June 4, 2003
Approval: 6/11/03

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 03/19

10:00 a.m., March 5, 2003

Contents

Executive Board Attendance

H. Köhler, Chairman
A. Krueger, Acting Chair
S. Sugisaki, Acting Chair

Executive Directors	Alternate Executive Directors
S.M. Al-Turki	A.S. Alazzaz
D. Ondo Mañe	L. Rutayisire
	K. Kpetigo, Temporary
	T.-M. Kudiwu, Temporary
I.E. Bennett	N. O'Murchú
	C. Gust, Temporary
M.J. Callaghan	W. Cho, Temporary
	T. Moser, Temporary
	T. Skurzewski, Temporary
	O. Steudler, Temporary
K. Bischofberger	H. Fabig, Temporary
P.C. Padoan	H. Vittas
	J.N. Santos, Temporary
S.M. Indrawati	I. Alowi
	C. Duriyaprapan, Temporary
Y.V. Reddy	R.A. Jayatissa
	V. Bhaskar, Temporary
	P.R.D. Prasad, Temporary
W. Kiekens	C. Josz, Temporary
V. Egilsson	D. Farelius, Temporary
N. Jacklin	M. Lundsager
	J.W. Ralyea III, Temporary
P. Duquesne	S. Boitreaud
	M. Daïri
	S. Rouai, Temporary
A.V. Mozhin	A. Lushin
	L. Palei, Temporary
	S. Vtyurina, Temporary
	I. Zakharchenkov, Temporary
H. Oyarzábal	M. Beauregard
	R. Calderon-Colin, Temporary
T. Scholar	M.A. Brooke
	B. Kelmanson, Temporary
M. Portugal	R. Steiner
	J. Gallardo, Temporary
	A. Rambarran, Temporary
I. Usman	A.S.F. Atoloye, Temporary
	J. Milton, Temporary
A.S. Shaalan	S.A. Bakhache, Temporary
	S.S. Farid, Temporary
Wei Benhua	Wang X.
J. Kremers	Y.G. Yakusha
	M. Faulend, Temporary

K. Yagi	H. Toyama T. Komatsuzaki, Temporary
G.R. Le Fort	J.A. Costa, Temporary D. Ayala, Temporary

S.J. Anjaria, Secretary
B. Esdar, Acting Secretary
A.S. Linde, Acting Secretary
Z.R. Ahmed, Assistant
M. Schulte, Assistant
S. Soromenho-Ramos, Assistant
J. Morco, Assitant

Also Present

IBRD: B. Mierau-Klein, Principal Economist; J. Haajanen, Sr. Program Officer; P. Arora, Sr. Country Economist; African Department: A. Bio-Tchané, Director; A. Basu, Deputy Director; H. Bredenkamp, B. Christensen, M. Haacker, N. Kirmani, A. Schwidrowski, J. Shields, A. Tahari, M. Tharkur, S. Thomas. Asia and Pacific Department: B. Baker, S. Mitra. European I Department: R. Moalla-Fetini, S. Thakur. External Relations Department: T.C. Dawson, Director; G. Hacche, Deputy Director; M. Bell, S. Bhatia, W. Camard, M. Chatah, S. Donaldson, D. Hawley, P. Kane, P. Loungani, J. Mark, L. Mboto Fouda, J. Morrison, W. Murray, L. Newsom, R. Nord, P. Reynolds, K. Roesser, R. Russell, B. Sarr, L. Wallace, K. White, J. Wolff; Human Resources Department: P. Schoen, I.M. Thorn. Independent Evaluation Office: I. Mateos y Lago; International Capital Markets Department: A. Bertuch-Samuels, D. Cheney, E. Psalida, K. Srinivasan. Legal Department: F.P. Gianviti, General Counsel; S. Hagan, Deputy General Counsel; W.E. Holder, Deputy General Counsel. K. Christopherson, S. Hagan, T. Laryea, Y. Liu, C. Ogada, R. Weeks; Middle Eastern Department: U. Erickson von Allmen. Monetary and Exchange Affairs Department: E. Frydl, A. Giustiniani. Policy Development and Review Department: T. Geithner, Director; M. Allen, Deputy Director; L. Ebrill, P. Fallon, M. Fisher, P. Gajdeczka, A. Kapteyn, G. Kincaid, A. MacArthur, M. Mecagni; Research Department: E. Borensztein, J. Zettelmeyer; Secretary's Department: L. Hubloue, P. Gotur, M. Miller; Statistics Department: P. Cotterell, C. Dziobek; Technology and General Services Department: P. Guilmard. Treasurer's Department: J. Corr, J. Honda, L. Jaramillo, B. Keuppens, J. Lin, Y. Lum, N. Wagner, Z. Zhan. Western Hemisphere Department: M. Figuerola, C. Francis, K. Honjo, A.M. Jul. Office of the Managing Director: A. Mazarei. Office of Budget and Planning: F. Gaitan, T. Wolde-Semait. Advisors to Executive Directors: S. Çakir, P. Gitton, F. Haupt, J. Jonáš, M. Kruger, T. Miyoshi, K. Shbikat, C. Sia, A.A. Tombini, F. Varela. Assistants to Executive Directors: M. Abbing, N.J. Davidson, M. Di Maio, N. Epstein, C.J. Faircloth, N.H. Farhan, M. Jamaluddin, J.T. Kanu, R. Karki, J.K. Kwakye, B.T. Mamba, M.L. Nikitin, B. Reichenstein, J. Salleh, J. Sipko, A. Stuart, Wei X., Yu J.

1. SOVEREIGN DEBT RESTRUCTURING MECHANISM—PROPOSED FEATURES

Documents: Proposed Features of a Sovereign Debt Restructuring Mechanism (SM/03/67, 2/12/03; and Sup. 1, 2/28/03)

Staff: Hagan, LEG; Fisher, PDR

Length: 1 hour, 45 minutes

Mr. Callaghan and Mr. Di Maio submitted the following statement:

Key Points

We now have a concrete proposal for an SDRM to put to the IMFC in April. We commend the staff for their great efforts.

The SDRM must always be kept in perspective. At best it is a long-term proposition which will be a valuable tool for resolving unsustainable sovereign debts, but it is not a "magic bullet".

Importantly, debate on the SDRM has been instrumental in advancing work in a number of areas to improve the arrangements for restructuring a sovereign's debts. This needs to be recognized and highlighted in the report to the IMFC.

The extent of political support for the SDRM will determine the nature of further work on this exercise. But even if there is not support for an SDRM at this stage, it is essential that the international community continue to strive for a more orderly process for restructuring unsustainable sovereign debts. It will be important to keep the concept of an SDRM under review.

The SDRM Must be Kept in Context

The Sovereign Debt Restructuring Mechanism (SDRM) would represent a valuable tool for more orderly crisis resolution in cases where a sovereign's debts are unsustainable. But it is important to keep the SDRM in perspective, for it is not a "magic bullet" for resolving unsustainable debts.

If there is the necessary political support for an SDRM, the details of any amendment to the Articles will require further work and discussion, but the important aspects of the proposal for an SDRM are now before us. A well-developed and 'concrete' plan is now on the table. We commend the staff for their efforts. We have all learned a great deal through this exercise.

The Spring meetings will be the opportunity to see if there is sufficient political backing to take the proposal forward at this stage—although the answer to this question may already be known. As we approach these meetings, however, it is worthwhile recalling that when Ms. Krueger initiated interest in a new approach to sovereign debt restructuring, she noted that the SDRM concept was a long-term proposition—even if all the details could be quickly resolved, it would be take several years to eventuate.

We noted this point in the discussion on the SDRM last December, and pointed out that given that the SDRM may not receive sufficient support for it to be established (at least at this stage), or the process proved to be very protracted, it is important for the Fund to continue to pursue alternative approaches to crisis resolution. It is particularly important that we not attempt to build support for the SDRM at the expense of other approaches to improving sovereign debt restructuring, especially the contractual approach.

On the contrary, we believe that the momentum that has developed following Ms. Krueger's proposal in December 2001 has been an important factor in the progress that has been made in advancing the quest for a more orderly approach to sovereign debt restructuring. In particular, there has been an acceptance within financial markets that there is a need for a better process, the important role of creditor committees has been recognized, there is an improved dialogue between the Paris Club and private creditors, there has been renewed momentum in the design and introduction of collective action clauses (including the recent commendable step by Mexico), and discussions have begun on the possibility of a code of conduct for sovereign restructuring. It is important that we recognize the progress that has been achieved in these important areas, and this should be highlighted in the report that goes to the IMFC.

Even if there is not support for amending the Articles to establish an SDRM at this stage, it is important that the international community maintain the momentum for achieving more orderly restructuring of unsustainable sovereign debts. This should include taking stock of the progress that has been made as well as continuing to keep the concept of the SDRM under review.

The current paper provides a clear way forward on the key outstanding design questions from our last discussion in December 2002. Outlined below are a few thoughts on some of the key issues in the paper.

Exclusion of Multilateral Claims

The amendment to the Articles should specify the multilateral organizations whose claims would be excluded from the mechanism. This would prevent disputes over whether specific international institutions should be excluded being resolved by a Dispute Resolution Forum (DRF). More

often than not these boundary issues will involve differences of view between international institutions rather than between the sovereign and its creditors. For this reason the specific decision should remain a matter of agreement between sovereigns in the context of the design and implementation of the amendment excluding multilateral claims. Provision for a majority decision by the Board of Governors would preserve the flexibility needed to add new institutions.

Activation

We continue to support unilateral activation of the mechanism by the debtor as it will ensure the mechanism is essentially a voluntary one for debtor countries. Given the high costs of default for the debtor, in the form of economic disruption and reduced access to capital markets, we see little incentive for unnecessary activation.

We believe the proposal to allow the Fund to recoup the costs of an unjustified operation of the mechanism from the debtor to be inconsistent with this voluntary approach. It may well cause debtors to seek to "clear" the decision to activate the SDRM with the Fund. Imposing a penalty for inappropriate activation implies a third party making a judgment. The SDRM will incorporate a mechanism which allows creditors to terminate the negotiation process. This is sufficient protection against improper activation.

An Automatic General Stay on Enforcement?

The paper argues convincingly that there may often be clear advantages to continue servicing certain sovereign claims that may (or may not) be covered by the SDRM. A possible option would be for a brief initial cessation of payments and a legal stay, which could be overturned by a qualified majority of creditors. Nevertheless, the balance in a corporate bankruptcy context, between a general automatic stay and a complete halt to debt servicing, is likely to be absent in the sovereign case. In particular, unlike the case in the corporate context, even if a general cessation of payments were considered appropriate, it is difficult to see how this could be enforced without compromising the principle of sovereignty. Furthermore, as the paper notes, those who advocate an automatic general stay would need to think more carefully about the proposal to allow a sovereign to unilaterally activate the mechanism—which brings us back to whether there is a body (other than the Fund) that could provide this check.

The paper proposes a combination of mechanisms that would go a long way to preventing a rouge creditor from disrupting a restructuring. These include the hotchpot rule, the inclusion of judgment claims and judicial liens in the restructuring, and the ability for creditors to approve a targeted stay should litigation "have the potential to undermine the SDRM restructuring".

Although it is proposed that the DRF would have the ability to prevent a targeted stay if this substantive criteria is not met, in effect the criteria is worded so openly as to make it extremely unlikely that the substantive test would not be met.

Some may argue that an automatic stay is preferable because the possibility remains that a creditor committee may not approve a targeted stay. But what will be their incentive to do so? To the extent full judgment can be secured by a litigating creditor, it reduces the resources available for servicing the restructured debt. The option of preventing such a dissipation of resources is likely to be attractive, given the alternative lowers the likely return to all other creditors. The most likely reason for a creditor to reject an application for a targeted stay would be to signal to the debtor that it is not effectively engaging creditors—as the staff point out, this may have some value in creating incentives for a debtor to engage with its creditors.

The paper poses whether the proposed targeted stay should be replaced by a general creditor-approved stay after creditor registration is complete. We consider the most promising option is to give the debtor the choice of proposing either a targeted or general stay after creditor registration (the staff propose the creditor make this decision but it is not clear why, given that the mechanism envisages the debtor initiating the request). In making a decision on whether to pursue a targeted or general stay after creditor registration, the debtor would have to consider very carefully the relative merits of each approach, including the extent to which it needed to continue servicing debt selectively, and the likelihood of creditor approval. We consider the option of a creditor-approved general stay after creditor registration as essentially unnecessary—but would be willing to support such an approach if the consensus was for its inclusion.

Dispute Resolution Rule-Making Authority

The message from the December workshop and conference participants was that any amendment to develop an SDRM framework should avoid making detailed rules that would prevent the adaptation of the mechanism to new challenges and may encourage circumvention. We have advocated that the DRF should not be delegated the task of designing the SDRM, and that a balance has to be struck to provide adequate predictability. We think the proposal in the paper to allow the DRF to propose rules that would then be subject to approval by the Board of Governors provides a useful solution.

As to the membership of the DRF, since it is a judicial forum, it should obviously be composed of people with a legal background. However, the scope should be there for the membership to include other than legal practitioners. Hence, we would suggest making Clause 14(a) of the

Attachment more neutral about the sort of person that might be appointed to the DRF, leaving the way open for experienced financiers, etc. to also play a role.

Termination

In response to the Board's widespread view that the DRF should not be able to terminate the SDRM, this proposal has been removed. At the same time, it is proposed that the thresholds for termination remain at 40 percent of registered creditors. Taken together, these proposals increase the probability that a stalemate develops, with the debtor unable to secure sufficient support for a restructuring proposal and the creditors unable to get sufficient support (40 percent) to terminate the mechanism. We agree with the paper's view that some type of cooling-off period could play a useful role. We reiterate our suggestion that the thresholds for termination be designed as a two-step process, whereby it would require 40 percent to terminate the process before a restructuring proposal had been put to the vote by the debtor, and thereafter the threshold should be lower, say, closer to 25 percent. This would strengthen the incentives for the debtor to put forward a considered initial proposal, and would prevent a stalemate situation in which creditors do not have sufficient support for either approval or termination of the mechanism.

A Possible Code of Conduct?

The paper has a general discussion about the possible role of a code of conduct. We agree with the general conclusions that a code of conduct may be useful but is unlikely to solve the collective action problems that the SDRM addresses. Given we have not had the benefit of assessing any specific code of conduct proposal—apart from the 1999 proposal of the Council of Foreign Relations—it is impossible to comment in any detail on the staff's assessment. We agree that, to be effective, any code would need to attract very broad support from creditors and debtors. The key question remains whether a framework can effectively be applied to an environment where there is an increasing diversity in the number and interests of creditors. A number of private sector proposals regarding codes of conduct seem to often focus almost exclusively on the sovereign's action—where the principles do touch on creditors responsibilities such as a voluntary stay on litigation, the value of such a commitment seems difficult to assess. We note that there has been little progress by the private sector in further developing, or adopting, many of the proposals made by the Council of Foreign Relations in 1999.

Ms. Jacklin submitted the following statement:

Introduction

The staff paper clearly lays out some of the additional issues raised in the Board's last discussion of a proposed SDRM. In our statement at the last meeting we raised some other issues as well that would need to be addressed and resolved before it would be reasonable to conclude that a complete SDRM "framework" is defined.

At our last Board meeting, there was no specific SDRM proposal that appeared to garner the needed consensus support, nor was there broad agreement on some key issues such as the appropriateness of a general or more limited stay on legal actions. Therefore we welcome the staff's statement at the February 27 SDRM seminar that the Board will have a further meeting or meetings later this month to consider how we best meet the Ministers' request for an SDRM proposal to be provided to the IMFC for the April meeting. After today's meeting, we expect that there will be a wide informal consultation among Directors and with Management and staff to determine how to meet the Ministers' request and to develop the most constructive way forward in our work on crisis prevention and crisis resolution.

In considering the way forward, we note that the stated objective of the Sovereign Debt Restructuring Mechanism is to "provide a framework that strengthens incentives for a sovereign and its creditors to reach a rapid and collaborative agreement on a restructuring of unsustainable debt in a manner that preserves the economic value of assets and facilitates a return to medium-term viability, thereby reducing the cost of the restructuring process. "For this objective to be achieved, both sovereign debtors and their creditors need to view the SDRM as facilitating this objective." Despite substantial modifications in the initial SDRM proposals, we have not seen the requisite support from the intended participants in the proposed new framework.

However, we have recently seen significantly more receptivity to a more voluntary and decentralized approach to improving the debt restructuring framework through the use of collective action clauses in sovereign debt. Our discussions of these issues through the SDRM debate was instrumental in educating and focusing the international community on the need for change.

We commend Mexico for its recent decision to replace $1 billion in outstanding debt with new bonds containing collective action clauses and to include such clauses in all new bond issues. Mexico performed an important leadership role. We would hope that other sovereign issuers in international markets will seize this opportunity to further strengthen the international

financial system by including CACs in their own debt offerings. Mexico has shown this can be done.

Proposed Features

In light of the two-stage approach suggested at the SDRM seminar, we will today focus only on the specific questions raised in the staff memorandum.

With respect to how the exclusion of multilateral claims would be defined, we agree with staff that particular international financial institutions, such as the IMF and World Bank have preferred creditor status; there is no question that these institutions will not be subject to restructuring under the SDRM. However, there are also other regional or multilateral groupings and/or financing arms which have asserted, erroneously in our view, that they too should be treated as having secured preferred creditor status. To ensure that the practice of conferring preferred creditor status is not overly broad, there is a need for a concrete and restricted definition of multilateral financial institutions in this context. Indeed, agreement on the institutions which have preferred creditor status is needed to better guide the staff's assumptions on payments to be made in a sovereign debt crisis, irrespective of the establishment of an SDRM.

On the issue of who should bear the costs of SDRM activation, we note that it is standard practice for the debtor to bear reasonable costs incurred by debtors and creditors in restructuring negotiations, particularly the costs of a creditors committee. Moreover as a disincentive to inappropriate use of the SDRM and as a way of encouraging prompt and good faith negotiations, we believe debtors would bear the costs arising from appropriate or inappropriate activation of the SDRM.

The staff made a persuasive case for not having an automatic cessation of payments upon activation. Servicing debt during the restructuring process limits damage to the real economy, the financial system, and the economic value of creditors' claims as well as reducing the incentive for creditors to rush for the exits if activation is perceived as a possibility. We agree and would add that the continuation of debt service preempts creditor litigation. Basically, a sovereign should honor its obligations.

Similarly, provision for an automatic stay on enforcement of either a general or targeted nature should not be part of the proposal. Staff notes that pre-agreement litigation has not frustrated the restructuring process.

As the staff's SDRM proposal states in its "Principles": "Any interference with contractual relations should be limited to those measures that are needed to resolve the most important collective action problems. "

One of the most difficult policy issues associated with the creation of an SDRM is that it would fundamentally deprive the holders of outstanding sovereign debt of contract rights for which they bargained in good faith. We know that the sine qua non of all international trade, finance and investment are binding contracts. There is currently over $180 billion of sovereign debt issued internationally. For the IMF's members, through adoption of the SDRM, to override by treaty existing contracts is an extraordinary governmental action that must be well and truly justified.

We are not persuaded that the risk of litigation being addressed by a generalized stay or the alternative measures is sufficient to justify an action by IMF member governments to make current contracts unenforceable. Moreover, the application of a stay or alternative measures might merely encourage aggressive litigation and attachment of assets at an earlier stage in a country's financing difficulties. Therefore we also see no role for the DRF in relation to a stay on litigation.

The DRF's role should be highly circumscribed. We also fail to see why a DRF (with full-time permanent staff) is necessary to administer claims. As we commented previously, in prior debt restructurings, independent accounting firms or similar entities have handled the verification process to the apparent satisfaction of those involved.

That would leave as the key role of the DRF, a decision whether a debtor "controls" or "owns" one of the creditor claims. As the staff paper points out, it may be difficult to develop rules or regulations on this matter which fit all factual circumstances. But this means the DRF will be put in a most difficult and potentially contentious position, adverse to an IMF member, in assessing the veracity of a country's representation that it does not control a claimant. We are not sure that this role for the DRF is desirable, given its affiliation (albeit limited) with the IMF. Thus it might be preferable for there to be clear parameters established in advance on what constitutes "control" or "ownership" of a debt instrument. We have similar concerns about giving the DRF a very sensitive role in deciding whether a member's use of the SDRM is appropriate.

Code of Conduct

The staff's discussion of a voluntary Code of Good Conduct (Code) is helpful. In particular, staff's identification of a starting point for defining the objectives of a Code is useful for framing any subsequent work on a Code. We agree with staff that the public sector's role with respect a debtor's relation with its creditors is limited and relatively well-defined. In addition, the official sector already has various frameworks for guiding its actions and responding to the concerns of other parties. For example, the Paris Club is engaging with

private creditors on a more regular basis and continually adapting to changing circumstances.

With that in mind the Code would appear to be more germane for guiding the actions of debtors and creditors. It would be useful to give these ideas further consideration to determine how this work might constructively be taken forward by those parties.

Mr. Mirakhor and Mr. Rouai submitted the following statement:

Key Points:

While still under development, the result achieved so far, presented in the Attachment to the staff report, constitutes, in our view, a good basis for a working proposal for a SDRM that could be submitted later to the IMFC;

the Mexican authorities are to be commended for their initiative to include Collective Action Clauses (CACs) in their recent bond issuance;

our preference is for including in the text of the amendment a list of international financial institutions (IFIs) with the possibility that it could be modified by the Board of Governors;

on the issue of creating a disincentive for inappropriate activation of the SDRM by a debtor, we do not support the proposal of requiring the debtor to bear all costs;

we have an open mind on the issues of general cessation of payment and of stay on enforcement;

on creditor committees, we reiterate our view that costs should be shared between debtor and creditors;

on the Dispute Resolution Forum (DRF), we do not see the necessity of engaging a full-time President;

the code of conduct for emerging markets finance could form another constructive mechanism for crisis prevention and resolution and could complement the SDRM.

We thank and commend management and staff for their hard work in designing a mechanism for orderly resolution of debt crises and for their efforts to listen to and to accommodate, as far as possible, various and divergent points of view. While still under development, the result achieved so far, presented in the Attachment to the staff report, constitutes, in our view, a good basis for a working proposal for a SDRM that could be submitted later

to the IMFC. However, as we have indicated in the last December Board meeting, the adoption of a document by a simple majority is not the important issue here, but a clear and high support by the Board for a proposal for an amendment of the Articles of Agreement that could provide the necessary market and political support so as to ensure ownership and ratification by member countries. It is also important that the agreed mechanism be simple, flexible, focused on resolving the specific collective action problems that constraint restructuring, and that strikes a fair balance between debtor and creditor rights.

Before turning to the outstanding issues for discussions, raised in the staff paper, we would like to commend the Mexican authorities for their initiative to include Collective Action Clauses (CACs) in their recent bond issuance. We hope that more use of CACs and an agreement on SDRM, together with recent clarifications on policy on exceptional access to Fund resources, would expand the arsenal of tools for crisis prevention and resolution, available to member countries and the Fund. We also believe that a voluntary code of conduct for emergency market finance could be a useful addition to this framework as it could help to introduce predictability and transparency in debtor-creditor relations.

Our position on the remaining issues for discussion is tentatively as follows:

On the scope of claims, we support the inclusion of judgment claims for the reasons advanced by the staff. On the formulation of the exclusion of multilateral claims, our preference is for including in the text of the amendment a list of international financial institutions (IFIs) with the possibility that it could be modified by the Board of Governors. On the issue of the treatment of official bilateral claims, we reiterate our preference for the exclusion of such claims from the SDRM.

On activation, and in particular on the issue of creating a disincentive for inappropriate activation of the SDRM by a debtor, we do not support the proposal requiring the debtor to bear all costs. While we recognize that these potential financial costs will have to be borne by the Fund, we believe that there are enough safeguards to prevent possible abuse, including the possibility available to debtors not to register their claims in the first place and to vote for an early termination of the SDRM. We need to recognize the enormous risks and costs for debtor countries associated with debt restructuring and the severe damage to their reputation and credit standing in capital markets. As for the Fund, and since in most cases debt restructuring will be carried out in the context of a Fund-supported program, it will have enough opportunities to express its views on the country’s debt sustainability.

On the consequences of activation, we thank staff for their elaborations on the issues of general cessation of payment and of stay on enforcement, and we accept their argumentation that there are merits as well as disadvantages to both approaches. We still have an open mind on these issues, including the staff proposal in Section 7(b)(c) and the alternative measures to discourage pre-agreement litigation. We could join a compromise that could garner the support of debtor countries and market participants.

On information, registration, and verification, we recognize the need to provide the Dispute Resolution Forum (DRF) with the necessary authority to adopt rules and regulations and to modify them in light of experience and the evolution of capital markets. However, we prefer to grant the Board of Governors the possibility of overruling the DRF on these aspects.

