was nothing in the U.S. proposal that would preclude application of the principles of a prudent ratio of reserves to purchases going forward.

Mr. Cabezas supported Ms. Lissakers's proposal.

The second staff representative from the Treasurer's Department noted that the net income target for FY 2001 would be 5 percent of reserves at the beginning of the year. With the deduction of the costs of the off-market transactions, which was estimated to be around SDR 70 million, the effective target would be around 2.5 percent of reserves at the beginning of the year. In addition, balances equal to that amount would accumulate in the SCA-1 account, but the SCA-1 balances were refundable.

The Acting Chairman noted out that this meant that, under current conditions, whatever the reserves, the aim was to increase them by 5 percent during the year.

The second staff representative from the Treasurer's Department noted that Rule I-6 (4) specified that the net income target was equal to 5 percent of the Fund's reserves at the beginning of the financial year. That target could be maintained, but in the calculations, the costs of the off-market transactions would be excluded, effectively reducing the target to 2.5 percent by decision of the Board.

Ms. Lissakers reiterated that, the Fund was currently accumulating reserves—general reserves, including SRF income, and SCA-1 balances—at a rapid rate: more than 12 percent. The U.S. proposal would reduce that rate to around 7.5 percent, at least in the near term. SCA-1 balances were refundable, but that was only if the Board determined that the reserves were adequate to allow a refund. The balances were legitimate precautionary reserves, and would remain so for as long as the Board saw a need for precautionary reserves, Ms. Lissakers commented.

Mr. Hansen asked staff to comment on Ms. Lissakers's interpretation of the status of SCA-1 reserves.

The second staff representative from the Treasurer's Department noted that the Special Reserve, in which the Fund normally placed its net income by decision of the Board at the end of the year, was intended to absorb losses and was not distributable. On the other hand, the General Reserve, in which the SRF income was placed, was refundable and could be distributed to members in proportion of their quotas. As for the SCA-1 balances, they were intended for a specific purpose—namely to protect the GRA against potential losses from overdue obligations to the Fund. They could thus be distributed if there were no more overdue charges or repurchases, or before that, if the Board so decided.

Mr. Donecker remarked that this had also been his understanding. As regards the distribution of costs, he favored a burden sharing based on a cost split of 1:1 between creditor and debtor countries or, at a minimum, a relation of 2:1. However, in view of the difficulties in getting the financing package together, he was inclined to support Ms. Lissakers's proposal, which he considered a good compromise, provided that there was an understanding that the SRF surcharge income would continue to be placed in the Fund's General Reserves, and that a general discussion on the Fund's future policy on reserves could be arranged as soon as possible.

The staff representative from the Treasurer's Department stressed that, if the U.S. proposal were to be carried forward, then the adequacy of reserves would have to be reviewed every year. The proposal's success would depend on there being excess income, but it was unclear, at this stage, how the outstanding credit would evolve; SRF income was currently significant, but total income could decline to SDR 120–140 million in normal years.

Mr. Shaalan noted that reviewing the net income target every April could hardly be objectionable, as this was already the practice. He urged the Board to move forward and to take a decision.

Mr. Chelsky sympathized with Mr. Shaalan's view that it was time to take a decision. He pointed out that the concern voiced by staff had been behind his suggestion that should free reserves fall, or appear to be falling, below the top end of the range of 3 to 5, then the burden had to shift. Up to that point, Ms. Lissakers's proposed model would be more appropriate.

Mr. Taylor joined Mr. Shaalan in urging the Board to take a decision. The most neutral decision would be to avoid trying to preempt future consideration, or taking any offsetting action until April when, in any event, the Board would review the level of reserves.

Mr. Hansen noted that one advantage of Ms. Lissakers's proposal was that it released the developing countries from being charged for "participating in their own meal." However, he was surprised that the Board should support a proposal that would erode the Fund's reserves. It was yet another case of creative accounting—even less transparent than the proposed gold transactions, he remarked. Moreover, the industrialized countries would be obliged in a nontransparent way to contribute, through the lowering of the rate of remuneration.

Ms. Lissakers recalled that when the Fund first started accumulating large inflows from the SRF, the Board noted that the build up was not built into the net income calculations. After careful consideration, the Board decided simply to allow the resources to accumulate in the general reserve, but agreed that if a sound use were to be identified, they would be drawn upon, rather than left to accumulate. The U.S. proposal would, in no way, reduce the level of reserves to outstanding purchases below the level that had been considered prudent for many years, in fact, it would result in a level that was somewhat higher than the historic average.

Mr. Hansen pointed out that there had never been such a large concentration of lending in the Fund's history; two thirds of the lending was directed toward some 10 countries. The Fund thus needed to proceed prudently. This was not an accounting exercise; real world money was being reallocated, he stated.

Mr. Spraos asked staff to comment on Mr. Taylor's suggestion to postpone the resolution of this issue until the next discussion of the income target.

Mr. Kiekens considered the proposal acceptable, but wished to make a few observations for the record. The provision of credit involved risks, he noted. When debtors failed to reimburse their loans, creditors used their reserves to write off the debts. The Fund's Articles of Agreement precluded such action, but the institution had found ways of achieving the same result through nontransparent means, which were objectionable on legal grounds. However, there was a need for transparency on the fact that if countries could not repay, the Fund's reserves would be used. The recent experience in securing pledges made it clear that, in the interest of prudent management, the Fund could not rely on donors or membership to cover credit risks. The institution needed to be substantially protected by its own accumulated reserves.

Two important questions were: first, what could be considered a sufficient level of reserves; and second, how should the burden incurred through the accumulation of reserves be distributed, Mr. Kiekens noted. On the latter question, in a normal market environment, creditors tried as much as possible, through rates charged on debts, to cover their costs, including the risk costs, and to make a profit to distribute to shareholders. The Fund did not function under such normal market conditions, hence the political solution to somehow share the burden of the cost of risks between creditors and debtors.

The Fund's recent decision to increase the rate of charge for some facilities by 300 to 500 basis points represented a substantial change in policies, Mr. Kiekens continued. One of the underlying motivations for the decision was the desire to provide an incentive for early repurchase. However, the reasoning behind that motivation was flawed. The Fund did not operate in a market environment, and could, in any case use its administrative rules to obtain repayment from a country before the scheduled maturity if there were no more balance of payments needs. Nevertheless, the decision had been taken, Mr. Kiekens observed.

The second motivation was to ensure appropriate reserves in light of the increased risks that high access loans entailed, he continued. This argument was more valid, particularly in view of the concentration of large amounts of credit on a single debtor.