On creditor committees, we reiterate our view that costs should be shared between debtor and creditors.

On the Dispute Resolution Forum (DRF), we do not see the necessity of engaging a full-time President for an SDRM designed as an ad-hoc process, to be activated only in crisis situation. We should not underestimate the budgetary costs of such a decision.

On the proposal for a code of conduct for emerging markets finance prepared by the private sector, our preliminary view is that it could form another constructive mechanism for crisis prevention and resolution and could complement the SDRM. We are attracted by the stated objective of the code as "it seeks to avoid debt restructuring where still possible, facilitate them where necessary, and in all cases restore early market access." The idea that the code goes beyond debt restructuring to cover debtor-creditor relations before problems become unmanageable, together with the proposal to develop a database of sovereign borrowing, is also welcome. Like the various codes developed by the Fund, we would expect that all parties, including debtor countries and the IMF, should be involved in the design of such code.

On the text of the proposed features of a SDRM, we offer the following comments:

Page 22, Section 1—Objectives line 6: delete "continue to."

Page 22, Section 2—Principles, first bullet, second line: add "unwarranted" to read "unwarranted restructuring."

Page 24, Section 5—Provision of information, line 3, add "and to the Dispute Resolution Forum (DRF)" after "to its creditors."

Page 25, Section 7(c), line 4, clarify "the SEDRO."

Page 25, Section 8—Creditor Committees, modify to include cost sharing.

Page 26, Section 9, line 1, correct the reference to "Section 9 below" by changing to "Section 11 below."

Page 27, Section 14 (ii), line 7, delete "Except for the President of the DRF."

Extending his remarks, Mr. Rouai reiterated his chair's concerns regarding the budgetary implications of a permanent, full-time president for the DRF—an issue that had not been fully discussed in the Board. There was also the additional concern that, once there was a full-time president, one would no longer have a mechanism, but an institution with a bureaucracy, a staff, and, more importantly, with a work agenda. A clarification from the staff hereon would be welcome.

Mr. Kremers submitted the following statement:

I support the SDRM proposal and its main features, as currently put forward by staff.

A general, creditor-approved standstill and stay on litigation for all claims that fall under the SDRM would be useful.

It would be interesting to learn what further effort staff proposes on collective action clauses and a code of conduct, in parallel with the work on the SDRM.

The current international financial architecture lacks a good way of dealing with—sometimes unavoidable—sovereign debt restructurings. This view was confirmed at our Board meeting on crisis resolution in the context of a sovereign debt restructuring (on February 20). I agree with Mr. Callaghan that the SDRM proposal has contributed to advancing the quest for more orderly debt restructuring in general and that this is a very welcome side effect. It is now important to keep up the momentum. I believe that the proposed SDRM would enhance crisis resolution and while I realize the proposal has its critics, I have yet to see a credible alternative.

Although some of the details still need to be filled in, staff is well under way in preparing a concrete proposal for consideration at the upcoming Spring Meetings. I almost completely agree with the proposed features, as set out in the annex to the paper. No doubt, some interest groups will remain critical in principle. However, staff has done a good job in trying to accommodate outside concerns. In some aspects, this had led to a compromise relative to the original proposal, but I still believe the current proposal is coherent and good. Further changes to accommodate the—in my view—

unfounded remaining criticisms are unwarranted and will probably not convince all the critics anyhow. I would therefore propose as of now a 'stay on mitigation' of the SDRM proposal: no further 'easing' of the proposed features. I have some comments on a number of open issues, and a few additional remarks.

On Stays and Standstills

The desirability of a stay on litigation is closely linked with the issue of a standstill on payments: it is hard to have the former without the latter ('two-way standstill', as noted in the paper). Staff argues that we might not need an automatic or a general stay on litigation, as it believes that a general cessation of payments under the SDRM would not always be necessary. I believe a general standstill and stay on litigation may be both more necessary and less complicated than staff seems to think.

It would seem highly unlikely that a debtor would activate the SDRM, while staying current on all its payments. In practice, I expect that a country will only resort to the drastic measure of activating the SDRM, if all else has failed—when it finds itself in a financial crisis. In such circumstances, a fairly general payments standstill would seem necessary as a circuit-breaker. There are additional reasons favoring a general (as opposed to targeted) standstill and stay on litigation, such as the importance of inter-creditor equity and the need to minimize risks of corruption. A general standstill would facilitate an orderly, transparent and predictable restructuring process.

Staff seems to favor the combination of the 'hotchpot-rule', together with a targeted stay, which would only prevent specific enforcement actions that are determined to seriously undermine the restructuring process. It is difficult to judge at this stage whether a limited, targeted stay would provide sufficient assurances to the debtor that enforcement of creditor rights will not be a problem. The creation of the SDRM will constitute a regime shift that changes the dynamics of the process. Faced with the prospect of a binding restructuring agreement, creditors may increasingly initiate enforcement immediately after default. For similar reasons, I consider staff's remark in paragraph 15 (saying that a cessation of payments would strengthen incentives for creditors to rush to the exit in cases where activation of the SDRM appeared to be likely) not entirely convincing. The establishment of a (general) standstill is precisely the instrument to avoid a run to the exit. Investors with a short time horizon might withdraw their funds quickly in such circumstances, but this is also the case in the current setting without an SDRM. In fact, investors may have less incentive to run to the exit when the SDRM is in place, because the SDRM will provide for an orderly restructuring and an equal treatment of creditors, while aiming to preserve the value of creditors' claims. Another argument against a targeted stay is that it would likely give the Dispute Resolution Forum (DRF) legal authority that

goes beyond mere dispute resolution, which –in my view unnecessarily- raises more fundamental concerns. Notably, the SDRM is designed to establish a collective decision-making process amongst stakeholders, not a framework that empowers the DRF—or any other forum—to alter their contractual rights. Finally, the discretion of a targeted stay could also raise concerns about the rationale of giving certain creditors a preferential treatment. Exactly to help avoid such messy issues, we need an SDRM and thus an SDRM with a general stay.

Having said that, I do agree with staff that—even in a default situation—it might be desirable for the sovereign to stay current on some of its obligations. The impact of a payments standstill on all claims covered under the SDRM depends on the proposed coverage of the mechanism. One of the main objectives of the SDRM is to make restructurings more transparent and predictable. The country could ex-ante explicitly exclude some categories of payments from the mechanism, particularly those that are critical to maintaining economic activity and limiting the scale of the ramifications on the rest of the economy (e.g., trade finance, some or all interest payments). In that case, declaring a standstill along with a general stay for all claims that fall under the SDRM would not necessarily have pervasive effects on the functioning of the economy, and might therefore also be easier to impose. This approach aims at avoiding some of the pitfalls of a targeted (inherently ad hoc and unpredictable) approach, while at the same time allowing for some categories of crucial payments to continue to be made. Perhaps staff could for instance further study the suggestion of a standstill on principal, but not on interest payments.

A general standstill should be accompanied by a general stay on litigation. I would therefore favor a general stay approved by a qualified majority of creditors. This way, the only creditors who stand a chance of 'beating' the SDRM are those who start litigation, secure a judgment and receive payment before the stay is ordered by the majority of creditors. We can minimize or eliminate the chance of this happening, if we can speed up the process of organizing the creditors. I believe we should work on this together with the private sector and the proposals for a code of conduct might provide valuable leads, for instance with the suggestion of a central database of sovereign borrowing—so that the registration and verification process can be completed shortly after activation, and a vote on the stay can be carried out.

Unjustified Activation

With regard to the potential for unjustified activation, I do not think this risk should be overplayed. The activation of the SDRM implies a proposed sovereign debt restructuring and history has taught us that no sovereign takes such a decision lightly. Quite the contrary. Admittedly, a well-functioning SDRM should in the end lower the costs of a sovereign debt

restructuring, but the financial and reputation costs to the government of the debtor country would still remain enormous. Furthermore, the proposal that the debtor should bear the costs arising from an activation of the SDRM—including a proportional part of the costs of the operation of the DRF—regardless of whether activation is justified or not, creates an additional disincentive for inappropriate activation by the debtor. In case activation is unjustified, the creditors are likely to terminate the procedure and it would be justifiable that the debtor bears all the costs. In case activation is justified, the distribution of the costs will eventually be reflected in the outcome of the debt restructuring.

DRF and the Role of the Fund

It is important that the DRF is—and is perceived to be—truly independent. The goal of dispute resolution is to get all parties around the table, with the DRF as an independent arbiter. It does not seem necessary to allow for the possibility to appeal to another organ in specific cases. Furthermore, there are other reasons that warrant restraint with regard to more formal powers for the Fund. The Fund will already have a large influence on outcomes of the debt restructuring process, particularly through its lending decisions (including its lending into arrears policy), its judgments in Article IV consultations (mainly debt sustainability analyses), and its role as focal point for international monetary co-operation. As the Fund is already an important player—and most likely itself a creditor—granting it additional powers should be avoided as much as possible.

Nevertheless, with an eye to checks and balances, there may be ground for, say the Fund's Board of Governors (with a qualified majority), to be given the right to overrule the DRF's decisions on its rules and regulations. In order to safeguard the independence of the DRF and to limit the role for the Board of Governors, we would have to specify precisely how and when decisions can be overruled (i.e., by spelling out concrete criteria that the Board of Governors would use for taking its decisions).

Also to limit the burden for the Board of Governors, I would support including a general exclusion of the SDRM for all public international financial institutions in the Articles of Agreement. This will render ad hoc decisions to determine which institutions should be excluded in a specific restructuring case by the Board of Governors (as proposed by staff) obsolete.

Collective Action Clauses

Mexico's recent successful placement of a bond with collective action clauses illustrates that the international community's push for the use of these clauses is gaining momentum. I welcome Mexico's decision and urge other emerging market countries to do the same (while noting that most countries in

my constituency have been issuing foreign bonds with CACs for quite some time already). I wonder whether staff would see further avenues to promote the use of CACs among members. Perhaps we should—at a later stage—revisit the question what the Fund can do to promote CACs in a separate Board meeting (while acknowledging that we have discussed this before).

Code of Conduct

I welcome the several proposals for a code of conduct, while noting that the current proposals will not solve collective action problems or creditor co-ordination problems—exactly the problems the SDRM is intended to solve. A code of conduct can therefore not be an alternative, but it could be a very useful complement to the SDRM as it could secure early creditor engagement and provide for a set of best practices for debt negotiations. Moreover, a code of conduct may also spell out best practices for organizing creditor committees in order to facilitate creditor co-ordination and expediting the vote on a general stay on litigation. Also, as it might take some time for the SDRM to become operational, a code of conduct may in the meantime help by providing a market-based approach contribution to more orderly debt restructurings.

I take staff's point that a code of conduct would only work if it is developed jointly by creditors, debtors and other interested parties and therefore a cautious approach by the Fund seems warranted. I would nevertheless be interested to learn how staff proposes to contribute to the development of a useful code of conduct. As noted, the code of conduct does by itself not solve the collective action problem. Staff could for instance discuss with the private sector 'market-based', 'voluntary' ways of dealing with collective action problems (perhaps through peer pressure within the market, even vulture funds have bank accounts). Perhaps it would also be good to consider whether, prior to the establishment of a full-fledged SDRM, there is scope for a voluntary private sector supported Dispute Resolution Forum. In any event, it goes without saying that staff should continue to monitor developments with regard to the code of conduct, CACs and other approaches for dealing with sovereign debt restructuring.

Mr. Bennett submitted the following statement:

Key Points

The staff has done an excellent job in laying out complex legal issues in a straightforward and intuitive manner.

More generally, the staff should be commended for all their hard work in delineating a detailed, comprehensive proposal for the SDRM.

While we are in general agreement with most of the technical features of the SDRM, we have some concerns about inter-creditor equity issues that could arise from a narrow coverage of claims.

We believe the Hotchpot rule is a good way of imposing inter-creditor equity, while reducing the incentive for disruptive litigation.

Upon activation of the SDRM, the debtor is to divide his creditors into three groups: those whose claims will be restructured under the SDRM (Group 1); those whose claims will be restructured under other mechanisms (Group 2); and those whose claims will not be restructured (Group 3).

As proposed, the SDRM does not envisage a generalized cessation of payments. Indeed, it is expected that the debtor will continue to pay Group 3 creditors. The staff argues that it is important for the debtor to retain a certain amount of flexibility in the restructuring process. Moreover, a comprehensive cessation of payments is seen as possibly triggering a rush for the exits in cases in which activation of the SDRM appears to be a possibility.

The special nature of the domestic banking system should be acknowledged.

The staff makes the valid point that ceasing to make payments on debt held by the domestic banking system could have serious consequences for the entire economy. Indeed, even Group 1 creditors may prefer that the country's financial infrastructure remain intact and would support this differential treatment.

However, even agreeing to limit Group 3 creditors to the domestic banking system, could have practical problems. Consider a targeted cessation of payments that only exempts the banking system. While the intent here would be to prevent dissipation of value, these payments to the banks could simply fund a bank run. In such as case, the authorities ought to impose some of the administrative measures discussed in an earlier staff report. But, given the design of the SDRM, there is no way for the Group 1 creditors to compel the authorities to do so.

In our view, special treatment of the banking system must go hand-in-hand with measures which provide incentives for the sovereign not to exploit the banks' fiduciary relationship with the depositors. In times of financial distress, governments often use suasion to induce the banks to hold more debt than may be prudentially optimal. This use of suasion essentially masks a fiscal problem and puts the financial system at risk. In order to preserve incentives, the claims of bank shareholders and those of large depositors (up to some pre-determined limit) should be put at risk. Thus, these stakeholders would have the incentive to monitor bank managers and avoid excessive

exposure to the sovereign. We make the distinction between large and small depositors because the former have both the incentive and the capacity to monitor the behavior of the banks. Of course, the depositors' ability to monitor depends crucially on complete and timely data on banks' balance sheets and income statements.

Non-bank members within Group 3 pose additional inter-creditor equity problems.

In an effort to ensure inter-creditor equity, the SDRM is designed so that the debtor's initial triage among its creditors is ultimately subject to the approval of the qualified majority of Group 1 creditors. In addition, it is envisioned that a qualified majority of Group 1 creditors would approve any stay on litigation. However, the qualified majority of Group 1creditors would not have the opportunity to pronounce on a targeted cessation of payments.┐ Moreover, the debtor's decision on the targeted cessation of payments would, presumably, take place early on in the restructuring process, while the decision of the qualified majority of Group 1 creditors on the equity of the restructuring deal would take place some time later. In the interim, the decision to pay the Group 3 creditors could lead to significant dissipation of value, which could be inconsistent with the interests of the Group 1 creditors. However, the latter group may not be in a position to recover this loss. This timing problem could lead to a violation of inter-creditor equity.

Inter-creditor equity concerns must inform the crisis resolution process. Indeed, thinking beyond the SDRM, it is these concerns that motivate our interest in a code of good conduct (see below). However, we are concerned that the current proposal allows the debtor to include other creditors on the Group 3 list and that this could violate inter-creditor equity. While we believe that creditors in Group 1 may find it expeditious to exclude some non-banks from the restructuring, this decision should be made during the negotiation process and should not be made by the sovereign ex-ante.

We Favor the Hotchpot Rule

The staff offers a good overview of the Hotchpot rule which is designed to address the situation of creditors who manage to satisfy their claims by collecting judgments after activation but prior to an agreement with the majority of creditors. In particular, these creditors' claims would be reduced in the same proportion as those of creditors who did not litigate but chose to negotiate a settlement.

In our view, the Hotchpot rule offers two important benefits. First, it goes a long way to assuring inter-creditor equity by imposing pari passu ex-post. Second, it severely reduces the incentive to litigate. As the staff point out, since the Hotchpot rule would only become effective if an agreement is

reached, some creditors might litigate if they do not expect an agreement to be reached. However, since litigation is a time-consuming process and collection of the judgment is difficult, we believe that a Hotchpot rule is a good alternative for heading off disruptive litigation.

Usefulness of a Code of Conduct

We favor the establishment of a code of conduct for sovereign debt restructurings. A code would define best practice for debtors and creditors when a sovereign is unable to make timely payments. It could also go some way to operationalizing the good faith criterion for lending into arrears. While the SDRM is only intended to apply to cases where debt is unsustainable, a code could apply more broadly—to both "liquidity' and "solvency" cases.

We agree with the staff that a code drawn up by the Fund would not garner widespread support. We believe that it is up to debtors and creditors to develop the code, with assistance and encouragement from the official sector.

As is the case with the SDRM, it is unlikely that debtors and creditors would make use of a code unless there were incentives to do so. Past experience has shown that the principal obstacle to crisis resolution has not been the absence of formal or informal frameworks for debt restructuring but rather reticence on the part of debtors and creditors to engage in earnest discussions until all possibility of additional official assistance had been exhausted. Thus, the early and explicit establishment of the scale of official assistance in a particular crisis is a key element in expediting the debt restructuring discussions.

Other Issues

We believe that assessing "court costs" to the debtor in the event of an "inappropriate" activation of the SDRM is reasonable. From our own experience, this would be consistent with the treatment of abuse of the NAFTA dispute settlement panels.

We believe that it is appropriate that the Dispute Resolution Forum be given rule-making authority with respect to the administration of claims and the establishment of dispute resolution procedures since it is virtually impossible to tell in advance what sort of procedures would be best. We believe that allowing the Board of Governors to act as an appellate body with respect to these rules and procedures is reasonable.

Mr. Portugal submitted the following statement:

I appreciate the staff's and Management's efforts throughout the SDRM discussion process to modify the original proposal in order to take into

account some of the many concerns expressed by emerging market borrowers and their creditors, as well as the Fund's willingness to convene outreach meetings with interested parties. However, despite these efforts, my basic position relating to the SDRM remains unchanged. I continue to believe, first, that the rationale for the SDRM has yet to be demonstrated by the staff, who has never provided empirical evidence, as I have requested several times, of the magnitude and nature of past collective action problems, actions by holdout creditors, and inter-creditor equity problems, which staff argues to be the rationale of the SDRM. Second, I believe that there are superior and more cooperative ways to deal with collective action problems, such as the extension of the use of existing CACs to new bond issues.

The reality is that, despite the efforts by Management and staff to modify the initial SDRM proposal, the idea did not seem to have garnered support from its supposedly main users: emerging market governments and their external private creditors. During last December's meeting, I remarked that if it is clear that there would not be an 85 percent majority to make an amendment to enter into force, the Fund should not go ahead any further on this issue, because the worst outcome would be to have an amendment proposed and approved by the Executive Board, which is never ratified by members and never enters into force. In that case, none of the supposed benefits of the SDRM would materialize, while emerging market borrowers would have to bear the costs of heightened uncertainty of its impending approval. In response to my question, the Acting Chair accepted that it would not be appropriate to move forward if the required majority could not be reached, but she indicated that Management would like to address this issue only when discussions had moved forward sufficiently.

I believe we might have reached now this stage, where such determination should be made. The discussions on the SDRM have accomplished a lot in terms of increasing awareness of market participants about their responsibilities for collective action problems. These discussions have also created a positive climate for Mexico's bold movement to include collective action clauses in a bond issue in New York. On the other hand, we should not report to the IMFC on an amendment proposal that is not likely to get an 85 percent majority during the ratification period. I suggest, therefore, that if it is not clear during today's meeting that there will be sufficient agreement to move forward, i.e., an 85 percent majority, that we acknowledge such reality explicitly and report accordingly to the IMFC.

The staff indicates that the attachment "Proposed Features of a SDRM" would constitute the proposal of the Executive Board to the IMFC. I strongly disagree with such suggestion. The attachment contains points on which the Executive Board was divided, such as stays, as well as points on which there was minority opposition that would be sufficient to block the proposal, i.e., a minority representing 15 percent of the voting power. I agree

with Ms. Jacklin's suggestion that further meetings may be necessary to decide on how best to report to the IMFC. While my basic position is to oppose the SDRM proposal, I would nevertheless offer comments and suggestions concerning the various issues for discussion raised in the paper.

Scope of Claims

There was some improvement in definition of the scope of claims with respect to the previous paper. However, the new paper still envisages the possibility of the inclusion of debt issued by non-sovereign public entities, such as sub-national governments and public enterprises, as well as the inclusion of trade credit, points which were opposed by some Directors in the previous discussion. The extensive efforts that have been made by many countries to control sub-national finances would be undermined by such a proposal that could lead to sub-national debt being de facto taken over by the sovereign. Similarly, trade credit, which is critical for any economic recovery, should remain outside the mechanism. I continue, therefore, to propose that sub-national debt and trade credit be excluded from the SDRM.

I also suggest that the defining criterion in 3 (b) (ii) of the Attachment should be in terms of foreign courts rather than domestic courts. The sovereign is able to legislate on what should be subject to the jurisdiction of its own courts. Therefore, by passing legislation establishing that a given type of debt is subject to the jurisdiction of its own courts, a sovereign could exclude a given type of debt from the SDRM. The defining criterion should be in terms of debt subject to the exclusive jurisdiction of foreign courts, rather than debt not subject to domestic courts.

Provision of Information

I continue to believe that the provision of a Non-Impaired Claims List encompassing all claims that are not eligible for the SDRM should not be a requirement of activation. This is an important aspect of the understanding reached by the Board that domestic debt and non-sovereign external debt are excluded from the mechanism. Only claims that are eligible for the SDRM procedure, but that the debtor has chosen not to include, should be part of the Non-Impaired Claims List.

Creditor Committees

In the December discussion, while some Directors considered it appropriate that the debtor bear the costs of creditor committees, some other Directors favored a cost-sharing formula, while some other Directors did not express any position on the issue. Despite such divided views, the staff now proposes not only that the debtor bear alone the costs of creditor committees, but also presents a new suggestion giving powers to the DRF to decide when

fees are excessive. This runs against the views expressed by many that the DRF powers should be as limited as possible. In order to dispense with the need for a DRF, instead of increasing its powers, I suggest that the costs of creditor committees be borne equally by the debtor and the creditors.

Limits on Creditor Enforcement

The history of sovereign litigation indicates that the ability of creditors to disrupt a restructuring through legal action has been limited owing to the sovereign's immunity and to the constraints and complications of legal systems, which create significant obstacles and costs to litigation. This is one of the reasons why a SDRM is unnecessary in the first place. But it is also a reason why a stay on litigation, whether automatic or voted, general or targeted, seems also unnecessary. The staff is now concerned that the SDRM could alter this situation and stimulate more pre-agreement litigation than existed before. However, a stay voted by 75 percent of creditors after activation does not seem to be a good remedy to such a possible threat. Such voted stay might be difficult to obtain in the required time and would still represent a significant violation of existing contractual rights. If there is, indeed, an incentive to pre-agreement litigation, a "hotchpot rule" seems to be a better alternative to the problem.

Sanctions

Among the several Directors that commented on the imposition of sanctions on members in the December meeting, a number considered that the Fund should not have a role in imposing sanctions. The staff, nevertheless, not only maintains the idea of sanctions but also stipulates that the Fund would now have the power to determine whether a debtor has activated the mechanism without adequate justification. This means introducing through the back-door the requirement of Fund approval of activation, contrary to what had been agreed before. Requiring a sovereign that activates the mechanism without justification to bear the cost of the operation of the DRF as a disincentive for abuse of the SDRM seems a rather weak argument. Given the amounts of debt involved, bearing the costs of operation of the DRF may not be a strong enough disincentive for an ill-intentioned debtor, while such provision creates the big disadvantage of getting the Fund again involved in approving the activation through the back-door. Rules regarding lending into arrears apply even in cases of debtors that have not sought an activation of the SDRM and should not be viewed as a sanction concerning the SDRM. On the other hand, if the SDRM is created to deal with creditor collective action problems, it would seem reasonable that the costs of the mechanisms are not borne exclusively by the debtor. I suggest to drop the entire section on sanctions (paragraph 13 of the Attachment).

Sovereign Debt Dispute Resolution Forum

I remain unconvinced that the creation of a SDDRF is an essential element of the SDRM. It is, on the other hand, one of the most contentious aspects of the SDRM. It will be very difficult to create such a mechanism linked to the Fund given the substantial conflicts of interest that exist, since the Fund is a creditor, the main policy advisor, and a possible future lender to the sovereign. The argument for a new dispute resolution process is based on the premise that aggregation of diverse claims for voting and restructuring purposes will produce disputes about the validity and value of claims. Yet the potential for such disputes already exists. If there are not many such disputes, it is because of the quality of the existing market practices and the predictability of current dispute resolution procedures, which the proposed SDDRF could undermine. The idea that the SDDRF would have the exclusive jurisdiction over disputes arising between the debtor and the creditors and amongst the creditors to the exclusion of domestic courts is far-fetched, and may create serious problems of compatibility with national legislation. The administrative functions to be performed by the SDDRF such as notifying creditors, registering claims, and administering voting have not proven to be difficult in earlier restructurings, and could be done by private entities or by creditor committees.

The staff's current proposal not only maintains the creation of the SDDRF but increases its powers in several ways, despite the considerable emphasis placed on the need to limit those powers. The current proposal also disregards the very important views expressed by some Directors that both the selection and nomination of members of the SDDRF should be subject to a 70 percent majority, and that the list of nominees should be approved or rejected in its entirety, and that national diversity of members is important. These views should be given due consideration, if the idea of the SDDRF is not eliminated, as I continue to propose.

Legal Basis of the SDRM and Consistency with Domestic Law

I have been arguing that it is inappropriate to use the faculty to amend the Articles for creating the SDRM since it relates to objectives that fall outside the Fund's purposes, and were never envisaged by members when they originally subscribed to the Articles. During last December's meeting, the staff has admitted that there is no specific provision in the Articles of Agreement that could be considered the enabling provision for a proposed amendment regarding the SDRM, but argued that the SDRM was sufficiently related to the Fund's mandate to authorize such amendment. The staff cited, as providing a basis and an analogue to the SDRM, Article I (vi), which establishes as one of the purposes of the Fund to shorten the duration and lessen the degree of disequilibria arising from balance of payment problems,

and Article VIII 2 (b), which envisages that exchange contracts that violate permitted exchange controls would be unenforceable.

I continue to dispute this view. Article I (vi) reads: "In accordance with the above, to shorten the duration and lessen the degree of disequilibrium arising from the international balances of payments of members" (emphasis added). This means that the purpose of shortening the duration and lessening the degree of balance of payment disequilibria has to be achieved in accordance with the other purposes of the Fund, none of which envisages such a destructive measure of national and international prosperity as a debt restructuring. Article VIII 2 (b) refers only to exchange contracts not debt contracts and, in my view, could not be considered as an analogue for the SDRM. Moreover, any analogy on this matter would be unwarranted.

Code of Conduct

I am not enthusiastic about the idea of a code of conduct on these matters, even if it is voluntary. One of our chair's arguments against the SDRM proposal has been that sovereign restructurings are and should remain rare and unique events. Dealing with such events on a case-by-case basis and allowing flexibility for market responses and practices to adapt to the specific circumstances of each restructuring seems important to achieve the least costly outcome. Any attempt to codify current market practice would have to be too generic and would not add much in terms of predictability. It could, on the other hand, stifle market innovation. Moreover, the issues related to a sovereign debt restructuring involve several players: the debtor, its creditors and the official international financial institutions that provide financial support such as the Fund. Attempts to codify practices in this area would inevitably involve the behavior of all these parties, as a recent proposal by the Institute of International Finance has indicated. Yet, there is no legal base for such a code, no entity to enforce it, and it is generally not a good idea.

Mr. Shaalan and Ms. Farid submitted the following statement:

It has now been over a year since the First Deputy Managing Director revived serious consideration of a Sovereign Debt Restructuring Mechanism. It is well to recall the backdrop in which the initiative was taken. In the introduction to her note of November 30, 2001, Ms. Krueger stated: "Finding a means of reducing the perceived costs of debt restructuring for sovereigns would facilitate the design and implementation of an effective strategy for involving the private sector in the resolution of crises. Clearly the efficient operation of capital markets requires that restructuring should not become a measure of first resort. By the same token, however, when there is no feasible set of policies that can resolve the crisis in the absence of a restructuring. There is a need to find mechanisms that allow a sovereign seeking cooperative solutions to reprofile—and if necessary reduce—its debt burden, without

being forced to bear excessive costs associated with the collapse of the domestic financial system, on the one hand, and disorderly creditor action, on the other."

Thus, it is safe to say that the initiative sprung from a general concern that the current process of sovereign debt restructuring did not provide the right incentives for debtors with an unsustainable debt burden to address their problems promptly, nor did it encourage creditors to reach a timely agreement with the sovereign debtor on restructuring terms. Many saw this drawback as indirectly contributing to the large financing packages which the Fund has had to provide members in crisis. We fear that the connection of the proposal to the design and implementation of an effective strategy for involving the private sector in the resolution of crises, referred to by the First Deputy Managing Director in the above statement, may have been lost in the various revisions of the original proposal by the DMD, which successively reduced the Fund's role in the mechanism. We therefore, would suggest that in evaluating this latest draft proposal we should pay serious attention to the extent it is likely to help our PSI strategy, and thereby reduce the ever-increasing need to resort to large bailouts by the Fund. The objective of setting up an SDRM should not only be to make the existing debt restructuring process less costly to both debtors and creditors, but also to the Fund and, hence, to the international community more generally.

It is in this vein that we feel a sense of unease with the result of our discussions on the proposal to date. While we can understand the reasoning behind staff's attempts to keep the Fund's role to the bare minimum, staff have not provided us with a coherent vision of how such a "bare bones" or "watered down" proposal would mesh with the expected support the Fund would extend, if asked, to a sovereign who decides his debt is unsustainable. We think it is safe to assume that in most, if not all such cases, the Fund will be called upon to support an adjustment program that would give comfort to the concerned creditors that the country would be doing all it can to preserve the value of their assets and to achieve medium-term debt sustainability. Thus, for all practical purposes the Fund will need to be involved in the process from the start. It will have to express its views on the "sustainability" of the debt burden which prompted the debtor to activate the SDRM, and it would have to determine what would constitute a viable "debt restructuring", which in turn would require the Fund to make a judgment on what would constitute a "viable economic adjustment" to be undertaken by the debtor in conjunction with such a restructuring.

We, therefore, find it unrealistic to portray the Fund's role in the functioning of the SDRM as a disinterested observer, whose only role would possibly be to require the debtor to bear the costs of the operation of the DRF if, at the end, the Fund came to a determination that activation had not been justified.

With these general comments, we would like to move to what we still consider to be a necessary element of any effective sovereign debt restructuring mechanism, namely a temporary automatic stay on litigation to be triggered by activation of the mechanism. Our views on this issue remain broadly the same as expressed in our statement during the last Board discussion. We believe such a temporary automatic stay on litigation is necessary for the effectiveness of the mechanism. This could be accompanied by a general payments standstill, while giving the country the possibility of explicitly excluding ex-ante some categories of payments, such as trade finance. To the arguments presented by staff against a payments standstill, like Mr. Kremers, we would note that it is highly unlikely that a debtor would activate the SDRM, while staying current on all its payments. A general standstill would actually better serve inter-creditor equity. The duration of the temporary stay should cover the time required to complete the creditor verification and registration process and to allow creditors to vote on either an early termination of the mechanism or an extension of the stay for a given period during which negotiations would take place. The alternative measures proposed by staff have important limitations, which are well presented in the staff paper, and we will not repeat them here. Suffice it to say that they do not produce sufficient predictability to the process and therefore seriously reduce the incentive to the debtor to activate the mechanism before its debt problems turn into a full-blown crisis, and to the creditors to engage constructively in negotiations for restructuring prior to actual default.

Even though we believe that the costs of unjustified activation are already high for the debtor and would constitute an effective deterrent to debtor abuse of the mechanism, we would nevertheless support assigning a role to the Fund in the endorsement of activation and a temporary stay on litigation, if the Fund determines that activation is justified. This should assuage private sector concerns of possible abuse of the mechanism by the debtors. A formal requirement for the initiation of negotiations for a Fund program upon activation could also be included in the mechanism. As for concerns of private creditors with regard to Fund involvement, we find the arguments against a Fund role in view of its possible creditor status to be totally unconvincing. In any case, it should be noted that once the debtor activates the SDRM, the Fund would, in any case, have to either validate or invalidate the sovereign member's judgment on the sustainability of its debt, particularly if it is asked to support the member's adjustment efforts, which is almost certain. In the interest of transparency, the Fund's role should be made clear, and preferably, incorporated in the SDRM proposal itself.

Turning to the other unresolved issues raised by staff: with respect to how the exclusion of multilateral claims would be formulated, we find the proposal to include a list of institutions to be excluded while giving the Board of Governors the power to amend this list by a decision of 85 percent of the voting power of the Board of Governors.

We do not support a requirement by the Fund that the debtor bear all costs arising from an unjustified activation, including costs arising from the operation of the DRF. As noted above, we believe that the Fund should have an early role in the determination of the unsustainability of the member's debt. In that case, this issue would not arise. If, however, the Fund were to have no role in the initial determination, we do not find it appropriate that it play such a role, particularly with sanctions, at the end of the process.

We find it sensible to give rule-making authority to the DRF with respect to the administration of claims and the establishment of dispute resolution procedures, while enabling the Board of Governors, if need be, to overrule rules and regulations adopted by the DRF.

Finally, it is our hope that if we are unable to obtain the necessary majority to change the Articles of Agreement to accommodate a temporary stay, our strategy for addressing the issue at hand will need to be changed.

Mr. Yagi and Mr. Miyoshi submitted the following statement:

General Comments

We thank staff for its continued efforts. We greatly appreciate the staff paper, which further examines the issues that were the focus of the Board discussion last December.

This chair can support in principle the proposed features set forth in the staff paper, as they broadly reflect understandings that could be regarded as a kind of common denominator that is emerging after the series of discussions at the Executive Board on the issue of the SDRM. Directors' views, however, have not yet completely converged. This chair in particular still has some concerns and comments as outlined below. In this context, while it depends on the results of today's discussion, it should be made clearer that while the proposed features to be submitted to the IMFC sum up the understanding of many Executive Directors, not all Directors agree on every single feature of an SDRM.

Furthermore, we would add that my authorities believe further examination is still required as to whether the SDRM would be consistent with Japan's domestic legal system, including whether there might be a need for amendment to existing laws or new legislation, as well as on the implications of the SDRM for the Constitution.

Scope of Claims

We still believe that the external debt of central banks should be covered by the SDRM, regardless of their consent, particularly in cases where

central bank independence is not well established. As staff mentioned in the December meeting, it is virtually only domestic bonds of central banks that are used as instruments of monetary control, and so including the external debt of central banks in the scope of the SDRM would not cause any problems with regard to central bank independence in conducting monetary policy. On this assumption, requiring the central bank's consent in order for the SDRM to cover its external debt could cause circumvention in the form of central bank financing of the central government's deficit.

We can go along with the staff's proposal on how to define "international organizations." We would appreciate staff's comments on whether it is feasible, from a legal standpoint, to allow the Board of Governors to amend a schedule of the Articles of Agreement by its resolution, rather than by amending the Articles. We wonder whether it might be appropriate for an Article to stipulate general and qualitative provisions and to delegate the authority to draft a list of international organizations to the Board of Governors.

We think the staff's position on the treatment of claims held by official bilateral creditors is appropriate. The Fund should wait for the discussion at the Paris Club before considering this issue further.

We support the inclusion of judgment claims acquired after the activation of the SDRM with a view to discouraging creditors from initiating enforcing their claims before registration and verification and the organization of a representative creditor committee.

Activation

As we also pointed out at the Board meeting on crisis resolution in the context of sovereign debt restructuring on February 19, we still think it is desirable for the Fund to be formally involved in the activation of the SDRM, where the Fund would make a judgment as to whether the debtor's representation of the unsustainability of its debt is valid or not. In the current paper, staff reiterates the possibility of requiring the debtor to bear all costs arising from an activation of the SDRM in cases where the Fund considers the activation unjustified. While we think that this option is in the right direction, situations might often arise where the government of a debtor country would be forced by domestic political pressure to activate the SDRM even though its debt was still sustainable, and the activation itself could cause the debt to become unsustainable. Ex post facto judgment could also enhance uncertainty with regard to activation, particularly if the criteria used to make the judgment were not objectively clear, and the debtor would hesitate to activate the SDRM excessively for fear of being required to bear the costs. Furthermore, the value of creditors' claims would be reduced by making the financial burden of the debtor larger. In view of these considerations, we think that the

Fund's confirmation of the validity of the debtor's representation should be made before the activation of the SDRM.

Consequences of activation: cessation of payments, stay on enforcement

We can understand that, if the SDRM is to be designed as a framework that could be applied even in a non-default situation, automatic cessation of payments and automatic stay on enforcement are not necessarily appropriate. It would generally be the case that the "hotchpot" rule and creditor-approved stay would function as replacements to automatic stay. However, we are still somewhat concerned about those provisions because the "hotchpot" rule would not function if a creditor that resorted to litigation managed to collect its claims in excess of their restructured value prior to a restructuring agreement, and also because the effectiveness of a creditor-approved stay would be greatly affected by the speed at which the registration and verification of claims and/or the organization of representative creditor committees could proceed in comparison with the speed of the whole restructuring process and market developments.

From this standpoint, it might be necessary to allow the DRF to order a cessation of payments or a stay on enforcement through its own decision when deemed indispensable to ensure inter-creditor equity and to preserve the value of creditors' claims, although introducing such measures could require that further consideration be given to maintaining a good balance between the debtor and creditors with regard to their procedural rights and to measures to deal with the debtor's violation of the DRF's orders.

Creditor Participation

The description of creditor committees in the Attachment to the staff paper is broadly appropriate. However, we think that the criteria for judging the degree of representation (which were described in the November staff paper) should be referred to in the commentary on the amendment to the Articles of Agreement, even if they would not be stipulated in the amendment itself, and that they should therefore be mentioned in the document to be submitted to the IMFC.

We think that a more detailed definition of "control" is required as the reason to exclude certain claims from the voting, since the concept of "control" differs from one country to another. In some countries, all citizens of the debtor country are deemed to be under "control" simply on the grounds that they are citizens of the country.

We support the staff's view on retaining the provisions for priority financing in the proposed features of an SDRM. As staff points out, although

there are few strong incentives for private banks to extend priority financing, there could be individual cases where the framework of priority financing would be useful to facilitate the provision of credit, such as trade credit, which is indispensable for the economic recovery of the debtor country. That said, we wonder whether it is desirable to require a qualified majority of 75 percent of the outstanding principal of verified claims. A lower voting threshold or approval by representative creditor committees should be considered.

Termination

This chair thinks that the DRF should be given the power to terminate the SDRM. It should be allowed to terminate the process by its own decision when it judges that there is no prospect of the parties' reaching agreement on restructuring, in order to prevent an unnecessary increase in the costs it (and eventually the Fund) would have to bear. This power is necessary particularly if the debtor could activate the SDRM unilaterally and would not face any challenge from a third party. On the other hand, we are ready to support the staff's proposal of a voting threshold of 40 percent for creditors to terminate the SDRM.

Dispute Resolution Forum

Although we can go along in principle with the proposal that the Managing Director should select the members of the selection panel without the involvement of the Executive Board, we believe that, under this scheme, importance should be attached not only to the members' ability but also to diversity of nationality. Specifically, the provisions should stipulate that each member of the selection panel (and the DRF) should be of a different nationality, or that the number of members from any one region should be limited to a pre-specified number. We also think that the procedure for approval by the Board of Governors (or recommendation by the Executive Board) should be sufficiently strict; for example, a qualified majority of 70 percent should be required.

Those who are selected as members of the DRF should be experts in the practice and procedures of debt restructuring. It is therefore appropriate to give the DRF the authority for rule-making with respect to procedures for claims administration and dispute resolution. Concern could arise about giving the power to overrule the DRF's rule-making authority to the Board of Governors; however, this concern would not be significant if the overruling power were structured in such a way that the Board of Governors would review the rules only reactively when the DRF newly introduced or amended provisions.

Code of Conduct

With the development of discussion in the Fund on the SDRM working as a catalyst, discussions are ongoing in, and proposals have been made by, both the private and public sectors on establishing a voluntary code of conduct on sovereign debt restructuring. This chair welcomes this constructive development. In addition to this discussion, we could say that another favorable development, the introduction of collective action clauses (CACs), is a by-product of the consideration of the SDRM by the Fund, as well as the discussion on model clauses by G-10 countries.

The staff's views on a Code of Good Conduct (Code) are broadly appropriate. A Code would play a significant role in sovereign debt restructuring that is complementary to the SDRM and CACs in that it would improve predictability with regard to crisis resolution and would promote dialogue among the various parties. The reverse is also true, that is, the effectiveness of a Code would be greatly enhanced by having statutory or contractual measures such as the SDRM and CACs as its "shadows." On the other hand, a Code is, by definition, voluntary and not legally binding. Therefore, we should recognize that a Code cannot be a substitute for the SDRM or CACs in the sense that it cannot deal with collective action problems with finality.

Mr. Vittas submitted the following statement:

We would like to thank staff for their outstanding effort in responding to the IMFC request to present a concrete proposal on the SDRM for the upcoming Spring Meetings. The proposal has gone a long way since it was first introduced by the First Deputy Managing Director at the end of 2001. The proposal has benefited from a very broad and extensive consultation with officials, academics, market participants. As it stands, in its main features and possible further improvements notwithstanding, it represents a fundamental component of the new crisis resolution framework. It complements well other pillars of this framework, such as PSI, the new rigorous policy on access to Fund resources, the systematic use of CACs in debt contracts and, possibly also, the voluntary Code of Conduct.

However, further work is needed to better understand the features of the SDRM and its interaction with the other components of the crisis resolution framework. In this perspective, we look forward to the next steps towards the IMFC meeting and beyond that we expect will be discussed in an upcoming Board meeting

The SDRM Should Generate the Right Incentives

The SDRM is a key element of a set of tools that should be utilized to facilitate the crisis resolution process when debt restructuring is deemed necessary: it should provide incentives for the aggregation of creditors' claims, while respecting inter-creditor equity. It should also avoid "debtor's moral hazard," i.e., avoid making the default option too attractive.

To obtain such results the SDRM must generate incentives, for both creditors and sovereign debtors, to recognize at an early stage that the sovereign's debt may have become unsustainable and to take prompt action to organize an orderly debt restructuring. While the need for such incentives is acknowledged in the staff report it could have been helpful to discuss them more extensively.

To understand what the appropriate incentives are it is useful to stress that certain features of the debt resolution process, such as the aggregation of claims, the stay on litigation, and the standstill on payment flows, could be seen as linked yet separated components of that process.

Stays and standstills are needed when coordination failures risk generating large costs to both creditors and debtors. These instruments, too, bear costs, associated with the interruption of normal contractual relationships. So when there is recognition that debt is becoming unsustainable debtors and creditors should weigh the costs of partially suspending normal contractual relations and payment flows against the benefits of avoiding precipitating towards a full-blown crisis (a coordination solution). Or they could ignore the latter in order to avoid the former (a coordination failure). Early action would minimize costs associated with the interruption of contracts, yet early action is possible only to the extent that coordination is achieved in a satisfactory way.

In this framework there is scope for both ex ante and ex post measures. Ex ante measures, such as a targeted stay, would signal that early action has been taken as creditors have overcome (most) coordination problems. Ex post measures, such as the hotchpot rule, would signal that coordination problems have not been totally overcome and that instruments to limit the damage from the non-cooperative behavior of some creditors are needed. Both ex ante and ex post measures increase creditors protection in a debt restructuring.

The issues just raised also point to another aspect that deserves more attention, i.e. to recognize that the SDRM could be activated in more than one scenario as a crisis evolves.

Incentives Vary as the Crisis Unfolds

To keep things simple one can envisage two scenarios in which the SDRM could be activated:

(a) activation of the SDRM prior to a full-blown crisis and in the absence of a sovereign default

(b) activation of the SDRM after a full-blown crisis has emerged and when a default becomes unavoidable. This second scenario is less desirable, yet possible if the first scenario does not establish itself strongly and soon enough.

The key features of the SDRM as discussed in the paper would seem to be especially appropriate in the first scenario. In particular, there would be no general stay on litigation (and of course no cessation of payments). The SDRM would provide the framework that is needed for: a) the aggregation of claims; b) the possibility for creditors to call a targeted stay; c) the possibility to incorporate in a restructuring also judicial claims (even if they are assisted by a privilege).

In the second scenario, however, it may be necessary to not allow litigation, at least until the creditors have organized themselves and voted on whether to go along with the activation or terminate it. So while we agree with staff that a general stay may be unnecessary we would not go as far as considering it "counterproductive" in all circumstances. On the contrary, we think that when a default occurs a general cessation of payments accompanied by a temporary but comprehensive stay on litigation (and possibly also controls of an administrative nature) may be necessary. In this latter case other measures to further protect creditor rights under the SDRM may have to be considered. For instance, a lower threshold for terminating the SDRM possibly along the lines suggested by Mr. Callaghan.

Other Incentives for Early Action

Different actions can be taken as the crisis unfolds, but it should be kept in mind that the costs (for all parties involved) increase as the crisis develops. The recognition of such increasing costs should generate incentives for early action (i.e., to avoid precipitating towards worse scenarios). If early action does not take place it is because of collective action failures. The SDRM, or even the threat of its activation, is there to avoid such failures and generate incentives for early action.

Clearly, collective action clauses could provide incentives for early action, but there might be cases where these are just not sufficient. While CACs in principle address aggregation problems for individual debt contracts,

they are not sufficient when the sovereign has multiple debt obligations, thus magnifying information sharing and creditor coordination problems. As one recent study shows investors do perceive that aggregation has costs.

Other incentives should of course be in place (namely a rigorously applied access policy and a lending into arrears policy based on a strengthened good faith concept) for the debtor and creditors to take early action to renegotiate the debt. It should be very clear that disorderly debt restructuring would not be compensated by a bailout by IFIs.

The SDRM is also a tool to solve the critical problem of extending the consequences of an agreement to all creditors (including those that have not participated in the voting, because of inertia, or because they own a CAC-less bond). This is a crucial advantage of the aggregation feature of the SDRM. In addition, through the SDRM the debtor and the cooperative creditors can have protection against the litigious creditors. Indeed the creditors would be dissuaded to sue because: a) the costs of suing are very high with uncertain results; b) judicial claims (even if privileged) would be subject to the terms of the restructuring agreement; c) the hotchpot rule would come into play (if the creditor has already been paid and the amount he has received is less than his entitlement under the restructuring agreement); d) it is possible to treat the litigious creditor as a debtor toward the sovereign if he received more than he is entitled to on the basis of the restructuring agreement.

Creditor Rights, Efficient Markets for Sovereign Debt, and Support for the SDRM

Making the incentive structure more explicit could also address one problem related to the implications of the introduction of the SDRM for the functioning of sovereign debt markets. According to a recent contribution, ample empirical evidence shows that financial markets work better, in the sense that they optimally provide resources for investment and growth, when and where creditor rights are better protected.

It is argued that since the SDRM would weaken creditors rights the ultimate result would be to decrease the amount of resources markets provide to sovereign borrowers. This could force sovereign borrowers to take even more risk by aggravating currency mismatch problems. It is a point raised, with different argumentation, both by some emerging market borrowers and market participants.

This point deserves careful attention for the obvious systemic implications it bears. However, as Ken Rogoff has argued at the SDRM conference:

"...improving our framework for international debt workouts can also make the international financial system more efficient ex ante. For countries that have credible policies and that do not attempt to over borrow, reducing the length and cost of crises will mean lower capital costs, because investors can expect higher recovery values if thing do go wrong. It (i.e., the SDRM) is no more likely to encourage bad habits among responsible governments than a new lung cancer treatment would encourage non-smokers to start smoking. In contrast, countries that do not have credible policies are likely to see their capital costs go up if creditors believe that default will now be less painful. They will end up not being able to borrow as much. That is not necessarily a bad thing, either... ."

All this leads to the issue of the support for the SDRM. Ms. Jacklin mentions that there seems to be not enough support from either market participants or sovereign borrowers. However, we know from experience that, as institutions and rules react to market changes, so markets adapt to institutional changes. The change, both in attitude and in action on both sides of the market, with respect to CACs, also as a reaction to the SDRM initiative, is very telling in this respect.

In the end, why should the SDRM be opposed by others than those who would not gain from more efficient debt markets (i.e. borrowers with unsound policies, and moral hazard driven lenders counting on IFIs bailouts)? The answer may be that prejudice rather than full understanding of the costs and benefits of the SDRM may be prevalent in many cases. If so, more clarification may be needed and further efforts to convince opponents of the SDRM that their concerns are not warranted.

Other Issues

On the exclusion of multilateral claims we agree that the IMF and the World Bank should have preferred creditor status. It would be useful to have a detailed list of other institutions that might be included before a final choice is made between the various approaches for dealing with this issue discussed by staff.

We welcome initiatives to develop a Code of Conduct as a complement to, rather than a substitute for, the SDRM. The Code of Conduct, as a framework for identifying and propagating best practices in this field, may contribute towards a more orderly and predictable debt restructuring process by encouraging cooperative behavior by both debtors and their creditors. However, its usefulness, including the extent to which it attracts support among debtors and their creditors, will need to be ascertained in practice.