In relation to the issue at hand, it was clear that there was no need to compensate the Fund artificially for using its reserves for the scheme, Mr. Kiekens noted. Instead, the Board would need to determine the appropriate level of reserves every year. That was a difficult judgment. The Fund had, indeed, been accumulating considerable resources through the SRF; if the accumulation were considered too high, the normal response would be to lower the additional rates charged on the SRF, but that issue was best not reopened, he commented.

Under the prevailing circumstances, the reserves were insufficient, although this might not be the case ten years hence, Mr. Kiekens observed. If the Fund were a commercial institution, it would apply higher interest rates, in view of the extremely high concentration of credit on extremely vulnerable debtor countries. It was therefore clear that it would not be appropriate to lower the rate of accumulation of reserves. The only issue to be decided was thus the appropriate burden sharing between debtors and creditors—for which the Fund could maintain the current rules, Mr. Kiekens stated.

Ms. Lissakers pointed out that the higher rate of charge on the SRF had not been intended as a risk premium, to cover the Fund's risk, although a few Directors had referred to it in those terms during the relevant discussions. It was meant to discourage excessive use of Fund resources and to provide a strong incentive for early repurchase by applying a premium closer to market rates, so that countries would not simply be arbitraging, opting for the cheapest source of financing even when they had regained market access.

As far as the risk profile was concerned, two of the countries with the greatest exposure also had extremely large accumulated foreign exchange reserves, so they were not particularly risky, Ms. Lissakers noted. Indeed, it was surprising that they had not been repaying their dues more rapidly. In addition, the exercise that the Fund was currently engaged in, whose ultimate goal was debt reduction, would reduce the risk profile of the Fund's portfolio, because the institution would be writing off some bad claims.

Mr. Kiekens agreed with Ms. Lissakers that the exercise would reduce the risk profile of the Fund's portfolio, but viewed the high concentration of risks on a few vulnerable countries with greater concern than she did. In this regard, he pointed to the one billion dollars that would eventually be required to assist Sudan; that amount would not come from bilateral contributions, but from reserves. Similarly, huge amounts were at stake in relation to the Russian Federation, whose public external debt was 90 percent of its GDP, and had a taxation capacity of 8 percent of GDP, in an environment of significant political risk.

The staff representative from the Treasurer's Department confirmed that, until end-1999, and probably longer, the level of reserves as a percentage of outstanding credit would remain above 5 percent, thus beyond the 3–5 percent target range for free reserves.

On whether the burden sharing costs arising from the transactions would be considered a part of bilateral pledges, the staff representative noted that this had not traditionally been considered part of any pledge. That represented burden sharing within the GRA.

As regards the timing of the decision, it might be possible to postpone the basic decision for this year and to take the cost of the gold transactions out of the net income target, and then revisit the issue in the context of the income and reserves review in April, at the end of the financial year, the staff representative continued. However, this would affect the rate of charge, given the way decisions had been established at the beginning of the financial year. The rules provided that any net income in excess of an amount equivalent to 5 percent of Fund reserves at the beginning of this year would be used to reduce retroactively the proportion of the rate of charge to the SDR interest rate for the FY 2000, and that if there were a shortfall in the net income target, it would be added to the following year's income target. Therefore, a decision had to be taken, the staff representative emphasized.

Mr. Hansen expressed concern that while the ESAF and the HIPC initiatives had been built on the principle of voluntary grants, the proposed decision would render contributions mandatory.

Mr. Rouai requested clarification on what would happen to excess income beyond the net income target if Ms. Lissakers's proposal were to be adopted. Would it be used to reduce retroactively the rate of charge? Would the Fund refund the same amount or use part of it to compensate its share in the cost mitigation?

Mr. Collins said that he did not understand Mr. Hansen's concern. The U.S. proposal was the most neutral proposal in terms of burden sharing. Under the Managing Director's proposal, Mr. Hansen's constituents would be affected by the cut in the rate of remuneration, while under the U.S. proposal, the Fund, as a whole, would bear the impact, through a lower rate of reserves accumulation; the rates of remuneration and of charge would be exactly what they would have been in the absence of gold sales.

Mr. Luo reiterated his concern about the need for a fair burden-sharing rule, which took account of creditors' level of development. A fair rule had to be devised.

Mr. Szczuka asked whether if the target were missed both the rate of remuneration and the rate of charge would be adjusted retroactively. Further clarification was needed on who would actually bear the costs.

Mr. Bauche had some sympathy for the U.S. proposal, which he considered more neutral, especially as his authorities believed that creditor countries had to bear the full burden. However, more clarification from staff was needed on whether reserves were in fact insufficient or excessive. It might be advisable, to postpone the decision until there was a clearer financial assessment, he suggested.

Ms. Lissakers emphasized that her objective had, indeed, been to achieve a neutral impact. In setting the income target, the Board had taken a decision on the rate of reserve accumulation, but had ignored the SRF part of the reserves. She was puzzled that Mr. Kiekens, who had been a party to the decision on the net income target, was now arguing that the Board had been mistaken in setting the income target at that level.

Mr. Kiekens clarified that he had supported the decision to ensure the adequacy of reserves, not because they were too high. In his view, the target could have been even higher. He was fully in favor of using accumulated reserves, but other risks had to be taken into account. The proposed use of reserves would reduce the Fund's risks, because it would help to write off loans that could not be recovered. However, substantial doubts about some parts of the Fund's portfolio would remain, and the Board eventually had to deal with that issue.

Mr. Donecker objected to the view that the proposal was one way of facing the reality that the Fund had to write off bad debts anyway. The Fund expected full repayment from debtor countries, and many of them were paying according to agreements. What would happen in the case of Sudan remained to be seen. Sudan was a country rich in natural resources, and there were signs that the conflict was abating.

Mr. Kiekens pointed out that, in Cologne, the G-7 countries had found it necessary to write off 27 billion dollars of claims under the HIPC Initiative.

Mr. Donecker replied that that did not have to be the case for the Fund.

The Acting Chairman called on the staff to clarify the burden-sharing issue, noting that it was implicit in the U.S. proposal that the Fund would be reducing reserves at the margin that, if deemed unnecessary, would have been returned to members in proportion to their quota shares. The burden would thus be proportional to quota shares.

The staff representative from the Treasurer's Department said that that interpretation was essentially accurate.

As regards ensuring differential treatment for countries according to their level of development, the staff representative noted that it was not possible to have different rates of remuneration or charge for different debtor or creditor groups.

With respect to what would happen if there was a shortfall in income, there was no provision for changes in the rate of remuneration, and only the rate of charge would automatically change, the staff representative explained.

Mr. Luo emphasized that the staff needed to find a way to resolve the issue of burden sharing according to the accepted principle that developed countries should contribute more.

Mr. Donecker, however, stressed the importance of the principle of equality of treatment of Fund members. He wondered whether the income target would be reduced by around 3-3.5 percent in the remaining half of the financial year.

The staff representative from the Treasurer's Department explained that if the gold transactions took place at end-October, with an income target of SDR 128 million, the shortfall in income would be around SDR 35 million. Thus, it would be a relatively small amount, in relation to the total reserves of 2.8 billion. Nevertheless, all these elements needed to be reviewed in April, to ensure that Directors felt comfortable about the adequacy of reserves at the end of the financial year, when there would be more information available, including from the forthcoming review of Fund facilities.

The Director of the Policy Development and Review Department noted that under the Managing Director's proposal, the developed countries would be contributing to the extent that there would be a reduction in the rate of remuneration. Whether this could be counted as a bilateral grant from those countries was another question. Presumably, if the liquidity impact of the gold transactions on the GRA were known, then the counterfactual could be calculated and the differential rate of remuneration for each creditor country could perhaps be calculated.

Regarding the discussion on the use of reserves and the writing off of claims, the figures presented by the staff did not take account of any of the possible costs related to Sudan, Somalia, or Liberia, the Director noted. These costs would be an additional consideration when, and if, those countries reached a situation where the institution was again able to assist them. As regards the link that a few Directors were making between claims on the Fund being written off and the lower accumulation of reserves, it was important to note that when HIPC Initiative resources were provided by the Fund to a country, they would be used mostly to repay the country's ESAF obligations, not GRA obligations.

The Acting Chairman suggested that as the decision appeared to be premature, the discussion should be brought to a close.

Mr. Hansen stated that, as there was clearly a majority for Ms. Lissakers's proposal, he would accept it. He stressed that if the intention was to be truly transparent then the use of the Fund's net income to mitigate the costs of the gold transactions had to be publicized together with the rest of the package.

The Acting Chairman concluded that there was a consensus in favor of Ms. Lissakers's proposal, subject to a review of the appropriate rate of reserve accumulation at the time of the income discussion in April 2000. A decision would only be taken when other related decisions had been finalized, including those on the off-market gold transactions and other elements of the financing package. A reference could be made in the publication to the reduction in the rate of accumulation of reserves.

Mr. Kiekens pointed out that there was sufficient support for the adoption of Ms. Lissakers's, but not a true consensus.

Mr. Spraos, while not opposing the consensus, wished to place on record that for his chair, Ms. Lissakers's proposal would be the last resort. The first choice would be to postpone the decision until the Board had all the other relevant information needed to make an informed decision, in particular information on the Fund's actual income position at the end of the financial year. An important consideration was when the higher rate of charge would actually be activated. If that would not be before the end of the financial year, then perhaps the idea that not taking a decision would result in a higher rate of charge was not a valid argument against postponing the decision. His second choice would be to have creditors bear the burden, through a lowering the rate of remuneration not just for the 10 million ounces of gold, but for the whole 14 million. Alternatively, but possibly at the same time, there could be another round of bilateral contributions.

The Acting Chairman noted that there was not much difference between Mr. Spraos's preferred option and the consensus. The issue would, indeed, be revisited in April, when there would be a full discussion of the reserve policy. As for the second preference, whether the Board took a decision immediately or not would then turn on the impact that that would have on the rate of charge. There were thus no negatives to actually taking the decision.

Mr. Collins confirmed his support for Ms. Lissakers's proposal and pointed out that postponing the decision would result in a higher rate of charge than would have been the case if a decision were to be taken. The costs for the current financial year would identifiably fall only on the borrowers, which was the exact opposite of what was desired.

Mr. Rouai asked if staff could confirm Mr. Collins's interpretation of the consequences.

The staff representative from the Treasurer's Department confirmed that a decision needed to be taken before the end of the financial year to prevent any impact on the rate of charge.

Mr. Yanase supported the Chairman's conclusions.

Mr. Szczuka supported the view that the decision could not be postponed. Ms. Lissakers's proposal was a short-term solution, which needed to be reviewed in April 2000, as it was largely based on the assumption that the Fund would continue to accumulate SRF income, implying that it would continue to face crises. He underlined the importance of appropriate reserves accumulation, and noted that his chair would prefer accumulation at a higher rate than 2.5 a year. It was nevertheless an easy way out, as it would be difficult to find a completely equitable solution. Even reducing the rate of remuneration would affect debtor countries, as not only the creditor countries had remunerated positions in the Fund.

Mr. Melhem stated that he could also support the U.S. proposal, subject to Board review in April 2000.

Mr. Spraos noted that, if the higher rate of charge would not be triggered until the end of the financial year, then the decision could be postponed until there was adequate information, including on the income position. The ultimate concern was the rate of accumulation of reserves and the appropriate rate of accumulation depended on the income position, and the risks involved. The Board needed to review the issue comprehensively.

Mr. Chelsky asked staff whether with the U.S. proposal free reserves target would almost certainly remain well over 5 percent in the current fiscal year

The staff representative from the Treasurer's Department confirmed that the level of free reserves in percent of outstanding credit would probably be 5 percent at the end of the current financial year

The Acting Chairman remarked in concluding that some progress had been made on the difficult issues before the Board. First, there was agreement on the formulation of the ring fencing statement. Second, there was sufficient support for the adoption of Ms. Lissakers's proposal to reduce the rate of reserve accumulation to the extent necessary to deal with the income consequences of the reduction in the Fund's liquidity, and to revisit the issue in April 2000.

3. YEAR 2000 FACILITY—ESTABLISHMENT

The Executive Directors considered a staff paper on Fund financial assistance for balance of payments difficulties related to the year 2000 computer problem (Y2K) (SM/99/241, 9/21/99).

Mr. Esdar made the following statement:

I can live with most of the suggestions and just want to confirm some of them.

I strongly endorse the suggestion not to introduce an "exceptional circumstance" clause. With respect to charges, I can support 300 basis points for the first six months, followed by 50 basis points.

In paragraph 2 of the proposed decision, where we define eligibility, I would suggest adding the word "clearly," so the sentence would read, "... the member has a balance of payments need clearly arising from Y2K-related problems."

I would also suggest taking the text from the concluding remarks of our last discussion, which referred to the idea that when we provide resources we also expect the country to use its reserves and other available sources of financing, when appropriate.