Mr. Le Fort and Mr. Costa submitted the following statement:

We welcome the advances in the definition of the SDRM, and continue to think that a system to improve the procedures for restructuring a sovereign's debts should be part of a strengthened international financial architecture. However, like Mr. Callaghan and Mr. Di Maio, we believe that is important to keep the SDRM in perspective. In fact, the main difference with the present situation a SDRM would offer is a more orderly and transparent set of procedures to handle the operational aspects of a forced restructuring but will do little to ameliorate the impact of a debt crisis or even serve, as such, to ensure the stated objective of reaching a rapid and collaborative agreement.

The fact that this topic is receiving such a central stage at Fund's work program may lead to misperceptions as to the specific future role of the institution, not to mention that its opportunity may be questionable. The Fund's central role is to prevent crises through effective surveillance and catalytic financing and not that of administering members' bankruptcies. To the extent bankruptcies take place, they reflect failures of the countries concerned and also of the international monetary system. In this regard, the emphasis given to the topic at this particular juncture with a weak global economy, almost inexistent net capital inflows to emerging markets, and enhanced risk aversion, may be sending the wrong message to investors in that the Fund is giving up on crisis prevention, and that the risks of lending to emerging markets will be even higher.

Before addressing the issues for discussion we would like to welcome the introduction of collective action clauses in the most recent placement of Mexican bonds including the relatively nil effect on spreads. Mr. Kremers' reference to most countries in his constituency that have been issuing foreign bonds with CACs for quite sometime already is also welcomed. A generalized use of these clauses by developed and developing countries alike would contribute a great deal to strengthen the international financial system by reducing the costs of negotiating an eventual rescheduling of sovereign debt. Special consideration should be given to this alternative way, particularly considering the political constraints that would be faced by a change in the Articles of Agreement.

Turning now to the issues for discussion, we will address them in the order they are presented in the paper. First, the question of how the exclusion of multilateral claims would be formulated under the amendment is not very significant. The relevant aspect here is not the specific listing of the institutions covered along with the power for the Board of Governors to amend the list but rather the reasons that support the granting of preferred creditor status to these institutions. Moreover, making explicit those reasons, i.e., that the international financial institutions continue providing conditional

lending and technical support when others have run to the cover of safer assets, could be a useful answer to the calls that the international financial institutions should also suffer the consequences of bad loans.

Second, requiring the debtor to bear all costs arising from an unjustified activation, including costs arising from the operation of the DRF does not seem to us either necessary or effective. Recent past experience tells us that debtors will go to great lengths to avoid a restructuring, particularly one that entails a financial loss to creditors. One of the arguments for the SDRM has been precisely making available to debtors a mechanism that may allow them to deal with a situation of debt unsustainability without having to wait till the very last moment, when a default is unavoidable. As we will argue below, since the mechanism as such does not offer any guarantee to avoid a default, debtors will remain very cautious in resorting to the SDRM under any circumstances and, therefore, we consider the event of an unjustified activation very unlikely. If, notwithstanding the latter, there is debtor intent to abuse the mechanism through an inappropriate activation, the main cost to be confronted is the exclusion from international financial markets assistance, including from the Fund in accordance with the lending into arrears policy. Therefore, we suggest that this feature of the mechanism be eliminated.

Third, we share the general objective of attempting to secure an agreement on a restructuring prior to a default. This would significantly reduce the potentially large costs to the economy of an unsustainable debt situation. We agree, thus, with the staff's proposal that does not envisage an automatic cessation of payments upon activation of the SDRM. However, to the extent that activation entails a public recognition of debt unsustainability, the possibility of a reduction in creditors' rights becomes almost certain. Therefore, even if a mandatory cessation of payments is not contemplated initially, creditors will find in their advantage to rush for the exit even before activation is introduced. This would make it very likely that notwithstanding the design now being proposed and the initial intention of the authorities, a cessation of payments might be the most common occurrence associated to the activation of the SDRM. In this regard, the last sentence of paragraph 16 alluding to the incentives offered by the SDRM to reach a restructuring before the onset of a full-blown crisis would be more applicable to the time before activation rather than to the one following it. In fact, it will be difficult to distinguish a threat of activation from a threat of default.

Fourth, regarding the alternative measures to discourage pre-agreement litigations, we consider the hotchpotch rule an effective deterrent. Even creditors that purchased their claims at deep discount and want to secure their profit through litigation would have to weigh the risk of bearing the considerable legal costs involved if they fail to fully enforce their claims before the agreement. As to the design of other features that would make the hotchpotch rule even more binding, such as the one described in footnote 5,

we would welcome it. Such modification of the rule would make it equivalent to a general stay, except for the cases in which an agreement is never reached, which we consider a very unlikely scenario. In addition, and within the context of an exclusion of an automatic stay on enforcement at the time of activation, we consider reasonable the staff's proposal governing the possibility of a temporary stay on enforcement between the time of activation and the time when the vote by creditors becomes feasible, and also during the period following the registration and verification process.

Fifth, the issue of giving the DRF a rule-making authority, limited by the Board of Governors, with respect to the administration of claims and the establishment of dispute resolution procedures seems to us an operational matter that should not create any major difficulty, once the authority is granted. Given the soundness of the proposed features for the selection and appointment of members of the DRF based on a broad consultation and transparency, it appears unlikely that the Board of Governors will ever have to put itself in the position of overruling the DRF. As Mr. Mirakhor, Ms. Jacklin and others, we also think important to try to reduce the costs to the Fund connected with the operations of the DRF.

Finally, we would welcome a Code of Conduct establishing a jointly agreed set of best practices regarding the behavior of debtors, creditors and international financial institutions not only at times of crises but also during the periods of relative tranquility. As stated in the paper, a more predictable debtors' behavior will encourage a more cooperative response on the part of creditors. In addition, a Code of Conduct could serve to strengthen the legal and regulatory framework for emerging market finances. As to the creation of an institutional infrastructure, such as a Voluntary Forum, that could support the design and implementation of the Code it would be important to update the discussion on "Creditors' Committees—Preliminary Considerations" (SM/99/206) to avoid revisiting issues already analyzed.

Mr. Mozhin and Mr. Palei submitted the following statement:

We highly value the efforts of the staff to distill the results of the previous Board discussions while taking into account a broader dialogue with the private sector, borrowing countries, academia and other interested parties. Even in case of a decision not to proceed, at this stage, with an amendment to the Articles of Agreement, one can hardly deny that the IMF staff has done a superb job trying to come up with a comprehensive, yet pragmatic mechanism to make the process of sovereign debt restructuring more transparent and better organized, and we believe that the significant resources devoted to the design of the SDRM were used productively. Since November of 2001, when the First Deputy Managing Director outlined the initial SDRM proposal, we have witnessed the evolution of the Fund's views on the key features of a possible statutory approach to a sovereign debt restructuring. In the process

some of the myths about the potential role of the SDRM have been dispelled. Notably, after tortuous discussions with many experts the staff now firmly believe that an automatic general stay on litigation in sovereign debt restructuring cases would be counterproductive. The evolution of the staff views on the latter issue is an excellent illustration of how general ideas, central to the initial proposal on the SDRM, were developed and transformed during a relatively short period of time. Independently of the decision on the SDRM at the upcoming IMFC meeting, the lessons of this useful learning experience will boost and enrich the Fund's further work on crises prevention and resolution.

At this stage of the SDRM discussion, it would suffice to give brief answers to some of the specific questions raised in the staff paper:

We would prefer the text of the amendment to have a list of multilateral institutions to be excluded from the SDRM process. At the same time, we agree that giving the Board of Governors the authority to amend the list by a decision of 85 percent would preserve the necessary flexibility for the future;

as we have stated previously, we believe that—SDRM or no SDRM—the IMF should continue to play its traditional catalytic role and should avoid creating new signaling instruments. Therefore, it would not be appropriate for the Fund to take a decision on the validity of the activation of the SDRM and to have the right to require the debtor to bear the costs of the SDRM;

we take a note of the staff view that neither the general cessation of payments, nor an automatic stay on enforcement are the necessary elements of the SDRM;

while it is not a surprise that the DRF would have to have significant discretionary rule-making power, we believe that the Board of Governors is not well placed to amend the rules established by the DRF. It would probably be extremely difficult to disentangle the specific decisions made by a panel of judges in any particular case from the rules and regulations established by the DRF for all cases. Therefore, the proposal advanced by the staff is likely to lead to direct association of the IMF with specific decisions on debt restructuring. In order to maintain the independence of the DRF and to protect the Fund from being dragged into the specifics of debt negotiations, a different safeguards mechanism has to be found.

We welcome the revival of the idea to create a voluntary code of conduct and hope that its application could be supported by an adequate institutional infrastructure. Indeed, such an infrastructure could become a sign of maturity of all players in emerging markets and, if successful, should be seen as one of the positive results of the SDRM deliberations.

Mr. Usman submitted the following statement:

Much progress has been made since the Fund staff started with efforts to design a Sovereign Debt Restructuring Mechanism. To this end, various papers have been considered by the Board, and the staff has also consulted widely with other important role players so as to incorporate the many different views into the drafting of a proposal for the SDRM. We thank the staff for their efforts. The staff also consider drafting a "concrete proposal" as requested by the Governors during the last IMFC to be considered at the Spring Meeting. However, it has been repeatedly mentioned during the various Board discussions, as well as at the latest workshop and conference on the SDRM, that while much progress has been made to date, these efforts should be viewed as work-in-progress, towards a framework for sovereign debt restructuring. Furthermore, the efforts to enhance the development and use of collective action clauses should also be considered in parallel with the design of the SDRM.

Issues for Discussion

Exclusion of Multilateral Claims

This Chair has in the past supported the view that multilateral claims should be excluded from a restructuring mechanism, particularly given the specific roles that they are expected to perform within the context of global financial environment. In this regard, we would support a flexible approach as to which multilateral institutions' claims should be considered for exclusion. We would therefore be comfortable that a list of possible international organizations be included in the proposed amendment. We would also support the proposal that the list of institutions in the proposed amendment could be modified by Governors by an 85 percent majority as suggested in the staff paper.

Disincentives for Inappropriate Activation

The staff suggests that in order to provide a disincentive for debtor countries to abuse the SDRM, the sovereign debtor should bear all the costs, including the costs for operating the DRF, should it inappropriately activate the SDRM mechanism. The Fund would determine whether the activation was unjustified. We cannot support this proposal on several grounds. First, we find it hard to envisage that a debtor country would inappropriately activate the SDRM, since activation of the SDRM would introduce negative signals to the market about the country's debt sustainability, a situation any debtor country would rather avoid. It would thus not be worthwhile for a country to inappropriately activate the SDRM, since the dislocation costs to the economy would in that event be much larger than the costs to administer the SDRM process. We are also of the view that to allow the Fund to determine whether

the activation was justified would increase the IMF's influence to the process, which runs counter to the view that the Fund's influence on the process should be limited.

Consequences of Activation

The staff elaborates in detail why the SDRM should not include an automatic stay, or a general cessation of payments upon activation of the mechanism. The staff, however, also notes that full or partial cessation of payments in certain cases may be unavoidable. While an early agreement between the debtor and its creditors regarding the cessation of future payments of certain classes of debt prior to the restructuring taking place could alleviate the burden of the debtor in the short-run, it is unlikely that such a cessation of payments would forestall the economic ramifications associated with cessation of payments. Having said that, we would still reserve our judgment at this point as to which course should be taken regarding a cessation of payments or a stay, and would be comfortable to join a compromise that would emanate from the deliberations.

The staff paper also discusses alternative measures that could be used to discourage pre-agreement litigation. The staff paper admits, however, that insufficient evidence exits to suggest that pre-agreement litigation would disrupt the restructuring process. On the other hand, evidence suggests that holdout creditors, major collective action problems, and creditor litigation posed no major impediments during recent bond restructurings in Russia, Ukraine, Pakistan, Ecuador or Argentina. We cannot, therefore, support the inclusion of alternative measures to avoid pre-litigation in the SDRM, since the need for such measures is not supported by evidence.

Rule Making Authority for the DRF

We agree with the proposal that the DRF be given rule-making authority, akin to similar international tribunals, with the ability of a qualified majority in the Board of Governors (of 85 percent) to overrule these rules. We fail, however, to see the need to appoint a full-time President to an SDRM, which is designed as ad-hoc process, and to be activated only in a crisis situation.

Code of Conduct

We support the design of a Code of Conduct for emerging market financing. As a matter of fact, such codes are already being designed by private institutions. The importance of such a code would be enhanced should it garner widespread acceptance by both debtors and creditors. Such a code of conduct could become, as staff rightly suggests, a useful tool in crisis prevention.

Mr. Bischofberger and Mr. Haupt submitted the following statement:

Key Points

The SDRM is an important element within the ongoing efforts to improve the framework for dealing with sovereign debt crises. CACs and a possible Code of Good Conduct are useful and promising complements to an SDRM.

The activation of an SDRM will likely be accompanied by a standstill which should be sufficiently broad-based to facilitate an orderly and predictable restructuring process.

A broad-based stay on litigation would be important to ensure adequate restructuring incentives. The option of a temporary, but automatic stay should remain on the table.

Introduction

We continue to believe that a well-designed SDRM would significantly enhance the current framework for the resolution of sovereign debt crises and, equally important, for their prevention. In our work on this complex matter, we have already achieved a great deal: A concrete proposal is taking shape, notwithstanding the remaining open issues. In addition, as last week's encouraging issue of a Mexican CAC-equipped bond demonstrates, the SDRM-discussion has come a long way in heightening public awareness of the problem at hand and in encouraging all parties involved to explore avenues of more orderly debt restructurings.

The staff paper does a good job in distilling the common ground as well as the remaining differences on the SDRM proposal, as they have emerged from our previous discussions. In particular, we appreciate staff's efforts to further explore the scope for compromise on the issue of "stays on enforcement". We fully agree that the effectiveness of any SDRM will critically hinge on the underlying incentives, appropriately designed to mitigate the collective action problem and to avoid abuse on the part of both the debtor and the creditors. Yet, staff's proposal raises a number of questions and we remain of the view that the option of a more ambitious—while fair and "incentive compatible"—SDRM should remain on the table. While we agree that valid outside concerns must be taken into account, the question remains to be settled how far the Fund should go to compromise on the original proposal. I also agree with Mr. Vittas's useful comment that "in the end, why should the SDRM be opposed by others than those who would not gain from more efficient debt markets?".

Broad-based cessation of payments and automatic stay as central features of a more ambitious SDRM

Indeed, the issue of the stay appears to be the most important one on which a consensus remains to be reached. The question of the stay obviously becomes relevant only in those cases where the debtor has ceased to pay its creditors. In this context, staff make the perfectly sensible proposition that restructuring agreements should preferably be sought before creditor payments are interrupted. While we fully agree with this proposition, we are doubtful that a debtor will activate the SDRM as long as he still is in a position to fully service its debt. In our view, one important purpose of the SDRM will be to strengthen the incentives for reaching informal solutions in the shadow of the statutory approach. Thus, only if the informal approach fails would the SDRM be activated. When this point is reached, a financial crisis will likely be a fact and a cessation of payments will be all but unavoidable. Without a (broad-based) standstill, creditors will likely "run for the exit" in such a situation. Moreover, even if a debtor were determined to stay current on his obligations, his activating the SDRM might by itself be declared a default event by markets.

As regards the possibility of a targeted cessation of payments, we consider the room for safeguarding certain claims from standstills to be limited, given intercreditor equity and transparency considerations. In addition, the existence of cross-default provisions will likely further constrain the room for maneuver in this context. Overall, the objective of an orderly and predictable restructuring process will be best served in the context of a sufficiently broad-based standstill. That said, we take staff's point that critical claims such as trade credits might continue to be paid for the sake of reducing economic dislocations. In this context, Mr. Kremers makes an interesting point, namely that the debtor is free to agree ex-ante with its creditors to exclude such categories of payments from the mechanism. If such types of debt are indeed of particular importance for economic activity, the capacity to honor the (restructured) claims of all creditors should benefit from their being serviced. This, in turn, should make their exclusion from the mechanism acceptable to the broader group of creditors.

Given that the SDRM will likely only be activated in those difficult circumstances where some form of default is unavoidable, the important question arises how pre-agreement litigation can be prevented from disrupting the restructuring process. Such litigation can, in our view, only be satisfactorily addressed by an adequate form of stay on enforcement. We would like to be convinced by staff's reasoning that the possibility of an early restructuring agreement will deter creditors from litigating. However, we have some doubts. Experience in the London Club, for instance, shows that the mere verification and registration of claims can already take in some cases as long as up to three years. Also, in past restructuring processes, delays have

occurred as a result of challenges to the legitimacy of claims. It remains to be seen how effective the DRF will be in expediting the resolution of such conflicts. The lengthier the restructuring process, the stronger incentives to litigate will be.

Against this background, we still see much merit in further exploring the option of a temporary, but automatic and broad-based stay. This approach holds out several advantages, in particular that it can be applied immediately after activation and that it does not depend on the DRF to make far-reaching decisions on the disruptive nature of the litigious action at hand. Arguing against a broad-based stay, staff state that this would preclude the possibility of "virtuous" litigation in the case of insufficient debtor cooperation. However, a number of safeguards can be thought of to protect against this danger, including the application of the Fund's lending into arrears policy and the creditors' power to terminate the mechanism or to decline to renew it. Indeed, creditors' right of termination gains added importance in the context of an automatic stay, as a means to realign the balance of powers in their favor. Therefore, if an automatic stay were chosen, we would suggest a qualified minority of, say, 26 percent of creditors to be sufficient to terminate the mechanism.

The staff makes an interesting proposal to combine the two approaches of the broad-based and the targeted stay. Such an approach has indeed some benefits, as compared to each of the two creditor-approved stays in isolation. Yet it still raises a number of issues. Firstly, powers would have to be bestowed on the DRF which go far beyond mere administrative and dispute resolution functions. Secondly, it is not fully clear how the decision-making process within the creditors committees would play out, what majorities would be required and how rapidly such committees would likely be established. Staff's comments would be appreciated.

Other Features of the Proposed SDRM

On the objectives of the SDRM, we would suggest to add the aim of effective private sector involvement in crisis prevention and resolution to the elements already mentioned by staff.

On the registration and verification of claims, as already indicated, we see a considerable risk that these procedures may lead to significant delays of the restructuring process. Given that the time dimension has such an important bearing on the effectiveness of the mechanism, these questions need to be looked into further. In this context, we would reiterate our earlier proposal to explore the possibility of some sort of standing organization or database to register claims.

Similarly, as already indicated, on creditor committees, we would underscore the importance of facilitating their expeditious establishment and the process of creditor organization more generally.

On the general voting rules, there is an issue whether different weightings might be applied to different categories of claims. In particular, a differentiation according to maturities could be considered, as a means to avoid possible adverse incentives to incur short-term debt.

As regards the Dispute Resolution Forum, the composition of the pool of judges and the selection panel should, in our view, be subject to regular reviews at intervals of, say, five years.

On the legal basis of the SDRM, we remain to be fully convinced that the establishment of an SDRM would be within the purview of an amendment of the Articles of Agreement.

On multilateral claims, we can support the proposal, to define a list of institutions excluded from the mechanism, to be amended, if need be, by a decision of 85 percent of the voting power of the Board of Governors.

With regard to privileged claims obtained after activation and arising from legal proceedings against the debtor, we can support the staff proposal. We would, however, add that the incentive effect of this arrangement will still be weakened to the extent that litigators succeed in collecting on the judgment before a restructuring agreement will been reached.

On the scope of rule-making authority to be given to the DRF, staff's proposals seem reasonable at first glance, but need to be considered further, as the details of the proposals are further fleshed out, including the question of the stay.

We consider a Code of Good Conduct to be a useful complement, though not a substitute, for the statutory approach. Such a code should be developed jointly by the debtor, the private sector, and the international community. We would emphasize that the ongoing work on such a code as well as on the promotion of CACs serves a very useful role which deserves appropriate support, including by the Fund.

Conclusion

A few important issues will likely remain unresolved after today's Board discussion. We have, however, covered considerable ground in the last couple of months in making a solid and well-founded concrete proposal. Those issues where a consensus remains to be reached should be clearly indicated as such in the Attachment of the current paper. One of those issues

is clearly the question of the stay on enforcement. We strongly suggest to include the various options of such a stay, including that of an automatic stay, in the Attachment. As regards the next steps, we look forward to discussing these in a further Board meeting.

Mr. Oyarzábal and Mr. Beauregard submitted the following statement:

We would like to thank staff for their hard work. We have come a long way closer to a concrete proposal for a SDRM. However, as noted by Mr. Callaghan and Mr. Di Maio, it is not clear at this stage if the SDRM will get the necessary political support to come into reality. Ms. Jacklin also raised a crucial point in her Grey when she argues that if the SDRM is going to meet its objective, both sovereign debtors and their creditors need to view the mechanism as facilitating this objective. Going forward, it would be important to assess to which extent there is support for a change in the Articles of Agreement in order to adequately report to the IMFC.

In our view, the discussion has had positive developments in creating full consciousness on the need to further improve our crises prevention and resolution strategies. In particular, the idea of working on a Code of Conduct, in close cooperation with the private sector, points in that direction. The enhanced acceptability of Collective Action Clauses by both the private sector and some emerging markets is also a good result.

Regarding the issues for discussion, we would like to offer the following views.

On the exclusion of multilateral claims from the SDRM, we would favor including a list of institutions whose claims would be excluded from the mechanism. This procedure would give more certainty to the mechanism, avoiding difficult disputes at difficult moments. However, it would be important to know the criteria that would be used to select those institutions to be included in the list and those that would not. Nevertheless, we would be open to consider as well other options based on a statement of principles of exclusion.

We like the idea that if a sovereign activates the mechanism inappropriately, then it should bear all the costs associated with it. However, given that this judgment would be made by the group of creditors, it does not seem to us this is a fair process. A judgment like this must be made by an independent party. Thus, we do not support staff's recommendation.

On the possibility of an automatic cessation of payments, we share staff's concerns that the costs of such measure would outweigh its benefits. As indicated by staff, we would like to stress that the mere possibility of a cessation of payments could make creditors rush for the exit, magnifying the

consequences of a crisis. In addition, the absence of an automatic cessation of payments reduces the incentives to activate the SDRM. This has been a concern of this chair since the beginning of the SDRM discussion due to its implications in reducing the amount and increasing the cost of international capital to emerging markets. Apart from the economic consequences of a cessation of payments, it would be important to consider the contractual implications. Therefore, we share staff's opinion that a stay on litigation without an automatic cessation of payments does not make sense.

Staff argues that even if there is a low probability that investors may act legally against the sovereign, a procedure should be in place to protect the latter from litigation. Even though a stay on litigation could mitigate the impact of said action, we remain concerned, as we stated in the last paragraph, that such possibility could negatively affect emerging market's borrowing costs or their ability to attract capital flows. Furthermore, we would reiterate that there is insufficient evidence suggesting that such acts have been detrimental in the restructuring processes in the past. Staff offers two solutions to this problem, the use of the Hotchpot Rule or the possibility of creditor-approved stays. In our view, the first measure is a better option because it would give certainty to the mechanism. On the other hand, creditor-approved stays could entail uncertainty for the debtor, and could be used by the group of creditors to put pressure on the sovereign.

We fully endorse the staff's proposal to give the DRF rule-making authority with respect to the administration of claims and the establishment of dispute resolution procedures. The rules developed by the DRF should be put to the consideration of the Board of Governors and any change should be approved by a qualified majority of the total voting power.

Staff is right in saying that a Code of Conduct does not fully solve potential collective action problems; but staff is also right in saying that there is insufficient evidence to date to suggest that pre-arrangement litigation disrupts restructuring processes (one of the main arguments used to put forward the idea of a SDRM). A Code of Conduct, together with the use of Collective Action Clauses, should encourage market friendly solutions to unsustainable debt cases; and market friendly solutions mean less negative externalities to emerging markets. These two should help catalyze an early and effective dialogue between the debtor and its creditors. This is an idea that has been widely accepted by the investor community and also by some emerging market economies. The Fund should play a role in this process and we strongly encourage staff to work in this area.

There is another issue that still worries us; the one of sanctions. We agreed in the past that the Fund would rely on its existing financial policies, including its lending into arrears policy, to deal with non-cooperation issues. However, that is not the case if the Fund judges there has been an

inappropriate use of the mechanism. What would be understood by inappropriate use of the mechanism? Will this include a scenario of activation that was judged to be unjustified? What would be the Fund's reaction to such an event, who will make the assessment of inappropriateness and who will take decisions in this regard? Staff comments are welcome.

In addition, as we agreed in the past, the Fund should not have any formal and direct role in the mechanism, neither staff, nor Management or the Executive Board. Then we do not understand why on page 27, under section 13. Sanction, the following was included in brackets: In circumstances where the Fund determines that debtor has activated the mechanism without adequate justification, the debtor shall bear the costs of the operation of the mechanism, including the costs of the DRF. Again, this enhances the role of the Fund beyond what has been agreed in previous discussions. Staff's clarification would be welcome.