With regard to conditionality in paragraph five of the proposed decision, the word "broadly" seems to be a little bit too general. I would suggest deleting it.

Mr. Sdralevich made the following statement:

First of all, I would like to thank the staff for the paper. At this point we are only left with the task of giving suggestions.

We still have a significant identification problem. In other words if all of the eligibility criteria are satisfied, it could still be difficult to distinguish a proper Y2K problem from other balance of payments difficulties, thus bringing about the possibility of potential misuse of the proposed facility. We should also consider that access to the proposed facility is in addition to that under other facilities or credit tranches. Against this background we propose to limit access to 50 percent of quota, with an "exceptional circumstances" clause.

With regard to charges, we would prefer it to be on the upper limit, that is, on the order of 300 basis points. We support the inclusion of an escalation provision.

As to the time schedule for repurchases, they should be clearly strict. We would have preferred a shorter time schedule than the one proposed by the staff, of, say, six months with a repurchase expectation of three months, but we can also go along with the staff proposal.

Lastly, we agree with the proposed starting date of mid-October.

Mr. Hendrick made the following statement:

We have already expressed our support to the adoption of a new, temporary, and short-term facility for Y2K-related balance of payments difficulties. We believe that the draft decision we are discussing today takes care of most of the concerns we discussed in the previous Board meeting, including the difficulty to craft a precise definition of what is a Y2K-related balance of payments problem.

Let me now turn to the details of the draft decision.

On the date of the approval, it is not clear to me that delaying the effectiveness of the proposed facility to mid-October—in about three weeks—will discourage premature and possible inappropriate requests for the use of the proposed facility. Although I do not have a strong view on this, I would prefer to go along with our standard practice of having our Board discussion date as the approval date. The staff's comments on the possible convenience of the delay are welcome.

We have no difficulty with regard to the eligibility and qualification criteria.

On access, I would support the proposal to maintain the phrase in paragraph 3, "unless there are exceptional circumstances." The reason is simple, as the staff indicates in paragraph 6 of the report, "it is not possible to know what problems may arise nor exactly what an appropriate limit should be. This argument could be used in both ways. Although the Board could revisit access policy under the proposed facility at any time, it is better to leave the door open now and use judgment to decide on a case-by-case basis. After all, as it has been discussed in the previous Board meeting, the whole Y2K facility requires that the Fund continue to exercise good judgment.

We can go along with the proposal for cooperation.

On charges, I am in favor of Alternative B, without an escalation clause. While it is true that it is unlikely that low-income countries may face financial difficulties derived from the Y2K problem, it is better not to discard this possibility.

Finally, we have no difficulty regarding repurchases and other provisions.

Mr. Yakusha made the following statement:

We support the proposal, but note that 300 basis points does not seem like much of a penalty. We are a little bit skeptical about the escalation clause because it is a very short-term facility and may not really perform any useful function. However, we are flexible on that.

Mr. Taylor made the following statement:

My main concern about this, as Mr. Esdar said, is on eligibility. I do not remember a statement from the staff saying what is a Y2K-related balance of payments problem. If there is something in print that covers that, I would like to have a look at it, but I think we ought to be as clear as we can be on paper, not necessarily in the decision, but in the surrounding documents.

As to the rest of the wording of the decision, I prefer Alternative A with a surcharge of 300 basis points and escalation, and if we have that, I prefer an access level of 100 percent of quota. It seems to me those two are closely linked. I would be quite happy with an "exceptional circumstances" clause if we could make sense of that, but I would not press that issue. I would prefer a shorter facility, six months plus three, but, again, I could also live with the staff proposal.

Mr. Rouai made the following statement:

I can support the proposed decision with the following comment. On the date, my preference is to follow our practice and not to put the particular date. It could give an impression that the Fund knows something that is not there.

On eligibility, in paragraph B of the proposed decision, I have problem with the phrase which reads, "... and, if applicable, the measures taken and to be taken in other countries...". It could be easy to identify the origin of the problem and sometimes it could not, and we may be unduly constraining ourselves.

On access, I can go with the proposed 100 percent, and as a precaution I can also support an "exceptional circumstances" clause. On charges, I can support Alternative B. My preference would be no surcharge, but if there is a surcharge, I prefer that it be at the lower end, 250 basis points.

Mr. Shaalan made the following statement:

I can go along with the approval date of the beginning of the proposed facility. Regardless of how hard we try to define eligibility, I do not believe we can ever define or we will not be in a position to define the criteria for eligibility, so we better leave it to the judgment of the staff on a case-by-case basis.

With regard to charges, I have a clear preference for Alternative B and the lower end of the charges, namely 250 basis points.

Otherwise, I can agree with the rest of the decision proposed by the staff.

Mr. Kiekens made the following statement:

Before expressing an opinion on the proposed decision, I want to have an answer to two questions. First, does this proposed decision restrict in any way the rights of members to request access to Fund resources for Y2K problems under the upper credit tranches, and second, what is the meaning of the last sentence in paragraph 12, "In cases of concurrent requests for purchases under this Decision and for purchases in the credit tranches, purchases under this Decision shall be deemed to be made first." I would like to have answers on those two questions before I express an opinion.

Ms. Lissakers made the following statement:

I can support the proposed decision.

On charges, I would favor 300 basis points. I do not think an escalator makes much sense given the short-term nature, but I can go either way. On access, I would prefer 100 percent of quota with an "exceptional circumstances" clause, but if others would be more comfortable with 50 percent access, I could go along with that provided that there is a provision for exceptional circumstances, because as we have said before we do not really know what phenomenon we are dealing with, and there has to be some scope for flexibility when we confront a Y2K problem.

On the repurchase period, we have been in the shorter is better camp, but I could go along with the staff proposal, although I must say the six months with a three-month extension has a lot of appeal. That might be a nice compromise between the shorter and the longer maturities.

On the starting date, I think it makes little sense to delay it. I think October 15 would be a good time to start.

Mr. Couillault made the following statement:

We can support opening the window on October 15. On access limits of the proposed facility, we would tend to support 100 percent of quota, but if we should include reference to exceptional circumstances, I would favor the idea of having a lower limit, for example 50 percent with exceptional circumstances. We should nevertheless have a very careful way to increase the limit in exceptional circumstances. If we want to have exceptional circumstances, we would prefer to have 50 percent access, and adhere to it very carefully.

I support Mr. Esdar's proposal to delete the word "broadly." I think a country should present a satisfactory performance, not a broad one. On repurchases, we support the idea to limit the period to six months, and maybe three months more, but we can go along with the staff proposal. On the surcharge, we prefer to have a 300 basis points surcharge and an escalation clause after six months.

Mr. Hansen made the following statement:

I agree with what Ms. Lissakers said on this issue. I would prefer charges that match the CCL or the SRF with a view toward avoiding any kind of possibility for arbitrage. I can accept any access limit as long as we have an "exceptional circumstances" clause, because I agree with Ms. Lissakers that we are in uncharted waters. So I think 50 percent is okay as is 100 percent. Making the facility effective on October 15 is also fine.

Mr. Ismael made the following statement:

I would prefer no surcharge, but I understand I might be in the minority in this case. I could go along with Alterative B, and would prefer an access limit of 50 percent with an "exceptional circumstances" clause, if there is a consensus. If there will not be an "exceptional circumstances" clause, we would want to see 100 percent access, but I think it is better to have the flexibility.

Mr. Collins made the following statement:

On the start date, I would prefer a later starting date. I think October 15 is a little too early. I could live with that but I would propose beginning of November. On charges, 300 basis points with an escalator is preferred. On repurchases, six months expectation, with a three-month extension.

I have a question about eligibility. In paragraph eight of the commentary, it mentions that the staff will want to know that countries are undertaking some work to correct their Y2K problems, and insofar as the commentary is going to be made public, I do not know whether it will be, I had expected the explanation of the eligibility conditions to be clearer.

Finally, I think the announcement of the proposed facility needs careful handling when it is made public.

Mr. Luo made the following statement:

If there are only two alternatives, I prefer Alternative B. I would also like to mention that I think the Fund should also consider getting ready to provide some kind of technical assistance to members, especially their monetary authorities, in order to help them address better the Y2K problem.

Mr. Harada made the following statement:

First of all, in terms of access limits, as the amount of funds needed cannot be estimated at this stage, we should set the access limit rather low and should also include broader countermeasures for exceptional circumstances. Therefore, we support the usual access limit of 50 percent of quota, with possibly more under exceptional circumstances.

In terms of charges, given the nature of this proposed facility, I think it is natural to require a high rate. Moreover, if we include broader countermeasures for exceptional circumstances, we should set the rate still higher to avoid unnecessary access to the facility. Therefore, I support the three hundred basis points per annum, and an additional surcharge of 50 basis points after the six months of the date of each purchase.

Finally, in terms of the start date of this proposed facility, I would like to support the end of October or beginning of November proposal.

Mr. Kiekens noted that the answer to his first question was contained in page 3 of the staff report.

Mr. Nelmes made the following statement:

We can support a 50 percent access limit with an "exceptional circumstances" clause. We can also support a 300 basis points surcharge with escalation. However, we differ with the staff on the start date of the proposed facility.

Mr. Rouai asked whether an "exceptional circumstances" clause was necessary if the access limit was going to be at 50 percent of quota, as "exceptional circumstances" clauses usually only existed if access above 100 percent was requested.

Mr. Akatu made the following statement:

We can support the proposed decision. With regard to access, we could go along with 50 percent or 100 percent, provided there is provision for an "exceptional circumstances" clause. On charges, we can support Alternative B.

Mr. Melhem made the following statement:

The Y2K facility seems reasonable. I can go along with the proposals regarding the defining circumstances, the shorter repurchase timetable and the duration of the facility.

On access, we have no difficulty with 50 percent or 100 percent. I prefer Alternative B with an "exceptional circumstances" clause. I am also interested in the staff's response to what Mr. Rouai had to say.

Mr. Yakusha was concerned that the proposed facility could provide members with unlimited access at a cost much lower than the market would provide.

Mrs. Hetrakul made the following statement:

We can support that October 15 be the date the proposed facility becomes effective. On access limits, we can go along with 50 percent or 100 percent with an "exceptional circumstances" clause. On charges, we prefer Alternative B.

Mr. González-Sánchez made the following statement:

We do not have any problem with an access limit of 50 percent or 100 percent as long as an "exceptional circumstances" clause is included. On charges, we favor Alternative B. For the starting date, we would favor October 15.

Mr. Esdar asked whether it was necessary to include a reference to an "exceptional circumstances" clause in the proposed decision, or whether the Board could return to that issue once the proposed facility had been established, if the Y2K problem turned out to be worse than anticipated.

The Deputy Director of the Policy Development and Review Department said that as the magnitude of the Y2K problem was unknown, the staff believed that a 6- or 12-month repurchase period was appropriate if coupled with a high rate of charge, which would encourage early repurchase. A shorter repurchase period might be unduly rigid.

The proposed facility could become effective as soon as it was established instead of October 15, the Deputy Director explained.

The Board could modify the proposed facility in the future if circumstances warranted any changes, the Deputy Director confirmed, in response to a question from Mr. Esdar.

It would be difficult to distinguish Y2K problems from non-Y2K problems, the Deputy Director remarked, in response to a question from Mr. Taylor. Some problems could be a combination of the two. The staff, management, and the Board would therefore have to exercise some judgment.

The Fund would expect countries to take measures within their control to resolve potential or actual Y2K problems if they wanted to be eligible for the proposed facility, the Deputy Director said.

As the proposed facility would be separate from the regular credit tranches, the Board could set any access limit to the proposed facility, the Deputy Director explained in response to a question from Mr. Kiekens.

Countries could also make more than one drawing under the proposed facility, if earlier ones proved to be insufficient to help them address their Y2K problems, the Deputy Director remarked.

The Deputy Treasurer noted that, regarding access limits, one of the things the staff had considered was the potential impact on the Fund's liquidity of possible disbursements under the proposed facility.

The General Counsel explained, in response to Mr. Kiekens's question, that a purchase under the proposed facility made at the same time as a purchase under the credit tranches would not affect the level of access, but would affect conditionality in the credit tranches.

The Fund would expect members that wanted to request resources under the proposed facility to take relevant actions to resolve their Y2K-related problems, and also take any necessary measures to address any Y2K-related problems they were causing in other countries, the General Counsel replied in response to a question from Mr. Collins.

The Acting Chairman said that the proposed decision would be circulated on a lapse of time basis the following day.

Mr. Taylor asked what the staff's view was on an "exceptional circumstances" clause. In addition, the eligibility criteria would have to made clearer. If it were not, then he would have to abstain from the decision.

The Deputy Director of the Policy Development and Review Department replied that an "exceptional circumstances" clause would be appropriate if the access limit were less than 100 percent. If it were not, then an "exceptional circumstances" would be inappropriate because of liquidity considerations

It would be difficult to define precisely what kinds of problems could be considered as Y2K related, given the uncertainty surrounding the issue, the Deputy Director commented in response to Mr. Taylor's question.