Extending his remarks, Mr. Beauregard made the following statement:

I would like to thank those Directors that have acknowledged Mexico's recent decision to include collective action clauses in their bond contracts issued in New York. I would also like to take this opportunity to react to the two stories that Mr. Fisher told us at the very beginning of the last informal briefing of the SDRM, which, of course, referred to my authorities' decision to change their policy.

At the outset, I would also like to stress that it has not been an easy task to discuss this issue in our chair. As you well know, my Mexican authorities have been very vociferous in opposing the establishment of a statutory mechanism to deal with sovereign debt restructuring. They did also oppose, until recently, the idea to include CACs in their bond contracts. Now, what happen to change our attitude toward CACs, while that on the SDRM remains the same? The reason is simply that, as a debtor country, we noticed a fundamental change in the attitude toward CACs in the market place. This change lessened our concerns about the possible premium that we would have had to pay if CACs were to be included in our bond contracts. The fact is that investors did not demand a premium when we issued our bond in New York last week. This confirms that working with the private sector on this delicate issue pays off.

However, this fundamental change has not been present with regard to the statutory approach. Even though management and staff have made excellent outreach efforts, the reality is that they have not been successful in making the case for a SDRM. Most private sector participants still remain unconvinced on the need of a statutory mechanism to restructure sovereign debts. Of course, this institution could impose a statutory regime, and the market and debtor countries would have to learn to live with it.

In his statement, Mr. Vittas mentions the need for markets and debtor countries to adapt to institutional changes. We wonder at what cost we debtor countries would need to adapt to this change. Many would argue that this was precisely the same fear we had regarding CACs, and they did not materialize and that the same logic would apply to the SDRM. Yet, the fundamental difference is the lack of acceptance on the part of private investors of an SDRM.

Mr. Reddy submitted the following statement:

We commend the staff for consolidating further the progress towards a concrete proposal on SDRM. While the paper takes into account the views of the Directors in the last December meeting and also the inputs from the recent SDRM Workshop, the complexity of the subject and the difficulty in arriving at a consensus on the 'proposed features' are reflected in the staff's recognition that the paper before the Spring Meeting will still contain 'key unresolved issues' and leave a number of issues unresolved. Indeed the work done so far by staff, under the initiative taken by Ms. Anne Krueger, is a major contribution to the thinking and policy options available for improving the International Financial Architecture. Its value lies in exploring the micro and structural aspects of the global financial system. This is an important reason to continue the work on SDRM , in spite of several unresolved issues.

The introduction in the staff report makes it clear that this paper is a step towards the proposal that could be presented to the IMFC in time for the April 2003 meetings. As such it may be necessary to fully recognize the developments that have taken place on this subject since the September 2002 meeting of IMFC. Firstly, considerable technical and consultative work have taken place in regard to SDRM. The work has enabled a wide and informed debate on significant issues in several fora while Executive Directors have the benefit of appreciating both the importance and complexities involved in the proposed mechanism. The work done so far provides a solid base for further thinking on the subject and we support continuation of the enthusiastic work on the subject in the Fund. Secondly, the reaction of the market participants to the proposal during the consultative process does not appear to be enthusiastic, though efforts have been made to explain the features and respond to their concerns in refining the design further. There is no reason to believe that the perceptions of the market participants are turning positive to the proposal in the recent past. Thirdly, some of the countries who are major players in sovereign debt market, both from the lenders and borrowers sides, seem to continue to have reservations on the usefulness, in particular about implementability of the mechanism. Fourthly, there has been some progress, beyond original expectations, in the adoption of collective action clauses. In our view such progress in collective action clauses was influenced and indeed inspired by the significant work done and progress made with respect to the

SDRM process. Hence while noting the recent progress in the use of collective action clauses on sovereign debt and encouraging wider use, the work on SDRM process should continue in parallel and thus reinforce the use of collective action clauses. In fact I wish to reiterate the view expressed by me in my last intervention on December 19, 2002 that the SDRM, being a parallel effort along with other efforts towards improving mechanisms for crisis prevention and resolution, it should not be viewed as a substitute, but essentially complementary. Fifthly, as the staff paper makes it clear, there are a number of policy issues which will no doubt have to be addressed in due course. Under the circumstances we are of the view that the proposals to be submitted to the IMFC should reflect all the above developments while reporting the on going work and take into account further work to be done towards the concrete proposals. Having said this, we would like to give detailed response to the specifics of the proposal as it is.

One of the unresolved issues is the need for an amendment to Fund's Articles. That said, in our view, it is premature to consider an illustrative text of an amendment of the Fund's Articles of Agreement, and even if a text is prepared, that need not be a part of the paper to be submitted to Board of Governors at this stage. As suggested by a number of Directors, it would be useful to formally obtain the assessments by members themselves of the legal implications of the SDRM for domestic legal systems.

We welcome the inclusion of the section on the potential contribution that could be made by a voluntary code of conduct to discipline various parties involved in the restructuring process, though this will require further detailed discussion. Here again, it would be useful if the staff works further on this subject.

Our views on specific aspects of objectives, principles and design and relating to the Proposed Features are indicated section wise below:

Objectives and Principles

We broadly concur with the Section 1. But, at the end of paragraph "and lending into arrears" may be added.

Section 2, bullet one does not recognize the debtor's right to judge the unsustainability of debt. We suggest that the first line should be modified into "The mechanism should be used only to restructure debt that is determined by the sovereign debtor to be...'

To recognize further the voluntary nature, bullet six may be modified to read: "The mechanism should be voluntary and not interfere with the sovereignty of debtors."

The Fund should only be a facilitator of the SDRM. Therefore, the last bullet should be replaced with "The role of the Fund under the SDRM should be limited to being a facilitator."

Scope of Claims

More clarity needs to be introduced on the scope of claims. 'Financial contracts relating to commercial activities of the specified debtor" is very difficult to distinguish. We suggest exclusion of item 3(b)(i).

The sovereign debtor should constitute the central government and none else for the purpose of SDRM.

We suggest that 3(c) should stop with saying that 'for purposes of the mechanism, a sovereign debtor would constitute a central government of the member activating the mechanism.' And the rest of the sentence be deleted.

Regarding the scope of multilateral claims to be excluded, while we concur with the principle of listing international organizations whose claims would be excluded and as approved or amended by 85 per cent voting of Board of Governors, the subparagraph 3(d)(v) presupposes amendment to the Articles of Agreement. This may be modified to read:

"claims held by international organizations that are listed and as approved by Board of Governors, by an eighty-five per cent majority of the total voting power".

As regards the bilateral creditors, the sovereign debtor may have the option to exclude or include in SDRM. Therefore, we would suggest that 3(d)(vi) to be modified to read as "subject to the consent of the debtor, claims held by foreign governments or qualified government agencies."

Activation

We concur with the Section 4 as drafted. As the paper notes, several other features of the SDRM would discourage abuse of SDRM. While the Fund's involvement would be implicit in case of activation of SDRM, given the extreme circumstances leading to sovereign default, we do not agree with the suggestion in paragraph 12 of the paper that the Fund would determine that activation was not justified. This goes against the principle of minimal involvement of the Fund in SDRM.

Consequences of Activation

Provision of Information

For reasons we discussed in the last meeting of December 2002, we strongly urge that information provision should be restricted to Section 5(i) in respect of claims for which restructuring is sought within SDRM. It is not clear why information on debt proposed for restructuring outside SDRM as also not proposed for restructuring should be provided to SDDRF. We, therefore, strongly urge deletion of Sections 5(ii) and 5(iii).

Registration and Verification of Claims

We concur with Section 6.

Cessation of Payments

We agree that a blanket cessation of payments to all types of creditors might imply considerable erosion of contractual rights of market participants. Further, while the general cessation of payment may be temporary, adverse consequences may be long lasting. We recognize, however, that if a debtor is going to selectively decide to paying some creditors it will be seen as a mechanism loaded against them. On balance, the hotchpot rule is an insurance against dispute litigation. Overall, we concur with staff drafting of Section 7.

Creditor Participation: Organization, Voting and Decisions

We concur with Section 8 on the creditors' committee, encouraging early creditor participation in the restructuring process. As regards voting rules, in respect of creditors that are under the control of the sovereign, as we argued in December, it would be impracticable to apply the principle of those who are totally under the 'control' of government. We suggest deletion of last sentence in Section 9.

As regards priority financing, we concur with the staff drafting of Section 10.

In regard to restructuring agreement, while it would be necessary for the sovereign debtor to provide information to the DRF as to how it intends to treat claims that are to be restructured within SDRM, there is no need for such information relating to other claims.

Sanctions

As we mentioned earlier, since Fund should not be directly involved in passing a judgment on activation of SDRM, we suggest that the position in square brackets of Section 13, be deleted.

Termination

We can go along with 40 percent voting threshold.

The SDDRF

We concur with the staff that putting in place some overriding powers on DRF's conduct would ensure that the DRF would use its powers judiciously. While we support the proposal of vesting rule making authority with DRF, at the same time, support also enabling the Board of Governors to override by a decision of a qualified majority of the total voting power within a specified period. We broadly concur with Section 14.

Legal basis of the SDRM and its consistency with Domestic Laws

As regards Section 15, we reiterate our views expressed in December which are as follows:

While some ground rules for universal application are necessary as part of SDRM, a complete harmonization of domestic laws with SDRM would be practically infeasible and also not desirable. Many countries are streamlining their insolvency procedures with an eye towards adopting best practices available elsewhere, but development of codes for domestic bankruptcy should not degenerate into mandatory compliance by member countries. The diversity of practices and historical and institutional features as also the underdeveloped nature of domestic securities markets in many countries has been brought out in a recent BIS report by the Contract Group on the legal and institutional underpinnings of the international financial system. The scope of claims to be excluded under SDRM, in principle being those governed by domestic bankruptcy laws, the member countries should have the complete freedom and flexibility in designing domestic bankruptcy codes.

The more important related issue is whether an amendment to Articles of Agreement is required for the establishment of SDDRF, under the statutory approach. Basically, this undermines the accepted principle that the Fund's role in SDRM should be minimal and its direct involvement introduces the element of conflicts of interest. The Fund's role is essentially advisory and catalytic, as part of improving mechanisms for crises prevention and resolution. Secondly, SDDRF should not be construed as having overriding

powers over domestic jurisdictions and domestic legal framework and this could be viewed as an infringement of the principle of sovereignty. Thirdly, apart from the practical problems of cumbersome and protracted process to effect the legislative changes that may be required for compliance at the domestic level, this could further delay and hamper the institution and commencement of SDRM process, defeating the purpose of evolving this mechanism at a quicker pace as part of crises resolution. Therefore, in our view, as expressed on earlier occasions, the SDDRF should ideally be created totally as an independent structure, through an international treaty, avoiding an amendment to the Articles of Agreement.

Ms. Indrawati submitted the following statement:

We welcome another round of discussion on the Sovereign Debt Restructuring Mechanism (SDRM) and thank staff for preparing the paper, which takes into consideration the comments made during the previous Board discussion and the feedback from both the workshop and conference held in January. We also found the informal session conducted last Thursday useful in clarifying some of the issues discussed in the latest paper. It is through staff's dedicated efforts that we now have the first draft of the proposal that would be provided to the IMFC. Through this sometimes difficult process, the proposed SDRM has been refined, taking into account the evolving realities, including the recent welcome developments on the collective action clauses front. We support the continuous efforts towards developing a more orderly and predictable debt restructuring and crises resolution process, whether through statutory or market mechanisms. What is of importance is to allow countries to deal with debt in an orderly and less damaging way, and hence strengthen the international financial architecture.

The changes made to some of the proposals since it was first discussed reflected the complexities of the mechanism and the many disparate views from debtor and creditor groups. While acknowledging that support from the creditors would be important for realizing a SDRM, it is the debtor countries that have the most to lose if the restructuring of unsustainable debt is disorderly and leads to financial and economic instability. As such, in addition to planned discussions with the private sector, continued formal discussions with developing countries on the proposed features of SDRM would be appropriate.

Before we respond to some of the issues raised by staff, we would like to raise two other issues. First, on the provision of information. The proposal indicates that upon activation of the SDRM, the debtor would need to present all information regarding its indebtedness, whether these are to be restructured under the SDRM or not. We understand the underlying purpose is to ensure transparency and accountability of the process. However, since registration and verification can only take place after the provision of the entire list of

claims, the process may be slowed by the lengthy and tedious work to compile and verify such information. We therefore suggest that priority be given to compiling and verifying the list of claims eligible for restructuring under the SDRM, the completion of which would allow the registration and voting of creditors to proceed. However, the remaining information on other claims can continue to be provided, within a certain timeframe agreed by the debtor and creditors.

Second, on the creditor committee, we disagree that the debtor should bear the costs associated with the operation of these committees. Since these committees serve to address both the debtor-creditor as well as inter-creditor issues, it would be more appropriate for both the debtor and creditors to share the costs equally. At the same time, this would eliminate the need for the Dispute Resolution Forum (DRF) to review the fees.

In the list of issues for discussion, staff raises the question on how the exclusion of the multilateral claims would be formulated under the text of the amendment and two options were highlighted. At the outset, we reiterate our view that these claims should be excluded from the scope of claims to be restructured under the SDRM. A specific list of such institutions should also be prepared to reduce the possibility of disputes. In the event of a dispute, the DRF, as an unaffiliated independent entity, should be empowered to resolve it. However, it is useful to maintain the flexibility of allowing an amendment to the list, as the organizations would evolve and the nature of such claims could change.

On the issue of activation, we believe that instances of unjustified activation would be rare given the high economic costs to the country. In addition, the SDRM would not be the only option for countries in the debt restructuring decision. Countries contemplating activation would also take into consideration the views of the IMF, whose assessment on the prevailing macroeconomic conditions provides de facto approval for activation. Nevertheless, if there is unjustified activation, we support the proposal of requiring the debtor to bear all costs arising from an unjustified activation, to prevent a waste of the Fund's resources.

There is a balance that needs to be established between protecting creditor rights and ensuring that disruptive litigation does not occur. We believe that given the already precarious situation during a debt restructuring and the general "herd instinct" of the private sector, an automatic stay on enforcement should be activated at the same time as the SDRM. The stay should be temporary to provide breathing room for the debtor and creditors to organize themselves. To complement this stay, there should be the option of a cessation of payments, approved by a qualified majority of creditors. Such a cessation of payments should be targeted to minimize disruption to the functioning of the economy, in line with the objective of the SDRM.

Measures to discourage pre-agreement litigation should be included in the SDRM, as they would help ensure that the restructuring process remains expeditious, orderly and predictable, while encouraging inter-creditor equity. Similarly, we support the proposed feature of including in the SDRM, privileged claims that are obtained after activation or that arise from legal proceedings against the member.

The paper considers the possibility of enabling the Board of Governors to overrule rules and regulations adopted by the DRF. We are of the view that it is not necessary to place a check on the exercise of authority of the DRF as it should remain an independent entity. We believe that the selection process should ensure the competence, diversity and impartiality of the members. The composition of the members of the DRF should represent both debtor and creditor groups. Nevertheless, there should be early and open dialogue between the DRF and the Fund regarding the developments in the SDRM rules and regulation, to ensure the transparency of the process.

On the legislation issue, staff highlights that countries would need to adopt legislation to accept an amendment to the Fund's Articles, and it is for each member of the IMF to determine the extent to which the adoption of the SDRM would require changes to its domestic law. We welcome staff's plan to prepare a technical note on this issue once the features of the SDRM has been finalized. Nevertheless, work to consider the extent to which domestic legislation would have to be amended can only be initiated when the proposed amendments to the Articles of Agreement has been finalized. This is likely to be a long and difficult process in some countries.

Finally, we appreciate staff's effort in exploring the possibility of introducing a code of conduct. We welcome the proposal that the Code would be developed jointly with debtors, their creditors and other interested parties. Although we agree that it would promote the objective of reducing instability, the establishment and implementation of the Code would be complex. It may involve the creation of some form of institutional infrastructure that has no legal basis. In this regard, the question of how to ensure that parties comply with the Code, and the issue of how non-compliance would be treated requires much further exploration.

Mr. Zurbrügg and Mr. Moser submitted the following statement:

Key Points:

We support the proposed features of an SDRM. They provide a solid basis for a concrete proposal that could be submitted to the IMFC.

We welcome the apparent progress with regard to collective action clauses and a possible code of conduct, but these are complements, not alternatives to an SDRM.

To address the loophole that could exist for the brief period between activation and establishment of a representative creditors committee, the DRF could be given the (temporary) authority to suspend legal action.

We thank the staff for a well-balanced and comprehensive proposal for an SDRM. It provides a solid basis for a concrete scheme that could be submitted to the IMFC for its April meetings. We are also encouraged by the complementary progress witnessed last week on the contractual front, given Mexico's decision to include collective action clauses in a major bond issue, and by the fact that markets did not appear to charge a premium on these clauses. However, we would like to reiterate that we view collective action clauses as a complement, rather than an alternative to the SDRM. The same is true for a voluntary Code of Conduct. Only an SDRM allows debtors and creditors to deal with the entire stock of debt and resolve inter-creditor issues.

It is important to note that the SDRM would not only facilitate collective action but also address creditors' concerns about inter-creditor equity. It might be worth highlighting this in the proposed features. As to the specific issues for discussion, our position is as follows:

Exclusion of multilateral claims. We support the idea of having a list of institutions. If an SDRM is to create a predictable process for debt restructuring, it should be clear at the outset which multilateral claims will be excluded. To retain flexibility to accommodate the evolution of international organizations, it seems reasonable to give the Board of Governors the power to modify this list.

Unjustified activation. Like Mr. Callaghan and Mr. Kremers, we do not think that this is a serious risk. In addition, the right of creditors to vote on a termination is a powerful disincentive. Giving the Fund the possibility to impose a penalty for inappropriate activation would, in our view, not only be ineffective, it would also be at odds with both the role of the Fund as well as the spirit of the SDRM.

Lack of an automatic stay. As noted in our last discussion, the absence of a general stay on enforcement leaves a loophole for the period until creditors are sufficiently organized to vote on a stay. Staff suggests to fill this loophole with the possibility of targeted stays on request of the debtor and approval of a representative creditors committee. While we support this approach, it still leaves a loophole for the brief period between activation and establishment of a representative creditors committee. How serious this loophole would be is hard to say, given that the existence of an SDRM could

change litigation dynamics. A possible solution would be to give the DRF the authority to suspend legal action for the period until a representative committee is formed (or creditors are sufficiently organized to vote). This authority to prevent specific enforcement actions would thus only be temporary, and the duration would depend on the creditors. We believe that this would not only act as an effective deterrent for destructive litigation and thus protect a majority of the unregistered creditors, it would also provide incentives for the establishment of creditors committees and quick registration.

Alternative measures to discourage pre-agreement litigation. We share the staff's view that further possibilities should be explored. We are supportive of the measures proposed by staff, such as the restructuring of privileged claims under the SDRM, or a rule where the litigant would be liable to the debtor for an amount equivalent to the value of the creditor's enforcement recovery that exceeds the amount it would have received under the agreement.

DRF: We could support the idea of giving the DRF rule-making authority with respect to the administration of claims and the establishment of dispute resolution procedures. This would provide some flexibility and allow to learn from experience. To have some kind of a check, however, it would then be reasonable to give the Board of Governors the possibility to overrule rules and regulations adopted by the DRF. However, should this be a stumbling block, we could also support an alternative approach, i.e., delineating the DRF role more narrowly.

Code of Conduct. We welcome the various initiatives to work out a code of conduct, which could provide helpful guidelines to debtors and market participants alike. Such a code, however, would not solve the collective action problems and inter-creditor issues addressed by an SDRM.

Mr. Egilsson and Mr. Farelius submitted the following statement:

Introduction

We would first like to thank the staff for their efforts in responding to the request of the IMFC in presenting a concrete proposal on the SDRM for the IMFC meeting in April. A framework for timely and orderly restructuring of unsustainable sovereign debt would be a highly beneficial added building block in the international financial architecture. Let us also reiterate our full support for the efforts to develop the two complementary approaches, namely the SDRM and Collective Action Clauses. Furthermore, as mentioned by Mr. Vittas, we should not forget that an SDRM would well complement other pillars of the crisis resolution framework, such as PSI and a new rigorous policy on access limits.

The proposal for the SDRM is a further step towards the goal of formulating an operational sovereign debt restructuring mechanism that would establish a universal legal framework to facilitate debt negotiations and empower a qualified majority of creditors to approve a binding debt restructuring agreement with a debtor country. Let us also not forget the positive side-effects of the current discussion on crisis resolution, which has not only implied that we all have learned a great deal, as stated by Mr. Callaghan, but also that the discussions have brought about a better understanding—outside this building—of the need for better tools to handle debt crises.

As also pointed out in Mr. Vittas's statement, we are of the view that further work is needed to even better understand the issues related to the SDRM and its interactions with other components of the crisis resolution framework. We also look forward to the next steps towards the IMFC meeting, and beyond that, find it important to continue to keep these issues on the table.

We think that the proposed features set forth in the staff paper are mostly acceptable and represent a leap forward in this discussion. However, we are concerned that partial and targeted restructurings might in the end result in a weaker mechanism than was envisaged in the original SDRM proposal. In this respect we share the comments made by Mr. Kremers in his preliminary statement. On this point, Mr. Bischofberger and Mr. Haupt also make some important points related to restructuring incentives.

Specific Issues Related to the Proposed Features of the SDRM

We support the proposal that the Board of Governors can amend a list of international organizations whose claims would be excluded (3 d(v)). However, this should be done in consultation with the organizations concerned.

We find it appropriate that the debtor bears the cost arising from unjustified activation. We would, however, ask staff to elaborate on how unjustified activation is to be defined.

A general stay is a central feature of most corporate insolvency laws and was a central feature of the original SDRM proposal. We continue to be of the view that such a provision is merited in a situation where a sovereign would undertake comprehensive restructuring of its external debt. A temporary stay on enforcement in combination with a cessation of payments would then provide the sovereign and its creditors with some time to fully assess the situation and negotiate a viable restructuring agreement. In a situation with partial restructuring a stay on enforcement is not perceived by

staff to be needed. In that case the alternatives to a general stay seem adequate to deter disruptive litigation and a cessation of payments is not realistic.

We can support the alternative measures suggested to discourage pre-agreement litigation including the suggestion to restructure privileged claims under the SDRM to the extent that privileges are obtained after activation and arise from legal proceedings against the member/debtor. An interesting idea is to design the hotchpot rule so that any amount obtained by a creditor through litigation above what is later agreed on in the general restructuring should be repaid to the debtor.

We see merit in giving the DRF a rule-making authority with respect to the administration of claims and the establishment of dispute resolution procedures. We support giving the Board of Governors authority to approve, by a qualified majority of the Fund's voting power, the rules promulgated by the DRF.

Collective Action Clauses and a Voluntary Code of Conduct

A voluntary code of conduct would be a welcome additional measure to facilitate crisis resolution and could serve as a complement to the statutory and contractual approaches to debt restructuring. Since CACs and the SDRM will take some time to become fully operational the development of a voluntary code could facilitate debt restructuring in the meantime. The potential benefits of a stay, swiftness and enforcement of a debt restructuring agreement would, however, be absent, making a voluntary code less effective than the SDRM in resolving debt restructuring problems.

We join other Directors in commending the Mexican authorities for their decision to include CACs in a recent bond issue and urge other countries to follow the Mexican example.

The Role of the Fund

The Fund will, inevitably, be associated with the operations of SDRM through inter alia its lending into arrears policies, debt sustainability analysis and the fact that the legal basis will be provided by an amendment of the Fund's Articles, even though the exact role of the Fund has yet to be determined. We recognize the efforts made by staff to underline the importance of the arms-length role of the Fund in the SDRM process as the Fund itself will often be a major international creditor to the country concerned. Finally, we would like to reiterate our support for an SDRM aimed at a comprehensive restructuring that would be the very last resort for a debtor to restructure sovereign external debt to private creditors.

Mr. Duquesne submitted the following statement:

General Comments

We would like to commend staff for their sustained work and efforts. This excellent paper is another step in the right direction towards the concrete proposal requested by the IMFC for the upcoming Spring Meetings. As expressed by Mr. Vittas, the proposal has made great strides since the end of 2001 and has clearly increased the knowledge and awareness of the international community on the question of crisis prevention and resolution as it has proved in many ways to be constructively thought-provoking. It has generated a strong momentum and has already brought some positive side-effects as demonstrated by the inclusion of collective action clauses by Mexico in its last bond issuance. We commend the Mexican authorities for this courageous move and urge other countries to follow suit. These recent developments underline the need to pursue our work on an institutional mechanism that is a complement to the other pillars of our new crisis resolution framework.