Mr. Esdar noted that the Fund should design the proposed facility carefully given the uncertainty surrounding the Y2K issue.

Mr. Couillault asked whether the staff knew of any country that would be requesting resources under the proposed facility in the near future.

Mr. Collins said that resources under the proposed facility should not be made too readily available as that could lead to moral hazard.

Ms. Lissakers noted that Y2K-related problems could start earlier than January 1, 2000. In addition, the 50 percent access limit and other safeguards, such as the rate of charge and the short repurchase period, would help to ensure that countries did not request excessive resources under the proposed facility.

The Acting Chairman noted that it would be relatively more difficult to identify a systemic Y2K-related problem than a country-specific one.

Mr. Harada asked whether the Fund would make public members' requests for assistance under the proposed facility. If so, that could deter members from seeking assistance as they might fear the reaction of markets to their requests.

The Deputy Director of the Policy Development and Review Department said that the Fund would not make public cases where a country had requested resources but was considered ineligible for assistance under the proposed facility. However, purchases under the proposed facility would be made public, as it would be hard to hide such issues from the public.

Mr. Couillault asked whether any countries would access the proposed facility as soon as it became effective

The Deputy Director of the Policy Development and Review Department replied that he did not know of any that would.

The Acting Chairman added that area departments did not foresee any member making a request in the near future.

The Board appeared to support October 15, 1999 as the start date for the proposed facility, the Acting Chairman observed. In addition, the precise language for paragraph 2 (b) would need to be made clearer in the proposed decision. It also appeared that the Board was generally in favor of an access limit of 50 percent unless there were exceptional circumstances.

Mr. Esdar said that a member should have to demonstrate that any requests for access under exceptional circumstances were Y2K related.

The General Counsel noted that a member would have to demonstrate that its balance of payments problems were Y2K related to access the proposed facility even without exceptional circumstances.

The Acting Chairman remarked that the word "broadly" would be removed from paragraph 5 (b).

The Board was divided on the question of whether or not to include an escalation clause in the proposed decision, the Acting Chairman noted. It appeared that the Board was generally in favor of a surcharge of 300 basis points, but there was no consensus on including an escalation clause.

Mr. Esdar suggested that an escalation clause be included if the Board agreed to a six-month repurchase expectation followed by a repurchase obligation after another six months.

Ms. Lissakers supported Mr. Esdar's proposal.

Mr. Zurbrügg said that he could go along with the consensus with regard to the escalation clause.

The Acting Chairman noted that the consensus was not in favor of an escalation clause.

Mr. Yakusha remarked that he was in favor of an escalation clause.

Mr. Keshava said that he was not in favor of an escalation clause.

Mr. Dhanpaul commented that he agreed with Mr. Keshava.

Mr. Esdar said that he was in favor of an escalation clause.

Mr. Hansen remarked that he was in favor of an escalation clause.

Ms. Lissakers repeated that she supported Mr. Esdar's earlier proposal.

Mr. Couillault supported Mr. Esdar.

Mr. Harada clarified that he was in favor of an escalation clause.

The Acting Chairman noted that a majority of the Board was in favor of including an escalation clause in the proposed decision.

Mr. Taylor regretted that the eligibility criteria for the proposed facility had not been better explained. As such, he would be abstaining from the decision.

The Acting Chairman informed that the proposed decision would be circulated the following day for approval on a lapse of time basis.

4. TRANSFORMING INTERIM COMMITTEE OF BOARD OF GOVERNORS ON INTERNATIONAL MONETARY SYSTEM INTO INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE OF BOARD OF GOVERNORS—REPORT AND PROPOSED RESOLUTION TO BOARD OF GOVERNORS

The Executive Directors continued from EBM/99/106 (9/20/99) their consideration of a report to the Board of Governors and a proposed resolution on the transformation of the Interim Committee of the Board of Governors on the International Monetary System into the International Monetary and Financial Committee of the Board of Governors (SM/99/231, Rev. 1, 9/21/99).

The Acting Chairman noted that the Secretary had circulated two changes to the original proposal in the staff paper, which had been suggested by several Executive Directors. The first was to eliminate paragraph 7 of the report of the Executive Board to the Board of Governors, (SM/231, Rev. 1), which included the Board's interpretation of paragraph 4(f) of the draft resolution. The second was to add a new subsection in paragraph 4 providing for Deputies meetings in order to help prepare the meetings of the Committee.

The General Counsel commented that a better place to add the new provision was in paragraph 4(a) of the proposed resolution, which dealt with the Deputies meetings. The sentence could be read in different ways, as it said that Deputies meetings would be held at the invitation of the Committee Chairman. However, it did not say whether the Chairman would make an invitation or might make an invitation, only that if he made such an invitation, the Deputies would normally meet, which meant that they possibly might not meet. Another issue was that Executive Directors and Alternate Executive Directors were defined in the resolution but Deputies were not. If the member of the Committee were the Minister, the question was whether the Deputy should be the Vice-minister, the Executive Director, or the Alternate Executive Director. That issue could be avoided if it was clearly said that any representatives of the members, that was Deputies, would participate in the meetings. As there was a provision in paragraph 4(a) for all Committee meetings to be preceded by a consultation with Directors, it would also be good to have a prior consultation with Directors before the Chairman called a meeting of the Deputies. In order to deal with all of those issues, a third sentence could be added to paragraph 4(a) stating that before any meeting of the Committee, and after consulting the members of the Committee, the Chairman would normally call a preparatory meeting of their representatives, or Deputies. Paragraph 7 could then be deleted and replaced with a new paragraph to reflect the change that had been made in paragraph 4(a).

Ms. Lissakers said that she had thought that paragraph 7 would be eliminated entirely.

The General Counsel replied that each proposed change had to be identified in a paragraph of the staff paper and explained. Therefore, it should be noted that a sentence had been added to paragraph 4(a).

Mr. Esdar considered that the amended draft resolution was appropriate.

Mr. Kiekens commented that the resolution proposed by the General Counsel gave the Chairman the discretion to go against the will of the members of the Committee. It said that the Chairman would consult with the Committee, but, irrespective of the outcome of that consultation, he would normally call for a preparatory Deputies meeting. The amendment should stipulate that before any meeting of the Committee, the Chairman would consult with the members of the Committee as to whether to call a preparatory meeting of their representatives.

Messrs. Esdar and Bauche said that they preferred the General Counsel's proposed amendment, which was clearer.

Mr. Kiekens recalled that the staff had earlier concluded that under paragraph 4(f), the calling of Deputies meetings was already possible.

The General Counsel explained that the problem was that Deputies had been meeting to date not as Deputies, in the sense that they were not part of the official structure of the Committee, but outside of that structure. The former General Counsel had made it clear that it had been agreed at the time that the Interim Committee had been established that there would be no meetings of Deputies. However, the practice had started, and Ministers had sent their representatives to those meetings, but they could not be called Deputies meetings in a strict sense because there was no provision for them. The staff was therefore simply proposing to formalize the concept.

Mr. Kiekens said that in the amendment that he had proposed, he did not use the word Deputies but representatives. He did not agree that the amendment could be justified by stating that it formalized a practice that already existed.

Messrs. Luo and Jadhav said that they agreed with Mr. Kiekens's viewpoint.

Mr. Esdar commented that it was generally understood that the Chairman would follow the advice of the Members of the Committee.

Mr. Kiekens said that his proposed amendment was intended to ensure that the Chairman would consult with the Members of the Committee as to whether to organize a meeting of their representatives. In the explanation contained in the staff paper it would be made clear that that sentence established the procedures for calling such a meeting. It would say that before any meeting of the Committee, the Chairman would consult with the Members of the Committee as to whether to call a preparatory meeting of their representatives.

Mr. Bauche suggested that the amendment could say that before any meeting of the Committee and upon consultation of the Members of the Committee, the Chairman would normally call a preparatory meeting.

The Acting Chairman noted that Mr. Bauche was proposing to replace the word "after" with "upon."

The General Counsel said that if Committee Members' consent was required, the sentence would still have to say "in agreement with." The phrase "upon consultation" did not require the agreement of all members.

Mr. Collins responded that that would capture the point that had concerned Mr. Kiekens. He wondered whether it would be better to place the word "normally" at the beginning of the sentence so that it would read: "normally before any meeting of the Committee, and with the agreement of the members of the Committee, the Chairman would call a preparatory meeting."

Mr. Kiekens stated that that wording was acceptable.

Mr. Rouai commented that he preferred the staff proposal that had been previously discussed by the Board, and asked whether it had already been accepted in principle, pending its exact wording.

The Acting Chairman said that the proposal had not formally been accepted, but the Board was in a relatively informal procedure in which it was trying to reach a consensus. There had been some difficulties with paragraph 7, and the Board had come up alternative ways of dealing with it. There appeared to be a sense that there was a need in the resolution to provide for the possibility of a meeting of the representatives or Deputies.

The General Counsel commented that Mr. Collins's suggestion had apparently been acceptable to Mr. Kiekens. The main change proposed for the draft report involved the reference to working groups and subcommittees as a matter of interpretation of the prefered resolution; this reference would disappear entirely. Regarding the meetings of Deputies, the proposed interpretation was being formalized through the addition to paragraph 4(a).

Mr. Portugal said that he did not agree with Mr. Collins's suggestion to move the word "normally" to the beginning of the phrase, as it could refer to everything that followed, for example whether the Chairman should consult the members.

Mr. Collins said that if the word "normally" should govern the phrase; there should be a presumption that there would be such consultation, and that the agreement of the members of the Committee was required for the next stage to happen. The phrase would also read more naturally.

The General Counsel suggested that the word "normally" could be deleted, because the discussion to call a Deputies meeting was subject to the agreement of the members, which was by consensus; thus, the phrase could read "will call a preparatory meeting."

Mr. Schlitzer asked whether replacing the phrase "after consulting with the members" implied that each member of the Committee should agree on holding the meeting, and suggested that the wording might therefore be too strong.

The General Counsel explained that the word "agreement" meant that all members should be in agreement, as the Committee operated on the basis of consensus.

Ms. Lissakers remarked that the issue was getting too complicated, and suggested a simple formulation, that "normally the Chairman, in consultation with Members, would invite Deputies to hold a preparatory meeting."

Mr. Portugal commented that if the word "normally" were put at the beginning of the phrase, the Chairman could do everything without consulting Members, and he would prefer it if the word "normally" remained where it was, in order to capture the idea that the meetings should be called on an as-needed basis.

Ms. Lissakers said that she would be happy with the original formulation, to say that, "normally, the Chairman, in consultation with Members, would call a preparatory meeting of their representatives."

The Acting Chairman remarked that in Ms. Lissakers's formulation, the position of the word "normally" did not make a difference.

Mr. Taylor said that he supported the proposed wording as it called for a Deputies meeting on an as-needed basis.

Messrs. Esdar and Bauche said that they supported Ms. Lissakers's formulation.

Mr. Kiekens said that he supported Mr. Collins's formulation.

Mr. Collins said that he was content to go along with Ms. Lissakers's formulation.

The Acting Chairman said that there appeared to be a consensus in favor of Ms. Lissakers's formulation.

Mr. Kiekens said that the problem of working groups had not been discussed.

The Acting Chairman commented that the removal of paragraph 7 of the draft report deleted the substantive proposal vis-à-vis working groups.

The General Counsel said that the Board was discussing two issues. The first issue was the language concerning the meeting of Deputies, and whether it was acceptable for paragraph 7 of the draft report to say that paragraph 4(a) of the proposed resolution would be amended by adding the proposed sentence. The second issue, working groups, was unresolved, and there was clearly a difference of opinion between the staff and some Executive Directors. The Development Committee had an explicit power to organize working groups and subcommittees, but no such power had been given to the Interim Committee. A number of Executive Directors were of the view that this power was implicit and that there was no need to make it explicit in the resolution. The staff's preference was to normalize such working groups and subcommittees, if the intention was to allow for them. The staff was proposing, if the proposed resolution did not mention working groups and subcommittees, to mention them in the report as a matter of interpreation of the proposed resolution.

Mr. Kiekens asked whether any Directors were opposed to the resolution including the possibility of working groups, as proposed by the staff.

Mr. Charleton recalled that the matter of working groups had been voted on twice and discussed extensively, and that a large majority of the Board had voted to delete the reference to working groups.

Mr. Portugal associated himself with the comments of Mr. Charleton. Even if there was no language in the resolution concerning working groups, the Board would still have the opportunity to decide on that issue later. There was no practical proposal to create subcommittees or working groups at the present moment, so the matter should be left open.

Mr. Shaalan associated himself with the viewpoint of Mr. Portugal.

Mr. Kiekens commented that Mr. Charleton had a fair point, as the discussion had been resolved by Section 7 in the proposal and should not be reopened.

The Acting Chairman said that the Secretary indicated that there had been a significant majority of Directors at the previous meeting that were opposed to the inclusion of a reference to working groups and subcommittees in the resolution.