One important issue relates to the desirability of a standstill on payments and of a stay on litigation. On this subject, we still believe that a general stay on litigation would be a preferable solution. However, we acknowledge that staff made a somewhat convincing case for not having in all cases an automatic cessation of payments upon activation and a stay on litigation. As mentioned by Mr. Callaghan, the staff paper proposes a combination of mechanisms that might contribute to prevent a creditor from disrupting the whole process. The “hotchpot” rule and creditor-approved stay might function as a replacement to an automatic stay in some cases (although the remarks made by Messrs. Yagi and Miyoshi in their preliminary statement are well taken). All in all, we stand ready to join any emerging consensus on this issue and would like to insist on the need to remain open and pragmatic so that the debtor and creditors under the SDRM could rely on a sufficiently comprehensive toolbox to deal efficiently with any future cases.

Since we are in broad agreement with the technical features of the SDRM, we would like to mention the following points for emphasis.

Scope of Claims

The definition of the scope of claims is of peculiar importance to ensure an efficient implementation of the SDRM. We agree with staff that judgment claims arising from the sovereign’s default on an eligible claim should be included among the eligible claims. It will provide positive incentives for litigious creditors and discourage them from trying to enforce their claims before registration and verification and the organization of a representative creditor committee.

Regarding the exclusion of multilateral claims, on the one hand, the proposal to exclude ex ante all public international institutions does not appear very realistic to us and the idea to defer debates arising from this general definition to the Dispute Resolution Forum (DRF) would certainly not facilitate the work of this new organization. On the other hand, staff's proposal to include in the text of the amendment a list of international organizations whose claims would be excluded from the SDRM, coupled with the provision providing that the list could be modified by a decision of 85 percent of the voting power of the Board of Governors, certainly deserves further work and reflection. Given the absence, so far, of any legal definition of the privileged status of the Bretton Woods institutions, the pros and cons of the publication of a list should be weighed very carefully. A legal reflection on the status of the privileged creditor is probably deserved in this context. I would like to know whether the staff shares our view on this issue.

Finally, the treatment of official bilateral claims proposed by the staff in their report seems appropriate to me. Indeed, following our Board on December 19, 2002, the staff, Paris Club creditors and the Paris Club secretariat had extensive discussions on this issue. In particular, a specific Paris Club meeting was held to discuss the question of the SDRM last month. Although the Paris Club has not yet adopted an official position, these discussions allowed for an in-depth review on the consequences of both options, i.e., inclusion and exclusion of official bilateral claims. They also underscored the open attitude of Paris Club creditors who expressed their readiness to examine more thoroughly a possible inclusion so long as the core principles of the Paris Club are preserved. The modalities of a close coordination between the Paris Club mechanism and the SDRM were also (and would be further) perused in the case of an exclusion of official bilateral claims. All in all, this issue is still ongoing and no alternative has been rejected so far.

Activation

On this issue, we support unilateral activation of the mechanism by the debtor. In fact, we do not foresee at this stage a risk that the SDRM would be activated unnecessarily, given the very high costs associated with a sovereign default. On the contrary, past experience demonstrated that a sovereign will rather go to any extreme so as to avoid a default. We therefore are not convinced by staff's proposal that the debtor bear all costs arising from an activation of the SDRM in cases where the Fund considers the activation unjustified. Such a mechanism would lead, in our view, to endless disputes on the concept of "justified activation" and provide inappropriate incentives for debtor countries not to activate the SDRM at all.

Dispute Resolution Forum

We agree with the staff's proposals on the role and powers of the DRF, including giving to the latter important rule-making authority with respect to claims administration and dispute resolution procedures. The power to issue an order to suspend a particular legal action against the sovereign debtor brought by creditors holding claims on the SDRM restructuring list is of particular importance, especially in the absence of an automatic standstill, but it should be exerted with caution to preserve inter-creditor equity. A more detailed description of the framework for exerting this power would be warranted. On the issue of whether some limited check should be placed on the exercise by the DRF of its rule-making authority, we support the proposal that any rule proposed by the Forum would become effective unless overruled by the Board of Governors.

On the establishment of a DRF, we can support the proposal that the Managing Director should select the members of the selection panel without the involvement of the Executive Board. However, like Messrs. Yagi and Miyoshi, we believe that, under this scheme, importance should be attached not only to the members' ability but also to diversity of nationality. In this context, we would like for the provisions to stipulate that each member of the selection panel (and the DRF) should be of a different nationality.

Code of Conduct

We favor the establishment of a code of conduct for sovereign debt restructurings. Such a code, although non-legally binding, would prove beneficial in many ways as a complement to the other pillars of our crisis resolution framework. In particular, as its scope would be broader than the SDRM's, it would provide guidelines for debtors and creditors in situations where the sovereign debt is still sustainable but slipping dangerously toward the edge. It would also contribute to a more predictable environment in the context of a sovereign debt crisis as debtors and creditors would have already agreed on common principles guiding their action in these circumstances. It is of course very important that such a code of conduct be developed by debtors and creditors (with the assistance of the official sector) to enhance their ownership of this instrument.

Conclusion

To conclude, let me reiterate our full support to the establishment of an SDRM. As mentioned by Messrs. Bischofberger and Haupt, we have covered considerable ground over the last months in making a solid and well-founded concrete proposal and we should definitely maintain this positive momentum. Indeed, we believe that an institutional mechanism would provide benefits and incentives for debtors and creditors that cannot be offered by any alternative

framework. We therefore look forward to our next discussions on the SDRM with a view to the forthcoming IMFC.

Mr. Brooke and Ms. Stuart submitted the following statement:

The staff has made excellent progress on a concrete proposal to put to IMFC. While further refinements may be necessary, we feel that this proposal is a balanced response to concerns raised by Directors, the private sector and emerging markets.

We continue to believe that the SDRM is an essential complement to other policies that aid crisis resolution including access policy, the use of collective action clauses and a code of conduct. Collectively, these policies should create stronger incentives for governments to act early to address unsustainable debt positions.

We think it is important to retain the ability to deliver as comprehensive a restructuring as possible. So we would prefer the proposed features and the Articles amendment not to rule out the potential inclusion of domestic debt, should the debtor choose to do so, or the inclusion of official bilateral debt.

We thank staff for another clear and well written paper. We believe that the proposed features set out in the attachment are very close to delivering a workable, concrete proposal that could be discussed by Ministers at IMFC. While we continue to see Collective Action Clauses (CACs) and the SDRM as complements, the SDRM has major advantages over CACs because of its ability to aggregate across instruments and because it applies to the outstanding stock of those instruments. Thus, while we strongly welcome actions to promote collective action clauses and in particular Mexico's decision to include CACs in its recent bond issue, we still feel that the implementation of an SDRM would be beneficial. Furthermore, while we think that a voluntary code of conduct would have the valuable effect of facilitating better and earlier debtor-creditor dialogue, we also see it as a complement to (not a substitute for) the SDRM. The SDRM is the backstop that provides the incentive for more orderly and speedier resolution of unsustainable debt.

The Scope of Claims

In a number of cases we would expect that the debt restructuring required under the SDRM to restore medium-term sustainability would need to be comprehensive and that a comprehensive restructuring would be the best way to deliver inter-creditor equity. So we would prefer the proposed features to leave open the possibility for the sovereign to include as broad a range of debt in the SDRM as possible. In this regard, we would strongly prefer not to

rule out either the inclusion of domestic debt, should the debtor choose to include it, or the inclusion of official bilateral claims at this stage. So the proposed features and the text draft amendment to the Articles of Agreement should be drafted to take this possibility into account.

We agree with staff that multilateral claims of the international financial institutions, such as the IMF and the World Bank, should retain preferred creditor status and that their claims should be excluded from the mechanism. We would like staff to elaborate the principles that should guide institutional qualification for preferred creditor status. Like Ms Jacklin, we believe that the group of creditors that should have such status is a narrow one. Therefore, a concrete list of multilateral institutions that qualify would be extremely helpful. We agree that such a list could be modified by a decision of 85 percent of the voting power of the Board of Governors.

On the other issues of scope we agree with staff. Judgment claims and privileges created after activation of the mechanism or arising from legal enforcement proceedings should be included in the mechanism. The ability to include these claims is an advantage over collective action clauses.

Activation of the Mechanism

Given the significant economic costs that will continue to arise when the SDRM is activated, we think it is unlikely that it will be used inappropriately. As such we see no need for the Fund to rule on whether the debtor is justified in activating the mechanism. The Fund will still have an important influence over the debtor's activation decision and be able to signal its views to private creditors through its lending decisions. Instead, we believe that the debtor should always pay a reasonable contribution towards the costs of the creditor committee and to the Fund for the costs of operating the DRF. Such costs are likely to be small relative to the benefits gained from an orderly restructuring of debt.

The Cessation of Payments and The Stay

We continue to believe that the staff's proposals have struck broadly the right balance on the cessation of payments and the stay. The proposals allow sufficient flexibility to enable the debtor and creditors the scope to deal with the main collective action problem without unnecessarily disrupting contracts or disrupting debt service on essential payments. In particular, we agree with staff that the objective of restructuring debt while limiting the costs of the economic ramifications would be best served by securing an agreement on a restructuring prior to default. So it is important that activation of the SDRM does not force an automatic general cessation of payments in all cases.

The current proposal of a creditor approved 'general stay' addresses the concern that the agreed stay should be sufficiently powerful to promote collective action while helping to preserve inter-creditor equity. On the latter, the following features of the mechanism are especially important: (i) affected creditors (i.e., those claims on the SDRM list) do not automatically lose the right to accelerate claims and can vote on a targeted or a more general stay of credit; (ii) the incentive for disruptive litigation is reduced by use of the hotchpot rule plus specific injunctive powers; (iii) creditors vote to approve the restructuring and have the right to terminate the mechanism subject to a lower 40 percent threshold.

We also believe that the role of a representative creditor committee will be extremely important. As Mr. Yagi notes, we need to ensure clear criteria for judging whether a committee is representative and to define what we mean by creditors under the 'control' of the debtor. The creditor committee should play an active role in expressing the views of creditors about the scope of the claims covered in the mechanism and whether it is sufficiently broad to preserve inter-creditor equity. Such early dialogue could help to mitigate the concerns expressed by Mr. Bennett in his preliminary statement. Furthermore, a code of conduct that promotes greater use of creditor committees, covering the broad scope of claims, would also have a helpful role in this dialogue.

The Debt Resolution Forum

We concur with the staff's proposal on the rule making authority for the DRF with respect to claims administration and dispute resolution procedures. And we agree that the Board of Governors should have the power to overrule the DRF's rules and regulations.

The Code of Conduct

A code of conduct would be complementary to the SDRM and would be useful in its own right by helping to facilitate the voluntary resolution of coordination failures and improving dialogue between the debtor, creditors and the official sector. We strongly agree with the staff's assessment that such a voluntary code would only be effective if it has broad support of debtors and creditors and so they should have the key role in developing it. Nonetheless, we would encourage the IMF to engage constructively as a code is developed. There is much that the IMF could contribute in terms of its lending into arrears policy, information exchange and in explaining the specific assumptions underlying its debt sustainability analysis and program design. We also think that encouraging the use of the DRF could be an important feature of any code of conduct.

The staff representative from the Policy Development and Review Department (Mr. Fisher), in response to questions and comments from Directors, made the following statement:

In his statement, Mr. Brooke raises a question about preferred creditors and whether the staff can elaborate on principles which should guide the selection of these institutions. The short answer is no. Preferred creditor status does not come from a declaration by the Fund or any other organization. Rather, it has come from an acceptance by other creditors that they will stand back in order to make room for some creditors to be given preferential treatment. Traditionally, the body that has given the preferred creditor status to the Fund and the World Bank has been the Paris Club. It is clear that, if one were to go down the road of trying to elaborate these principles, it would be important that it be done in close collaboration with other stakeholders, and in particular those we would be looking to stand back in order to give effect to the preference.

Mr. Yagi raised an interesting question about whether the amendment to the Articles might stipulate general criteria identifying the institutions that would be given preference, and whether it should be left to the Board of Governors to come up with a list. This is certainly a feasible possibility that we have debated fairly extensively among the staff. However, the staff considers it as difficult to produce a set of criteria that would uniquely define a group of institutions. Approaching an amendment without certainty as to exactly who is in and who is out could undermine the operations of organizations which perhaps are somewhere on the margin of the criteria, because they would not know the basis on which to price their transactions. For that reason, and in the interest of providing clarity, the staff prefers a defined list, selecting from the universe of existing organizations and giving the Board of Governors the ability to modify that list in the event that additional organizations were to emerge over time.

Mr. Bischofberger asked a question about decision making in creditor committees. It should be noted that creditor committees by their very nature are voluntary bodies which decide among themselves on their own procedures, and they may not necessarily apply uniform rules across committees. The bank steering committees of the 1980s tended to require unanimity. Our understanding from talking to bankruptcy practitioners in the corporate context is that committees will agree that some relatively inconsequential decisions can be taken by simple majority, while others would require consensus, particularly those on recommending the key deal. It is important to remember that at the end of the day committee's decisions are binding. They are simply a signal of the willingness of the members of the committee to accept a deal. It may not be a recommendation to other creditors because of their legal liability. Therefore, formal unanimity is not required.

We understand that there are cases where a very large majority is willing to go ahead, and that was the basis on which the committee acted.

A question was being raised about how unjustified activation of the mechanism would be defined. We see it as the counterpart to the justified use which refers to cases in which a country's debt burden is truly unsustainable, and where there is no feasible set of policies that would offer the country the prospect of an orderly exit from crisis without debt restructuring. If one were to agree that there was such a set of policies that allowed for a credible exit, then one would also come to the view that the activation had not been justified. The problem with this test, as we have discussed in this Board on a number of occasions, is that in the event that a debtor decides not only to activate the mechanism and also interrupts payments, even if they were sustainable beforehand, it is quite likely that they will become unsustainable afterwards because following a general interruption in payments, it would be most unlikely that the debtor would be able to return to the capital markets for an extended period.

A question was also raised about why there should be a role for the Fund in the termination decision. The issue here is one of costs. The SDDRF needs resources, and there is a question whether the debtor or the Fund should pay for this. Our understanding of the sense of earlier Board discussions is that Directors wanted to keep alive the possibility that, in the event of unjustified activation, the cost should not be borne by the membership generally through the Fund, but rather by the debtor in question. This is not an issue about which the staff feels strongly one way or the other, and we look forward to your guidance on this.

Let me conclude with a couple of comments on collective action clauses, and the code of conduct. Mr. Kremers asked what work the staff proposes on collective action clauses. There is currently a paper under preparation, which, I believe, is planned to be issued before the spring meetings. It will discuss a number of recent developments, including the recommendations of the G-10 Working Party, the Mexican bond issue of last week, as well as various proposals for the private sector. That paper will be discussed at a date yet to be announced. On the code of conduct, there are a number of initiatives under way in various fora, both in the private sector and the official community. The staff is monitoring them and has maintained an informal dialogue with many of the participants. If it is the wish of the Board, we could report on these things sometime after the spring meetings. Finally, Mr. Kremers asked a question about further avenues to promote the use of CACs among members. This is an issue to which we can perhaps return in the context of the CAC paper.

The Deputy General Counsel (Mr. Hagan), in response to questions and comments from Directors, made the following statement:

Let me first thank Executive Directors for providing such specific guidance on a number of the technical issues that are presented in the paper, and although this might sound somewhat optimistic, I do get a sense of some degree of convergence on some of the more difficult issues, including that of the automatic stay.

On the question of the stay, I think that based on my reading of the statements, there is a concern among some Directors that in the absence of something automatic, there will be a period of uncertainty immediately after activation. The question is, how quickly votes can be tallied in light of the verification process and how quickly a representative creditors committee can be formed that could have the authority to provide a consent to a targeted stay? The response to that question is provided by some of the statements from Executive Directors: This is an area where the synergies between a code of conduct and an SDRM come into play. To the extent to which there is a code of conduct that provides guidance on how to form creditors committees and to the extent to which there are private sector-led pre-registration procedures to be put in place, the process of creditor organization will be facilitated and its time period shortened. The dynamics also work in the other direction, as the existence of an SDRM would catalyze the effective implementation of a code of conduct. The most extensive work on a code of conduct has been done by INSOL International in the corporate context. It is interesting to read their work, because in the introduction they say that a code of conduct is generally welcome as a means to avoid the formal insolvency process. However, in the next paragraph they say that this code will not work without the formal insolvency process, because it is that formal insolvency process that defines the leverage and sets the table for the negotiations. That consideration is a useful analog to our discussion here.

Mr. Yagi raised the question whether we could conceivably have a list of institutions which would be amended by the Board of Governors. I think our intention is that the schedule would be part of the treaty and would have the same status as the treaty. It could only be amended by the requisite majorities of the members. The idea is that the schedule would specifically authorize the Board of Governors to amend the list. Without that authorization in the text of the treaty, it would not work. However, we anticipate that there would be such an authorization.

On the question raised regarding the president of the Dispute Resolution Forum, and without addressing the specifics, the intention of the staff was, to the extent possible, to establish an ad-hoc dispute resolution process, which would spring into action in the context of a crisis. However, in order for that process to be effective and to deliver the degree of predictability

that is central to the SDRM, we recognize that there has to be a minimum degree of continuity. We have discussed this issue extensively with workout specialists both in the judiciary and the private sector, and there was a sense that there needed to be some way of providing continuity in the process, for a variety of reasons. First, the need to adopt rules and regulations is mentioned in the staff paper. The panels will not just be meeting for the resolution of disputes. A number of questions arise in that context where the judges meet to determine issues other than resolving individual case disputes. How are those issues going to be identified and proposed to the panel? More immediately, how are decisions on the impaneling process going to take place? How will the impanelling lists be drawn up to provide for confidentiality? To respond to Mr. Rouai's question in that regard, the staff see the president as playing a critical role in providing some degree of continuity and does not think the full-time status of the president would have significant budgetary implications. There is no intention on the part of the staff for this to become a permanent bureaucracy. The question is, how an ad hoc body can provide the degree of predictability that one would want to have under an SDRM.

Mr. Portugal wondered what the intended next steps were with regard to the SDRM and reiterated that he did not consider the attachment of the paper a possible basis for the Executive Board report to the IMFC, given that the document contained points on which there had been no agreement in the Board. Even on issues where there had been a minority position, that minority might have been larger than 15 percent and had thus constituted a blocking minority in terms of amending the Articles of Agreement. Hence, Ms. Jacklin's suggestion that there was a need for further Board meetings to decide on how best to report to the IMFC seemed appropriate, and a staff clarification about the intended next steps would be welcome.

Secondly, in his view, it was inappropriate to use the faculty to amend the Articles of Agreement for the purposes of creating the SDRM, Mr. Portugal reiterated, given that the issues with which the SDRM was supposed to deal were outside the Fund's mandate. On the occasion of the last Board meeting, the staff had admitted that there was no specific provision in the Articles of Agreement that could be considered as the enabling provision for an amendment regarding the SDRM, but quoted two Articles—Article I, item 6 and Article VIII, 2b. However, Article I, 6 stated that the purposes of the Fund were "in accordance with the above, shorten the duration and lessen the disequilibrium of the balance of payments." The passage said "in accordance with the above", and the five items above did not at all refer to debt restructuring. Hence, it was still unclear as to what was the basis for amending the Articles. That question had been raised several times but had not been appropriately answered by the staff, nor had it been discussed in any of the staff papers.

The Chairman suggested that the question about next steps should be considered once the current Board discussion had been completed and the summing up had been read. Management would consider how best to prepare the discussion at the IMFC. However, in his report to the IMFC he would certainly make reference to the current discussion and

present the issues to the Board of Governors regardless of the political will in support of the proposed features of the SDRM.

The Deputy General Counsel (Mr. Hagan) recalled that he had discussed the issue of the enabling provision in the Articles of Agreement on several occasions in the Board, including at the previous session on the SDRM. It was true that there was no provision in the Articles that specifically authorized the Fund to provide for an SDRM through an amendment. However, if that had been the criterion for amending the Articles of Agreement, there would not have been the first, second or third amendments, because there had been nothing in the Articles that specifically authorized the Fund, for example, to establish an SDR. The staff had approached the question by asking to what extent creation of the SDRM legal framework was within the mandate of the Fund. One way of defining the mandate of the Fund was by reference to its purposes. With regard to Mr. Portugal's quote from the Articles of Agreement, the wording "in accordance with the above" did not necessarily represent a limitation, particularly if referring to number 5, which dealt with the Fund's financing. One of the reasons why the SDRM had been recognized as such a critical element in the financial architecture was the fact that without it, the Fund's ability to provide financing with adequate safeguards was undermined. The staff therefore considered it to be within the Fund's mandate.

On Article VIII, Section 2(b) and Mr. Portugal's view that it referred to exchange contracts rather than debt instruments, the staff representative considered that this was an important question of interpretation, and Article VIII, Section 2(b) had not been authoritatively interpreted by the Board. However, a number of Fund members, including most continental European countries, interpreted exchange contracts to include at least current payments on debt instruments. Therefore, arrears on repayments on debt instruments arising from exchange controls, to the extent to which they were current payments, would receive protection under Article VIII, Section 2(b).

Mr. Portugal stated that he was still not convinced by the staff's arguments. Did Mr. Hagan's statement imply that, without an SDRM the Fund's ability to provide financing with adequate safeguards would be undone? And did that mean that, for the last 50 years, the Fund had been lending money without safeguards? Article I, Section 5 really did not appear to be an appropriate basis for creating the SDRM. The case still needed to be made for using the faculty to amend the Articles of Agreement for such a dramatic change in international financing.

Mr. Kiekens made the following statement:

> I support the SDRM and its main features as proposed by the staff.
>
> A general stay in litigation for all claims that fall under the SDRM would be useful. Ideally, a stay should be decided by an international judicial authority after preliminary verification that the debtor country's activation of the SDRM is justified. A second best solution would be for such a general stay to be approved by a qualified majority of all creditors. But in the spirit of

compromise, I can support the staff proposals if this will lead to a broad consensus.

I hope such a consensus will emerge in the Board and during the upcoming IMFC meeting. The international financial system needs a more effective mechanism for more orderly restructurings of the sovereign debts of countries that are unable to serve their debt fully and on time. The Fund's proposals for more orderly procedures have considerably advanced our progress toward a better understanding of how to reconcile the legitimate interests of creditors with the need to preserve the economic potential of a debtor country, such potential being in its turn the best protection of creditors' claims. We have also made considerable progress toward determining which procedures can best guarantee that decisions aimed at such a reconciliation of interests are balanced, fair, and preserve the culture of credit. The latter is very important, and possibly the main objective of the SDRM: how to ensure that emerging market countries have access to international credit at the lowest possible cost, while preserving market discipline and thereby avoiding or minimizing moral hazard on either side. The main operational feature of the SDRM is no longer decision making by an international judicial authority, as initially proposed in November 2001, but agreements negotiated between a debtor and a qualified majority of its creditors.

For me, the main concern is to avoid collusion between a debtor and certain categories of creditors to the detriment of other groups of creditors who are less well equipped to defend their interests. Under today's proposal, a debtor country in practically free to decide for which categories of debt it is activating the SDRM, which categories it will continue to service in full, and on which debt it will default without activating the SDRM. It is manipulation of these possibilities that may give rise to abuse.

Creditors and debtors have almost complete freedom to agree as they think wise. I wonder if under the staff proposals a creditor and a sovereign borrower could make a valid agreement in advance to exclude their claims and debts from the SDRM mechanism. If such agreements were held to be valid, they could be imposed by creditors on borrowing countries, much to the detriment of other creditor groups and the overall effectiveness of the SDRM mechanism.

I think a country should always have the freedom to activate the SDRM, notwithstanding any agreement with creditors to the contrary. I would even argue that debtor countries that activate the SDRM should not be free to exclude any category of debt that, under international law, is covered by the mechanism.

That being said, I congratulate the staff on hard work professionally done. Good progress has been made toward in preparing coherent and

acceptable proposals to be considered at the Spring meetings. The proposals now on the table represent a compromise that largely accommodates concerns which were expressed during a period of intense consultation starting in November 2001. But let me say that further weakening of the proposals risks harming their coherence and disturbing a delicate balance. I join Mr. Kremers in calling for a "stay of mitigation."

I will now comment on some specific topics.

Stays of Litigation

On standstills of payments and stays of litigation, I agree with the staff that ideally an SDRM restructuring agreement would be reached without formal defaults, and thus without an interruption of payments. As far as possible an SDRM should facilitate such pre-crisis and pre-default agreements. Under these circumstances a stay of litigation would be superfluous, since there would be no reason at all to litigate.

However, if a country that activates the SDRM cannot avoid payment interruption—as may be regrettably most often the case—it should be protected from litigation during the SDRM procedure.