Mr. Esdar remarked that a sensitive compromise had been reached on that issue, and the language originally proposed by the Secretary and improved by the different proposals at the current meeting should therefore be agreed.

Mr. Kiekens commented that it was inappropriate to make decisions at informal meetings; correct respect for the institutional setting required that there be discussions in the Board and that all members were free to express their opinions.

Ms. Lissakers said that she agreed with Mr. Esdar, and reminded Mr. Kiekens that there had been overwhelming opposition to the working group issue before there had been any discussion of paragraph 4 or its interpretation, thus there was no point in reopening it.

Mr. Zurbrügg stated that he fully shared Mr. Kiekens's remarks, and said that he had not been informed of the previous consultations on the issue.

Mr. Rouai said that he agreed with Mr. Kiekens. The last time the Board had met on the issue, it had agreed on the paper which had been circulated by the staff on that day, now however, it was now discussing a revised paper was under discussion.

Mr. Hansen noted that the Fund was promoting the importance of transparency and equal treatment. The issue of working groups was a case for having equal treatment between the Interim Committee and the Development Committee. He would have preferred the inclusion of working groups in the resolution, although he accepted the majority viewpoint and understood that a sensitive compromise was involved.

The Acting Chairman said that the Secretary had indicated that there had been a preponderance of views at the previous meeting in favor of removing paragraph 7, which included the reference to working groups, and substituting a sentence along the lines of what the staff had suggested, to say that paragraph 4(a) would be changed to add the reference to Deputies meetings, as further amended by Ms. Lissakers. Clearly, there had been a sense that there was insufficient coordination or discussion before the Committee meetings, which the proposed amendment was intended to address. Directors appeared to want to review the wording of the revised paragraph 7, and thus the staff should tell the Board what paragraph 7 would actually say.

The General Counsel said that paragraph 7 would say that a sentence had been added to paragraph 4(a), and then the text would be directly quoted.

The Acting Chairman observed that that appeared to be acceptable. There was a sense that the Board had reached the point at which it agreed on the revised version of SM/99/231, which would be transmitted to the Board of Governors.

The Executive Board took the following decision:

> The Executive Board (1) approves the attached Report and its transmittal to the Board of Governors and (2) recommends the adoption of the Resolution attached to SM/99/231, Revision 1 (9/21/99) by the Board of Governors at its 1999 Annual Meeting.

Decision No. 12059-(99/108), adopted
September 23, 1999

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/99/107 (9/21/99) and EBM/99/108 (9/23/99).

5. USE OF FUND RESOURCES—SIDE LETTERS

Confidentiality

1. The existence and content of side letters will be treated with the utmost confidentiality by management, Fund staff, and Executive Directors.

Definition of Side Letters

2. A side letter is a letter or other written communication from a member's authorities to Fund management or staff containing confidential policy understandings complementary to or elaborating upon those in new or currently applicable letters of intent supporting a request for the use of Fund resources.

3. Understandings contained in side letters will not contradict or detract from those contained in the applicable letters of intent.

Use of Side Letters

4. Members requesting the use of Fund resources are encouraged to include all policy undertakings in letters of intent. Side letters will be used sparingly and only in those circumstances which the authorities consider, and management agrees, require such exceptional communication.

5. The use of side letters to keep certain understandings confidential can be justified only if their publication would directly undermine the authorities' ability to implement the program or render implementation more costly. Accordingly, their use will normally be limited to cases in which the premature release of the information would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.

6. While there is no presumption that particular kinds of measures would be conveyed in a side letter rather than a letter of intent, some matters that could in some cases be considered for inclusion in side letters would be:

(i) exchange market intervention rules; (ii) bank closures; (iii) contingent fiscal measures; and (iv) measures affecting key prices.

Communication of Side Letters to the Executive Board

7. Fund staff will advise members' authorities of this decision pertaining to the communication of side letters to the Executive Board before the authorities send side letters.

8. The Executive Board will consider any side letter in a restricted session soon after the relevant letter of intent is issued to the Board. At this session, each Executive Director's constituency will be represented by only one person. A numbered copy of the side letter will be made available to each such representative and, at the end of the meeting, each copy will be returned. Staff will be present to answer any questions, including questions about the circumstances that justified the use of the side letter.

9. In principle, the full text of a side letter will be communicated to the Executive Board. However, at the request of the authorities, the Managing Director may delete from the copies to be communicated to the Board information of such specificity that:

> (i) it is substantially immaterial to Executive Directors' consideration of the request for the use of Fund resources; and
>
> (ii) disclosure would: (a) seriously hamper the authorities' capacity to conduct economic policy; or (b) confer an unfair market advantage upon persons not authorized to have knowledge of the information.

10. Information that might in specific cases be deleted under paragraph 9 above includes: figures regarding foreign exchange markets (e.g., exchange rate intervention triggers or amounts of intervention), names of specific banks or companies, or specific dates for the introduction of certain policy measures.

Communications about Side Letters by Executive Directors to Members' Authorities

11. Executive Directors who decide to communicate information about a side letter to their respective authorities should: (i) limit the recipients to those who have a strict need to know; (ii) inform the recipients of the need to treat the information as highly confidential; and (iii) inform the recipients about the procedures that

apply to the communication of side letters to the Executive Board under this decision.

12. Executive Directors that communicate information about a side letter to their respective authorities will inform promptly the Managing Director and the Executive Director for the member that sent the side letter of such communication.

Review

13. This decision will be reviewed by the Executive Board within one year, provided, however, that it will be reviewed promptly before that time if the confidentiality of any side letter has not been observed. (SM/99/236, 9/15/99)

Decision No. 12067-(99/108), adopted
September 22, 1999

6. LIBERIA—OVERDUE FINANCIAL OBLIGATIONS—REVIEW FOLLOWING DECLARATION OF INELIGIBILITY—POSTPONEMENT

Paragraph 4 of the Decision adopted on June 25, 1999 (EBS/99/94, Sup. 2), shall be amended by substituting "by October 15, 1999" for "within three months of the date of this decision." (EBS/99/177, 9/15/99)

Decision No. 12068-(99/108), adopted
September 22, 1999

7. JOINT MEETING OF INTERIM AND DEVELOPMENT COMMITTEES—PROVISIONAL AGENDA

The Executive Board approves the provisional agenda for the joint meeting of the Interim and Development Committees on September 26, 1999.

Adopted September 21, 1999

8. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAM/99/130 (9/17/99) is approved.

APPROVAL: August 20, 2001

SHAILENDRA J. ANJARIA
Secretary