As I said earlier, intercreditor agreements should be preserved as a matter of principle, and selective payments—as opposed to a general cessation of payments—should be allowed only when there is an overriding justification for continuing to service certain categories of debt. For similar reasons, individual creditors that are no longer receiving payments pending an SDRM procedure should not be allowed to frustrate a collective decision, as they would if they were entitled to enforce their claims and attach assets that would otherwise be used to serve the payment of the restructured debt. The combination of the "hotchpotch-rule" and a targeted stay that would prevent specific enforcement actions likely to seriously undermine the restructuring, are compromise proposals. They may well prove to be unnecessary complications. I think all of us should continue to consider the merits of a general stay of litigation, either decided either by an international judicial authority, or by a majority of all creditors. The latter option obviously has the disadvantage, which may prove small in practice, that some creditors might act quickly enough to obtain both judgment and payment before a collective decision can be made on a general stay of litigation. If we opt for a general or targeted stay, decided by creditors, we should make sure that such decisions can be made very shortly after the activation of the SDRM.

Unjustified Activation

The risk of unjustified activation is probably low but can not be entirely excluded. The Fund has an important responsibility in avoiding moral

hazard on the part of debtor countries that could lead to unjustified SDRM activation. The Fund must apply its good faith requirement for lending into arrears strictly and evenhandedly.

Lending into arrears on excessively soft terms when a defaulting country is engaged in negotiations with its creditors, thereby helping the defaulter to obtain restructuring terms that other countries might deem "attractive" might increase popular pressures for the latter countries to default in turn, in the hope of obtaining similarly "attractive" restructuring terms. To be sure, most if not all governments understand perfectly well that such a course of action would be very shortsighted and damaging to their economies. But even so, popular and populist tendencies ignited by an excessively lax Fund interpretation of the good faith criterion for lending into arrears could weaken the ability of governments to continue the sound fiscal policies necessary to preserve debt sustainability.

Activation that is unjustified ex ante is very likely to make a country's debt instantly unsustainable, since activation unavoidably excludes access to credit markets. I therefore strongly recommend a statutory obligation for any country considering SDRM activation to consult in advance with the Fund.

Dispute Resolution Forum

The staff's proposals to give limited rule-making authority to the Dispute Resolution Forum (DRF) are justified, and I support them. I also agree that the Board of Governors should have the power to overrule such authority with a qualified majority. More detailed rules should be devised.

I agree that the post of President of the DRF should be a full-time position with a very small secretariat.

Preferred Creditors

As to the international financial institutions whose claims are preferred and thus excluded from the SDRM, I advocate including an exhaustive explicit list in the amendment. That list should be rather short.

Code of Good Conduct

On the Code of Good Conduct, I welcome the various constructive proposals submitted by both private and public sectors.

Such codes can be effective and widely observed only if they are adopted as the result of a broad participatory process. We note that because these codes do not resolve collective action problems, they are only complements to CACs and the SDRM, and not a substitute for them.

Mr. Al-Turki made the following statement:

I join others in thanking management and the staff for their substantial efforts in producing a concrete proposal for the SDRM. While, there are only some gaps that need to be filled in at the technical level before the proposal can be put to the IMFC, going beyond that will depend on broad political support for amending the Articles of Agreement. That said, the work done by the Fund on the SDRM has greatly increased the momentum for a more orderly approach to debt restructurings as noted in the preliminary statement of Mr. Callaghan and Mr. Di Maio. In this connection, I join others in commending Mexico for the inclusion of a collective action clause in their recent bond offering.

Turning to the specific issues raised in the paper, I agree that the multilateral organizations whose claims would be excluded from the SDRM should be specified. This is necessary to avoid future contentious debates regarding the organizations that should be excluded. Indeed, ambiguity in that area could further complicate debt restructurings. Moreover, flexibility to the system is assured by allowing the addition of new institutions by a majority decision by the Board of Governors. I remain of the view that official bilateral claims should be excluded from the SDRM.

As I stated in previous discussions, activation of the SDRM should be the exclusive right of the sovereign debtor. I do not believe it is warranted to have an independent confirmation of the sovereign's representation of debt unsustainability. The concern should not be that sovereign debtors will abuse the system by activating the SDRM when debt is sustainable, but rather that they will wait too long to activate when debt is clearly unsustainable. Indeed, experience so far indicates that countries will do their utmost to avoid debt restructuring and the associated economic, social, and political costs. Moreover, if creditors feel that the activation is unjustified, they have the right to terminate it. Accordingly, I am not convinced that an additional disincentive to "inappropriate" activation is needed.

On the consequences of activation, I am still not convinced that a brief automatic stay is that complicated or that it provides debtors with a large incentive to activate the SDRM. However, as the alternative measures proposed by the staff could limit disruptive litigation while allowing for a negotiated stay, I can go along with the consensus on this issue.

I agree with the staff's proposals on information, registration, and verification. I also endorse the proposals regarding general voting rules and priority financing. On termination, I agree that creditors should have the right to terminate the mechanism after the completion of the verification procedures, if they felt that the activation is unjustified. However, I still believe that 40 percent voting threshold appears to be on the high side.

I welcome the ongoing discussions on a voluntary code of good conduct. By establishing expectations of the various parties' behaviors, such a code could be an additional useful tool in advancing orderly debt restructuring. However, given that the code would have no legal basis, it would be effective only to the extent to which it could attract broad support among debtors and creditors. To achieve this support, I agree that the code needs to be developed jointly by debtors, their creditors, and other interested parties including the Fund.

Mr. Wei made the following statement:

Let me start by thanking the management and staff for their efforts in preparing another well-written paper on this topic. Since the First Deputy Managing Director proposed establishing an SDRM as part of the comprehensive strategy for crisis prevention and resolution, the Board has had extensive discussions over its design; consultations with the private sector and academic world have been also conducted. Significant progress has been made in understanding the importance of this mechanism and defining the various aspects of its key related issues. It would have been impossible for the international community to move toward reaching a broad consensus on adopting CACs without the Fund's efforts to promote an SDRM. We commend the Mexican authorities for the recent bond issuance with CACs. Management and staff should be highly commended for their efforts, hard work and professionalism. This being said, since there has not been necessary support in terms of amending the Articles of Agreement, we have to think about this matter realistically—what steps should we take on the continuation of this work. In this regard, we agree with others that the Board, management and staff should have an informal consultation on the above issue.

Now, let me turn to the specific issues for today's discussion. As we have emphasized in previous discussions, for an SDRM to be effective in prompting creditors and debtors to recognize the possible unsustainability of debt and begin negotiations, it should embrace a balanced incentive mechanism. We share the view that a general stay should not be regarded as "counterproductive". Rather, stay and standstill are valuable instruments in protecting the coordination process from being interrupted by certain debtors and encourage creditors to use the SDRM at an early stage when public debt is perceived to be unsustainable.

By comparing the stay schemes recommended in the staff paper, we still believe that a temporary automatic stay on litigation is important for the SDRM to operate successfully. In this connection, we support Mr. Shaalan's view that the temporary automatic stay on litigation can be triggered by activation of the SDRM and accompanied by a general standstill of payment. The debtor, however, can determine ex ante the debts to be excluded. The temporary automatic stay should expire when creditors have finished

verification and registration and are ready to vote on whether to extend the stay or terminate the SDRM. While it is a concern that the automatic temporary stay will cause general payment standstill even though the debtor could still make payments, we share the view that it is unlikely that the debtor remains current on all debt while activating the SDRM. Furthermore, the SDRM is not the only tool for the debtor to negotiate debt restructuring with creditors. Instead, provided the temporary automatic stay is included in the SDRM, creditors and the debtor may have more incentive to discuss the possible restructuring of debt prior to payment cessation and activation of the SDRM. This is exactly in line with our initiative to establish an SDRM.

The alternative incentives, such as the hotchpot approach and creditor-approved stay, also to some extent provide protection for the negotiation process. However, there are important loopholes in these approaches. For the creditor-approved stay, it cannot operate until after the verification and registration of creditors. It is very likely that litigation will be filed in the period immediately after the activation of the SDRM. The hotchpot approach cannot fully eliminate the risk of litigation either. Hence, it seems to us that a temporary automatic stay may probably outperform the alternative approaches.

With respect to the proposal making the debtor assume the cost of unjustified activation, we feel it is neither realistic nor necessary. The proposal involves the Fund in judging whether activation is justified. As we have elaborated in past discussions, the Fund should not let itself become involved in such a judgment. The activation of the SDRM will by itself incur significant cost to the debtor country. Moreover, creditors will be given the power to terminate the SDRM through a majority vote. This will also reduce the possibility of unwarranted activation.

For the exclusion of multilateral claims, we support listing all the public international financial institutions whose debt will be excluded from the SDRM, while giving the Board of Governors the power to amend the list by a decision of 80 percent of the voting power.

We feel that it might be premature to develop the code of good conduct. Even if an operational SDRM is put in place, it may still take some time to improve it based on actual experience. We suggest that staff draws experience from each case and provides information to each country for reference. A code of good conduct can be considered at the following stage.

Mr. Moser asked Directors to consider a proposal regarding the issue of the stay of enforcement where there still seemed to be some difference in opinion. In its statement, his chair had made a proposal in that regard that was similar to the view expressed by Mr. Yagi and that formulated a compromise under which the DRF would be given the temporary authority to suspend legal action for the period between the activation of the mechanism and

the establishment of a creditors committee. Under that proposal for a compromise, the stay would be automatic and would be there from the beginning, if needed. While the DRF would thus be given some important additional authority, the stay would only be temporary and whether the DRF would be given that authority depended entirely on whether the creditors' committee had already been formed or not. It would thus apply on a case-by-case basis. The proposal would also be conducive to creditors organizing early, which would mean that, in many cases, the DRF would never actually exercise the authority regarding a temporary stay on litigation. In that case, it would have to be made clear that the Board of Governors could change only the rules and procedures that the DRF would follow, but that it could not overrule individual decisions taken by the DRF, especially not a decision on a stay. It would also have to be clear that the DRF would only act on the request of the debtor. In order to accommodate those Directors who regarded that amount of power with the DRF as excessive one could eliminate the possibility that the DRF made an assessment as to whether such a request was justified, given that there were still possibilities for the creditors to deal with the decisions at a later stage in the process. It would be welcome, if Directors considered that proposal.

Mr. Kiekens considered that the proposal was largely in line with the general principles of the mechanism that he had presented in his own statement. His preferred option, a general stay to be decided by an international judiciary authority, was also part of Mr. Moser's proposal. While he was not in favor of the automaticity contained in Mr. Moser's proposal, it nonetheless seemed to go in the right direction as far as the mechanism for the decision on the stay was concerned.

The Chairman wondered whether those Directors who regarded the proposals presented by the staff as already going too far could elaborate on the issues about which they were particularly concerned.

Mr. Bischofberger, responding to a remark made by the staff, considered that the aim should be to achieve an ambitious SDRM, as a mechanism of last resort. From an empirical point of view, that meant, as other Directors had said, that once the mechanism was activated, default or near default might be on the table. In practice, markets might interpret the activation of an SDRM as a situation of default and near default. Therefore, a strong mechanism was needed that included an automatic temporary stay accompanied by a broad-based cessation of payments.

This approach would in our view help to provide incentives that in the shadow of this approach more private instruments could grow, which would make it much more unlikely that the SDRM itself would be needed. I understand that the SDRM, as it is now discussed, which is very valuable to add to this point, might be designed as to cover too many cases, and when it is activated, it might unintentionally lead to default, which is not envisaged. So, it is our view that we should try, should have a strong and ambitious mechanism which excludes these unintentional defaults by activating the mechanism, as intended to do, to go in the right direction. I think that is our main argument for what we call an ambitious mechanism.

Ms. Jacklin, responding to the Chairman's question, noted that she considered even some of the alternative measures as too ambitious. As she had already said before, US$180 billion of sovereign debt would potentially be affected by the SDRM, if it was adopted. The Fund had consistently advocated vis-à-vis countries with a Fund-supported program that they should not violate the rule of law and should respect the valid and binding contracts of independent parties in their countries. The Fund should keep those issues in mind when considering adoption of certain aspects of the SDRM.

Any kind of a stay that was imposed on parties contrary to existing contracts, would represent an extraordinary measure, Ms. Jacklin considered. Also, the risks of litigation did not warrant a change to the terms of US$180 billion of outstanding sovereign debt contracts by the Fund through its members. Litigation risks could be addressed through adaptations of existing market practices and contracts. The use of acceleration provisions requiring 25 percent or more of the participants would set the appropriate incentives and was one way to reduce the risk of litigation. Another way was the use of sharing provisions or trustees where the potential recoveries by any litigant could not be retained but would have to be shared pro rata by all creditors. In view of such alternatives, the Fund should, wherever possible, look for a way to achieve the objectives on a voluntary basis and should not too easily take the step, as an institution, of advocating governmental action that would override contracts that had been freely bargained and freely entered into.

The Chairman welcomed the clarity of Ms. Jacklin's statement and agreed that the utmost attention should always be paid to the rule of law. However, attention also needed to be paid to the governability of a situation. In a situation where everybody looked to someone else to address the problem and nobody would or could actually do something, chaos would result and time would be lost along with value and wealth. That had to be borne in mind in the context of the current discussion, and no institution, not even the Fund, should be mandated with a mission impossible.

Mr. Kiekens agreed with Ms. Jacklin that contracts must be adhered to, and as he had said in his earlier statement, the most important objective of the SDRM was to preserve a culture of credit. The SDRM was necessary to enable emerging market countries to borrow at the lowest cost possible, while at the same time preserving market discipline, which was an important factor in obtaining the fairest price in the market. There also appeared to be consensus on the point that the existence in any legal system of a bankruptcy procedure was not at all contrary to the overriding principle that contracts must be adhered to. There was general agreement that bankruptcy procedures were truly necessary for the we well functioning of any market economy, and for imposing discipline on contracts and on parties.

His concerns about the staff's proposals were that they may not fully achieve the essential objectives of any bankruptcy procedure, Mr. Kiekens continued. Those objectives were the preservation of value for all creditors collectively, and for individual creditors, taken each one by one. To fulfill that purpose, bankruptcy procedures in almost all countries had a common set of mandatory rules and from which parties could not deviate on the basis of agreement among themselves. His concern is about the staff's proposals was that they went too far in the direction of giving full freedom of agreement to creditors and debtors.

With such a high degree of freedom of agreement between debtors and certain categories of creditors, there was a risk of collusion among them to the detriment of other categories of creditors that might be less able to defend their interests. The main objective of any bankruptcy procedure was the preservation of the interests of all creditors on a predictable and clear basis. That permitted contracting parties a clear view on what they could expect from their contract if and when a debtor were to face economic difficulties. His most serious concern related to a question that he had already raised before, but which had not yet been answered: could a debtor country agree in advance with its creditor that it would never apply the SDRM procedure on that specific credit? If that were to be allowed, it would de facto imply the creation of a whole set of privileged creditors, of whose privileges other creditors might not even know. Rather than achieving clarity, transparency, and predictability of the outcome, such an arrangement would be to the detriment of other creditors. The question as to whether it would be allowed under the proposals that, at the time when a contract was concluded, the borrowing country would be allowed to guarantee that it would never apply or activate the SDRM on the claim in question.

Mr. Duquesne considered that, while being ambitious, it was also important to be ready for compromise in order to move forward. The considerations about the SDRM were right at the center of the mission of the Fund. Therefore, the question regarding the legal basis could, if necessary, be answered by changing the legal basis. That was by no means the main question that needed to be resolved. On the substance, the discussion was on issues at the very center of the mission of the Fund, and his chair was convinced that the SDRM was the missing piece in the international financial architecture. While that missing piece might not be put in place on April 12th, it would some day have to be installed. In view of that, one should take a positive view of the compromise that might be possible on the basis of the result of the current discussion. It should also be noted that the prospect of an SDRM had already played an important role, and the welcome recent issuance by Mexico of bonds with CACs demonstrated that clearly. Until recently, the private sector had been saying that the introduction of CACs would be costly. That claim had been proven wrong by Mexico's issue.

Given that the SDRM had an important role to play, Mr. Duquesne expressed the conviction that the discussion, even if it was long and for the moment not conclusive, would in any case re-emerge at the latest after the next sovereign default. The discussion should spur the thinking about the SDRM, an objective that had obviously been achieved with regard to the private sector's view of CACs and their implied costs.

Mr. Vittas reiterated that there were elements of flexibility that needed to be taken into account and that, regarding the stay, much depended on whether the SDRM was activated in a situation where a crisis had already erupted or was becoming unavoidable or whether that was not the case. If it were to be activated in the absence of a full-blown crisis, there was no need for a universal stay on litigation. On the other hand, if it were to be activated after a crisis had erupted or if the activation itself had led to a crisis, then it was difficult to imagine how the debt restructuring process could proceed smoothly without a universal stay. Regarding the question of how the universal stay should be imposed in that scenario, his chair preferred an automatic stay but would be prepared to consider the alternative proposed by Mr. Moser.

Mr. Portugal, responding to comments from Ms. Jacklin and Mr. Kiekens, agreed with the Ms. Jacklin's view that the risks of litigation were not sufficiently large to justify the Fund overruling 180 billion dollars of sovereign debt contracts. That had been his position since the beginning of the discussion about the SDRM. The SDRM had been presented as an instrument to deal with the risk of creditor litigation and with collective action problems. His repeated request for empirical evidence of the magnitude and the nature of those risks had not been answered by the staff. It would be interesting to know how much litigation there had been in the Russian debt restructuring, how many hold out creditors there had been, and what percentage of the total restructured debt had been impeded by litigation. How serious had the problem of creditor litigation been in Ukraine's, Pakistan's, and Ecuador's debt restructuring? What percentage of the overall debt had been under litigation in those cases? Similarly in the case of Argentina, which had not been paying its debt for one year and had not presented its creditors any proposal. It was important to know precisely how successful creditor litigation had been in that case. The staff had never presented the relevant evidence on those cases. The SDRM case has been argued without sufficient empirical evidence.

On the question raised by Mr. Kiekens as to whether there could be agreement in advance between a borrowing country and a creditor that the country would never use the SDRM, Mr. Portugal noted that there was general agreement in the Board that the SDRM should be voluntary. That implied that no country could be obliged to use it, and it was therefore perfectly legitimate for any country to declare that it would never activate the SDRM. If it was not legitimate for a country to promise never to use the SDRM, the logical implication was that the SDRM was no longer voluntary but obligatory.

With regard to Mr. Kiekens's concern about creditor and debtor collusion, Mr. Portugal considered that the freedom of contract that currently existed between debtors and creditors would not be increased by the introduction of the SDRM. Rather, it would restrict that freedom to some extent. While it would perhaps not restrict the freedom of contract to the extent desired by Mr. Kiekens, it would certainly not enhance that freedom. The risk of debtor and creditor collusion already existed under current circumstances and would not increase through the introduction of the SDRM. The appropriate response to concerns on the part of other creditors about such collusion of the debtor with specific creditors would be to uphold and maintain creditors' contractual rights rather than undermining them.

Mr. Kiekens considered it important not to be confused with regard to the objectives of the SDRM. The first objective of the SDRM was not to organize a stay on litigation but to have a decision-making mechanism that could normalize relations between creditors and a debtor who was unable to service its debt in full. While he agreed with Mr. Portugal and with Ms. Jacklin that, so far, litigation had been a rather limited problem, it had by no means been negligible. The main problem to be solved was, how to enable a country and its creditors to normalize their relations as rapidly as possible with or without a stay on litigation.

With regard to Mr. Portugal's assertion that countries would be free to apply or not to apply the SDRM, Mr. Kiekens considered that as problematic. There were no bankruptcy systems under which a debtor was entirely free to declare that the system would never be

applied. It was in the interest of the debtor and the creditors that the regime was applied, and in most if not all cases such systems were mandatory. However, his main concern was that, if the staff's proposal were to be accepted, the freedom of agreement would not be abused to the detriment of certain weaker categories of creditors. Collusion or the potential of collusion to the detriment of certain vulnerable creditors would undermine the functioning of the market and could lead to an increase in borrowing costs. Agreeing that certain debt was to be excluded from the SDRM, while applying the mechanism to debt held by other creditors would create preferred creditors. If the creation of a group of preferred creditors came about in a non-transparent manner, the uncertainty arising from that would force the creditor to ask for a high risk premium.. Bankruptcy procedures and the SDRM were designed to avoid that creditors would have to rush to the exit because of such uncertainty by introducing fairness and predictability into the process. It was therefore in the common interest of all creditors to go through a constructive SDRM agreement rather than to have to rush to the exit.

Mr. Egilsson agreed with Mr. Kiekens that the role of the SDRM mechanism must be to provide rules and regulation for the market. The entire purpose of the exercise was to set a clear rule in order to improve the functioning of the market and to lower transaction costs, both for the creditors and the debtors. His constituency was of the view that a stay on litigation should be a part of those rules, given that it was wise to activate it under certain circumstances. However, there was also merit in being flexible in applying that approach. An automatic stay was a Draconian version of the rule. Hence, if there was agreement on a more flexible approach, such as the decision on the stay being made by a dispute resolution forum or some other judicial body, his chair could support that. If the SDRM was part of the rule book, it would certainly change the relations between creditors and debtors. The recent bond issue by Mexico, which included CACs was a sign for such developments. As the improvement in relations between creditors and debtors would likely improve further, creditors committees could be up and running long before there was talk of an activation of the SDRM mechanism. By inducing such changes, the SDRM would be generally helpful in improving relations between creditors and debtors. It was also possible that creditor committees would over time become a more powerful tool for imposing discipline on debtor countries.

Mr. Brooke recalled that, at the Annual Meetings, ministers had called for the Board to prepare a concrete proposal for the SDRM. While that had been difficult, considerable progress had been made, and the efforts of staff and management were greatly welcome. It appeared that a clear majority of Directors supported the SDRM as a broad principle, while there might not be the majority necessary to amend the Articles of Agreement.

The main differences of opinion centered around the stay on litigation and the cessation of payments, Mr. Brooke considered, and it appeared that the largest single fraction of Directors was willing to support the staff's proposal, with the second largest fraction calling for a more automatic stay. It would be welcome, if Directors could indicate their degree of readiness to approach those issues with some flexibility. There was a necessity to see some movement with regard to those issues in order to produce the proposal for which the ministers had asked. If it was possible to reach a position where a strong majority of Directors could support one approach, that would be sufficient to put forward a single

proposal with a cover note outlining where differences of opinion still remained. It would then be ministers' task to determine how to proceed from there.

Ms. Jacklin recalled that, in her understanding, there would be further consultations after the current Board meeting to determine what the most appropriate next step would be toward meeting the ministers' request for a concrete proposal. The question was how such a proposal should be characterized and what the appropriate work program going forward should be in light of the discussions. Therefore, one should not anticipate at the meeting the results of further consultations on how best to proceed in order to have a constructive IMFC meeting in April.

Mr. Yagi agreed with Mr. Brooke's view and stressed that the progress made so far was much appreciated. His chair could also go in the direction of a compromise regarding the stay as suggested by Mr. Moser. In past debt restructurings, a firm framework such as that of the SDRM had not been available, but even in the absence of a general stay the outcome had appeared to be acceptable. Since the provision of a general stay did therefore not appear to be indispensable for a functioning framework, his chair could support the compromise entailed in the staff's proposal.

Mr. Callaghan reiterated that his chair supported the SDRM, but was also realistic regarding the prospects for further progress. While the current discussion related to whether the stay should be general or targeted, the actual problem faced by the Board was of a more fundamental nature and lay in the fact that there were Directors who did not even support the concept of the SDRM, notwithstanding the details. Those who advocated the automatic stay appeared to regard it as fundamentally important to the rationale of an SDRM. Those on the opposite side saw the main problem in the fact that a stay would overturn the sanctity of contracts, which should only be possible based on a voluntary approach and decisions between the parties involved. However, even those who wanted to maintain the predominance of the contract recognized that there were times when a renegotiation might be necessary. That was the rationale of collective action clauses. The proposed SDRM appeared to be a rather good compromise, as it gave creditors collectively a sufficient degree of control. Also, there appeared to be agreement that one of the most important benefits of the SDRM was its capacity to solve collective action problems, by inducing creditors and debtors to make decisions more rapidly. Thus, the SDRM provided a framework that allowed for a faster process while keeping creditors in control collectively by giving them the possibility to reject a stay and the possibility to terminate the mechanism. While there might be the potential for collusion on the part of some creditors to the detriment of others, as identified by Mr. Kiekens, creditors could always say no. The more fundamental problem that the Board currently faced was that there were Directors who just did not believe in the whole rationale for the SDRM. While there had thus been considerable progress in the development of the proposal, that did not seem to be recognized generally.

Mr. Vittas considered that it was not the framework created by the SDRM that would bring about a violation of contracts. Rather, the cause for such a development is the fact that the sovereign's debt had become unsustainable. In such a case, it was by definition almost certain that the sovereign would not be able to respect fully all its contracts. The real question

was how to put in place a mechanism that allowed a solution which was fair to all creditors as well as to the sovereign.

Mr. Kiekens said that, according to a wise counsel, one should never lend to a sovereign because one would be at the full mercy of his arbitrariness, and in case of the sovereign deciding not to pay, there was practically no means of attachment. Such helplessness was in all likelihood the experience of creditors who had not received payment from a debtor in default, such as the creditors of Argentina. Such an experience suggested that Mr. Callaghan's view according to which creditors would always be in a position to reject a proposal that they did not regard as feasible was effectively only an illusion. A given category of creditors who were confronted with a restructuring proposal would, in all likelihood, accept it even if they had grave misgivings about it, given the limited alternatives. While it was true that it might be easier to reject a proposal as a collective of creditors, the concern remained valid that the creditor's freedom of agreement could arbitrarily pay certain creditors for reasons unrelated to the functioning of the economy, and that the weaker group of creditors had in reality no other option, but to accept the proposal on the table. It was important for the Board to reflect on how fairness could be preserved, not for the sake of fairness, but for the sake of upholding a culture of credit where a decent return and decent treatment could be expected.

With respect to the problem of litigation, Mr. Kiekens considered that it should be kept in mind that one well-functioning sovereign debt restructuring mechanism was already in place—the HIPC Initiative. In that context, deep restructuring and relief would be applied for the poorest countries. That was backed by a solid agreement in the international community. However, that mechanism lacked a few features, one of which was the capacity to bind-in those creditors that were not willing to act in agreement with the agreement about the HIPC Initiative. There was a list of 22 private creditors that had so far litigated against the poorest countries in the world, notwithstanding the HIPC Initiative, and had been able to collect or at least to have judgment claims, both totaling an amount of U.S. $460 million. The most striking case was that of Nicaragua, where three creditors had been able to obtain judgments for U.S. $275 million or about 10 percent of the entire debt relief that given to Nicaragua under the HIPC Initiative. That highlighted the purpose of the SDRM to bind in those creditors that would otherwise not be willing to adhere to a collective agreement. Of the 22 private creditors who had brought litigation, few would probably be able to obtain a favorable judgment and certainly not an attachment of assets before the collective decision had been made. However, it remains to be seen how creditors' behavior would change if we had the SDRM. It was important to repeat that the most important feature of the SDRM was the collective agreement that bound-in all creditors, and his most serious concern was to ensure that those agreements were fair for all and enhanced confidence, rather than undermining it.

Mr. Bennett congratulated the Chairman for resuscitating the discussion by challenging Directors with the tempting question of whether the Board was being sufficiently ambitious with regard to the features of the SDRM. The Board had risen to that challenge, and it was interesting to look back to the time when Ms. Krueger had made her initial proposal, which had indeed been very ambitious and had been a good way of starting the

debate. It had presented the issues in a well-defined and carefully thought-out way and had facilitated a debate conducted by the Board as well as within the world community. The decision had not been taken lightly to discuss that issue which could disturb the financial landscape with U.S. $180 billion of sovereign debt at stake. It had been interesting to see how the debate had unfolded. It was true that the proposal made in November 2001 had been watered down. However, the term "watered down" was perhaps the wrong way to put it. Particularly those who liked their Scotch with water understood that it might be more appropriate to say that the flavor had been enhanced, in the sense that the proposal resulting from the debate was more workable and could find broader acceptance from market players around the world.

It was indeed instructive, as Mr. Duquesne had reminded the Board, to look at CACs in the recent history, Mr. Bennett considered. If Mexico had decided to proceed with a bond issue involving a collective action clause five years before, it would probably have had to pay a premium, given that at that stage, financial markets had not yet fully understood the rationale and implications of collective action clauses. That demonstrated how much time it could take for such ideas to penetrate. Therefore, time had to be allowed for such a fundamental change to develop and come to fruition.

In view of that, the question as to whether the proposals on the table were sufficiently ambitious probably had to be answered in the affirmative, Mr. Bennett considered. While they could still be modified at the margins. He was convinced that there would, one day, be an SDRM, possibly under a different name, and that this mechanism would be based on the principles that had been worked on with much care by the staff. Hence, the proposal before the Board was indeed very useful for the ministers to consider. It was their responsibility in exercising their broader political judgment to decide whether the time was right to visit that upon the world. While the world was certainly not unsuspecting in that regard, it was not clear whether it was truly ready for the SDRM. However that might be decided, it was appropriate to congratulate the staff for an absolutely marvelous job in pursuing that issue with the necessary intellectual rigor.

The Deputy General Counsel (Mr. Hagan), responding to Mr. Kiekens's question to what extent a sovereign was free to enter into a contract containing a covenant precluding the activation of the SDRM, stated that the sovereign was indeed free to do so. However, the violation of that covenant by the sovereign could not preclude it from activating the SDRM, just as violating the more important covenant to pay did not preclude it either from activating the SDRM. In the domestic insolvency context that issue was taken a step further, and the bankruptcy law would nullify any contractual provision that precluded the activation of bankruptcy. In the context of the proposed SDRM that would not be the case. However, there was a general recognition of the priority of a statutory body of law over contractual arrangements. Hence, it was possible to enter into a contract with a covenant promising the non-activation of the SDRM. However, violation of that provision would not preclude the sovereign from being able to use the SDRM.

Regarding the suggestion made in the current discussion that the proposed features represented a compromise approach, the Deputy General Counsel clarified that, from the

staff's perspective that did not imply that the proposal represented a less pure form of the mechanism. In his view, once the economic judgment had been made that there would not be a general cessation of payments, it was indeed inappropriate to have a general automatic stay. It was important to recall that cessation of payments and stay on litigation directly corresponded to each other conceptually and that, in the corporate context, a general stay always went along with a general cessation of payments for the purpose of achieving effective inter-creditor equity. To some extent that should be determined by an economic judgment on the appropriateness of a general cessation of payments. The case had been made rather persuasively that one could not presume that a general cessation of payments was appropriate in all cases. The fact that even in the case of Argentina certain payments were currently still being made, was a case in point.

On the question raised by Ms. Jacklin, to what extent a collective action problem required an automatic stay, particularly in view of the principle that interference with contracts should be limited to the resolution of only the most important related problems, the Deputy General Counsel considered that the most important collective action problem was the one Mr. Kiekens had identified—binding the minority through a decision taken by a qualified majority. If that could be ensured, all post-agreement litigation problems would be solved. That would represent interference with contracts, given that it would be done on an aggregated basis for existing claims. In the view of the staff, however, such interference with contracts was worthwhile under the described circumstances. The question was whether prior to that agreement, some stay on litigation should be imposed. The compromise presented by the staff was a creditor-approved stay, which was an appropriate approach in view of the fact that there was no general cessation of payments. The question arose in that context, whether the markets fully understood that aspect, since in some respects, the decision-making process of a creditor-approved stay mimicked the process that was applied under collective action clauses whereby a stay on creditor litigation had already been recognized in bond contracts as long as it had been approved by a requisite majority of creditors. Once that had been clarified, the remaining question was whether the stay should be general or targeted.

Mr. Kiekens considered that the staff's response regarding the exclusion of a claim from the SDRM did not allay his concerns. The question remained whether a contractual agreement between a creditor and a sovereign that a specific claim would under no circumstances be subject to the SDRM, would not eventually hold up in a court of law, even if the claim had been made subject to the SDRM in violation of the respective covenant of the contract. The question was whether a judge in New York, London, Berlin, or Brussels would find in favor of a creditor and uphold the claim to 100 percent or whether the judge would rule that the creditor was bound by the collective decision taken under the SDRM, even if the debtor had agreed never to use the SDRM in relation to that claim. It was important that a provision under the amendment to the Articles of Agreement clarified that issue so as to ensure that any judge would uphold the collective decision under the SDRM.

The Chairman considered that the current discussion had been particularly valuable and that there appeared to be room for further discussion of several issues in more detail. It had been apparent at the last IMFC meeting that the detailed provisions of an SDRM were of considerable importance. The current discussion had been very helpful in that regard.

The First Deputy Managing Director (Ms. Krueger) thanked Executive Directors for their constructive comments and considered that the various Board discussions on the SDRM had, each time, addressed new challenges and moved the debate forward. The Summing Up of the current meeting would be presented to the Board in the coming week, and Management would, on that occasion, also forward a proposal to the Board regarding the next steps on the preparation for the IMFC.

2. REVIEW OF FUND EXTERNAL COMMUNICATIONS STRATEGY

Documents: A Review of the Fund's External Communications Strategy (SM/03/69, 2/13/03; Cor. 1, 3/3/03; and Sup. 1, 2/20/03)

Staff: Dawson, Hacche, Russell, EXR

Length: 2 hours, 50 minutes

Mr. Padoan submitted the following statement:

We thank the staff for this very comprehensive report on the Fund's external communications strategy. In evaluating the strategy two key questions have to be asked. Are the goals of the strategy the right ones? Are the instruments appropriate to reach the goals?

Goals of a Communications Strategy:

Improve the Fund's Image

The welcome changes in the Fund's communications policy over the past few years have been driven by the correct concern that the Fund's public perception was not very positive. Significant improvement has been reached, thanks also to the emphasis toward greater transparency. This notwithstanding, the Fund's public image remains similar to what it was in 1998 relative to that of the World Bank, United Nations, and Red Cross/Crescent.

Should the Fund be concerned? Should more resources be invested in trying to climb the popularity ladder? Investing in communication yields decreasing returns. There are limits to which the "general" perception of the Fund can be improved. These limits are determined by the fact that the (main) role of the Fund is to make painful diagnoses and prescribe unpleasant medicines. Hence investment in communications should be better prioritized.

Resources for communications have expanded over the recent past, yet they remain limited. Priorities must be identified as to where investment in the public image of the Fund yields the highest returns. As Mr. Bennett noted in his introductory statement at the Directors retreat, a weakened image of the Fund can make the Fund less effective because a weakened image implies a

weaker credibility and reputation in providing advice and negotiating programs. One implication is that the Fund's image is more relevant (it yields the highest returns) where its involvement is highest, i.e. in program countries.

There is not one, but several, perceptions of the Fund:

In spite of major advances in communications technologies the Fund's image may be radically different in different countries and regions. In countries with a Fund-supported program or seeking to have one, the perception of the Fund is usually more positive, and not necessarily for instrumental reasons, than in industrial countries. For instance, in countries where governance and institutions are weak the Fund is seen as partially filling the institutional vacuum by providing a clear policy and governance framework, and not just financial support. In industrial countries the Fund is often criticized by public opinion as one of the "villains of hostile globalization." In other cases it is simply ignored and (possibly) coming to public attention only when a Fund mission is on the ground. I have no evidence that this is indeed the general case. But more information would be useful

These examples suggest that the conclusion that the Fund's public image is not very positive is perhaps too generic to be useful. Future investigations should be based on more careful analysis, including a more detailed breakdown by country and region and possibly by issues. Where is the Fund more unpopular? Why is the Fund unpopular? Because of specific policy advice? Because of its institutional advice? For the quality of its work?

It might be that, lacking a more detailed analysis, what opinion polls are tracking down is not the Fund's image but rather the image of a supposed "benchmark" or "brand," the Washington Consensus (whatever the meaning of the expression is today), to which the Fund might be automatically associated.

Prioritize the Targets

For any given country, however, the impact of Fund communications varies across groups and institutions. This too requires better targeting of communication efforts. For instance, a substantial effort has been devoted to interactions with NGOs, possibly also because they have been particularly vocal in criticizing the Fund. At this stage one can say that while in some cases the interaction is fruitful, especially with those NGOs actively involved in poor countries ("Southern NGOs") in some other cases there are very few benefits in further efforts.

The shift in emphasis towards CSOs other than NGOs is welcome, although also in this case a targeted approach would be desirable. Interactions

with parliaments should be intensified, and possibly Board members should be more involved. Parliamentary support for Fund programs, which are only negotiated with the executive branch, is important, as we wish to maximize chances that measures/laws requiring parliamentary approval are actually supported and passed by the Parliament.

Finally there are cases where better communication could generate significant benefits to the effectiveness of Fund's action. One case is the PRSP process, where better communication and better information is a key factor in determining better outcomes.

Instruments for Communications:

Personal Communication Skills

The most effective instrument of communications is, ultimately, personal interaction, be it through interviews, conferences, panels. Hence personal communication skills are crucial. More training for staff, but also for board members, on how to deal with personal communication is appropriate, especially if one keeps in mind that journalists, by definition, try to extract the maximum amount of information when they address staff, management, and board members even, or perhaps especially in spite of the contrary intention of the person who is being interviewed. If we agree that the highest returns to communication efforts are in program countries, staff involved in such countries and resident representatives in particular should upgrade their communication skills. We welcome efforts already under way in this respect.

Improving the Quality and Availability of Fund Material

This is a daunting, yet indispensable task and the paper clearly explains the several elements that are involved in the process. However the returns on this action will take time. The purpose is to increase the number and decrease the efforts of consumers of information about the fund. The Web page contains a very large amount of information. This calls for targeting, and more, not less, two-way personal communications in providing a users' guide to Fund material. Streamlining of documentation is also appropriate; by streamlining I mean not fewer documents, but a more user-friendly website.

Language and Translation

Translation costs can be very substantial. However, in some cases they might be very limited. For instance when the original documentation is already in languages other than English (especially when program negotiations are carried out in such languages). The marginal benefit of making them available in that language exceeds the marginal cost of editing.

The Contribution of the Board

The report calls for a more active role of Board members in the area of communications. I support the approach, however this should be based on a "code of conduct" that the Board should adopt. The elements of such a code of conduct could be discussed in a separate occasion. As an example let me recall that at the 2001 retreat it was suggested that a good "rule of thumb" would be that Directors should speak publicly only on countries of their constituencies. This is a useful rule, however there might be cases where comments on other countries might be requested. In such cases comments could be agreed upon beforehand with the Director of the country involved.

On more general issues, including policy issues, Directors could, and possibly should offer their contributions, both oral and written, in close contact with EXR. Directors could probably do more in countries of their constituency in explaining the role of the Fund. Perhaps all the more in non program countries.

Mr. Bennett submitted the following statement:

Key Points

Progress made in increasing the effectiveness of the Fund's external communications strategy has been impressive; as a result, both the "informed press" and many NGOs better understand the workings of the Fund—its objectives, constraints, and accomplishments.

We should take pride in these accomplishments but, as the paper says, "there is still much room for improvement".

While the Fund's image may never be stellar given the nature of our work (Fund programs exist only in countries that are experiencing difficulties), increasing the understanding of what the Fund does will be key in forging in-country consensus and ownership of policies.

The staff paper contains an impressive array of communication initiatives (some building on past successes and some new) and we think, collectively, they make sense and should be pursued. In three areas we would suggest additional or more aggressive actions:

- NGO's—convening regular (quarterly?) briefing sessions with NGOs, to provide an update on policy developments at the Fund and to solicit their views.

- Rapid Response—build on the Malawi experience and aggressively counter inaccurate stories—this, among other areas, is one in which EDs can contribute.

- A Plain English Policy—adopt a "plain English" policy in Fund communications material and Fund papers and procedural publications. The objective, within say two years, should be to purge as much Fund jargon as possible.

On management of communications, we think that more frequent (once a year) Board review of communications is warranted; that the Board should consider establishing a sub-committee on communications; and the Fund should adopt a short, clear Mission Statement.

I agree with the goal of the external communications strategy as expressed by the staff in paragraph 11: to increase understanding of and support for the Fund's work in each of its core functions. As noted in the paper, we have made good progress on important fronts in this regard, especially on transparency. Openness is probably the Fund's best weapon for dealing with critics. The "informed press" better understands the workings of the Fund, both as a result of the bi-weekly press conferences and the very significant increase in transparency more generally. From our own survey of major correspondents, the press conferences are much appreciated and seen as an important source for up-to-date information and as an opportunity for the Fund to better explain itself and the action it is taking on particular files. Also, the NGO community (especially the more sophisticated ones, such as Oxfam) has a much better appreciation of the Fund's objectives, constraints, and accomplishments as a result of increased transparency.

We should take pride in these accomplishments in increasing understanding of the Fund amongst members of the press and some NGOs. But this progress should be consolidated and extended by trying to achieve broader, more general understanding. Many NGOs still do not appreciate the environment within which the Fund operates, nor share the objectives that underpin many of the Fund's policies and programs. Some never will. As well, the general public, to the extent that they have an opinion of the Fund, has—as the staff paper shows—a negative one. This is important, since it goes to the credibility of the Fund—if people do not share, or even understand our vision, it will be that much more difficult to do our job.

The next frontier for the communications work of the Fund is perhaps the most difficult faced to date: to gradually enhance the image of the Fund. It is important to recognize that there are very real limits here; we will never be loved - that is the nature of the work we do and the circumstances in which we operate. But it is important to make progress. To that end, I generally endorse

the staff's proposals on how to move forward. Additional suggestions are set out below.

NGOs—More Outreach

Our progress with NGOs has been impressive and plans presented in the paper are to be commended. To build on this, we might consider regular (quarterly?) briefing sessions with NGOs to provide an update on policy developments at the IMF and to hear their views. Participation should not be limited to EXR, but include the staff and management as appropriate. The Board might be involved in a similar setting. This is a process that, by its nature, is an ongoing one and will need to be modified/adapted as progress is made.

Rapid Response

The Fund staff, management (and some EDs) did a commendable job of responding to false or misleading information in the case of Malawi, although the extent to which the misrepresentation lingers still, is testimony to the challenge we face in putting our case forward. EXR should be encouraged to adopt an aggressive stance to inaccurate stories and, as appropriate, EDs should be enlisted to participate.

Suggestions going forward include: (i) posting the Responses to Common Criticisms of the Fund (currently available on EXR's website) on the external website to help to correct false information/perceptions about the Fund; (ii) greater use of op-eds or speeches to help "set the record straight" on criticisms or falsehoods about the Fund; and (iii) incorporating the suggestions from the recent discussion on exceptional access to avoid having Fund programs negotiated in the media.

Making the message more understandable—a "plain English" policy

The challenge, in part, is to broaden understanding of the Fund, its mandate, policies and actions. This is a continuing process and we will have to work long and hard to achieve results. Given that the main audience we would like to reach is primarily made up of non-economists, it will be important to have the message conveyed in a way that is accessible to non-specialists. Jargon-filled documents are fine for insular, non-transparent institutions, but now that a large number of Fund documents are available to the public, we welcome suggestions in the paper (pp. 14–20) on ways to make the messages clearer. As an overall objective, we think that the Fund should adopt a "plain English" policy in Fund communications material and Fund papers and procedural publications. The objective, within say two years, should be to purge as much Fund jargon as possible.

Communications—Management

The transition of the Fund from its secretive, cloistered environment, to the relatively open, transparent one of today has been both rapid and, clearly, supportive of the organization's objectives. As the paper notes, however, the battle will be a continuing one and, given the uncertain outlook, it is reasonable to expect that the communications challenges will remain and could well increase.

It is against this backdrop, that we advance the following suggestions for increasing the managerial focus on communication's issues:

- we think that the Board should be presented with an "overview report" on communications issues once a year, with updates during the course of the year if warranted;

- the Board, itself, should consider establishing a subcommittee on communications to provide a less formal forum to review communications challenges and debate the merits of possible new policies and Fund activities.

One final point. Most organizations today have established a clear, concise statement of their mission; one that is reflective of the essential purposes and goals of the institution and presented in plain language that the general public can understand. We think that the Fund should develop such a mission statement. Perhaps Article I of the Articles of Agreement represents the closest thing to such a statement, but it is cast in the language of the day, in a document drafted with experts in mind and, of course, does not reflect many of the priorities of the Fund's current work. A statement which truly mirrored the Fund's mission could be a valuable communications tool.

Mr. Usman submitted the following statement:

Introduction

We commend staff for a well-written and incisive paper on an important subject, which is crucial to the Fund's public image and credibility. We agree with most of the paper's recommendations on the way forward, to further enhance the Fund's credibility and public image, but have our reservations on the contents of and the modalities for executing some of the steps proposed. The rest of this statement will highlight some of the areas of particular interest for which we found the efforts of the Fund to have succeeded, as well as lay emphasis on the staff recommendations with which we are in agreement. We will also proffer amendments and or alternatives to those recommendations, which in our view, need reviews.

There is need for self-reexamination and internal review of some of our policies.

At the onset, it is important to appreciate that we cannot arrive at an objective and meaningful appraisal of the global perception of the Fund's activities, unless we conduct some self-reexamination and self-criticism, all with a view to truthfully addressing the critical areas of frequent emphasis by its critics. While we welcome the work and progress made by the Internal Evaluation Office (IEO), we believe that more attention should be focused on the outstanding critical areas, so that less effort will be needed by the Fund for further image laundering. This Chair, therefore, calls for an open and truthful internal review of some of the Fund's policies that remain unresolved, especially those that affect the most critical groups, as these will serve as additional measures to those that are being proposed for consideration in today's discussion. They will also help to improve the perception and judgment of its critics.

In this regard, the discussion of this paper should not concentrate only on stocktaking and support for the existing approach, there may also be a need for, not necessarily a fundamental reconsideration of the strategy, but of the contents of some of the approaches. While improved publication of country papers is a step in the right direction towards enhancing transparency, we suggest that more needs to be done with respect to the contents of the policies enunciated in the paper, at least for fairness. For instance, where mistakes are made in certain policy decisions, especially in the formulation of economic policy advice to member countries and in the conditionality attached to financial support, the Fund should have the courage to own up to those errors of judgment and make appropriate adjustments, where necessary.

It is also not enough to submit, as staff did in the paper, that the Fund is not visible and popular only because its work is inherently controversial and that countries fail to adopt credible economic policies. It has often been reiterated in the Board that the approach of "one size fits all" in policy formulation for all member countries, without paying due attention to each country's economic peculiarities and social environment, cannot bring the desired results, and it will always be resisted by those adversely affected.

Nonetheless, we note and welcome the efforts made so far and the results achieved.

However, we note and welcome the many strategies, which the Fund has so far undertaken, since 2001 to positively affect its image. In particular, in the areas of transparency, the wide publication and circulation of the Fund's documents has somewhat repaired the institution's image as a secretive organization, while the introduction of the participatory PRSP and the PRGF

has not only enhanced national ownership of programs in program countries, it has further exposed the local people to the beneficial activities of the Fund.

We can also identify with the submission in the report that the Fund's external communications challenge is deep-rooted and that the peculiarity of the Fund's mandate, which is not as visible as providing humanitarian aid and financial assistance directly for physical infrastructure, inevitably places limits on its popularity. To that extent, we agree with the staff view that a continuous and concentrated effort in the external communications strategy, including improving public's understanding of the Fund's work, should be our focus in achieving the desired success, rather than efforts to increase its popularity.

We also welcome the initiatives for reaching out to legislators, and non-governmental and civil society organizations, including the labor union. In particular, we consider the frequent and useful contacts of Fund missions with national labor unions and the Fund's constructive dialogue with the international labor movement as gradual positive steps to reaching more members of the civil society, indirectly, and thereby enhancing transparency.

We agree with most of staff recommendations to enhance the impact of the strategies.

In moving this strategy forward to enhance its impact, we can support the recommendation that the Fund should have sharper focus by concentrating on a few key issues and messages at a time and should strive to make its documents more reader-friendly to a wider spectrum of the public by providing clear summaries and supplementary explanatory materials. Efforts should also be made, as much as practicable, to simplify the technical language in the documents and reports for better clarity and improved understanding of the uninitiated.

To achieve prompt dissemination of information and timely response to issues that affect the Fund in the media in member countries, there is need to further delegate this function to lower levels of the Fund's Management, than is currently the practice, as well as to staff members. In this regard, staff's recommendation of arranging suitable opportunities for message delivery by Executive Directors and senior staff, is quite appropriate and we support that this should be carefully considered, subject to the suggested steps spelt out in the paper, in applying this rule. We are also in support of the bi-weekly press briefings, as it would help guide media coverage and provide an opportunity to the media to clear any issues which may otherwise be reported negatively.

We suggest laying greater emphasis on the following other areas of approach.

Be more proactive in drawing attention to areas of success—It is critically important that the Fund changes its strategy from that of being defensive most of the time to a more aggressive system of selling its work and image to the public. In this regard, the Fund Management should be more proactive and prompt in disseminating information and drawing the attention of the public to the successful areas of the Fund's work.

Greater engagement with member countries' legislature—Experience has revealed that the authorities, especially in developing countries, have often fallen short of undertaking important policy and other reform adjustments, because their legislatures, which were crucial in influencing policies, were not carried along in the process. We suggest that in addition to the increased interaction with this arm of government, the authorities of member countries should be convinced of the political and economic benefits they stand to gain if staff missions are allowed to involve relevant committees of the legislature in policy discussions and in wrap-up meetings of Article IV consultations in these countries.

Publication of Fund documents in non-English and local languages—We can recall that in some earlier policy discussions, staff had recommended the publication of Fund documents in local languages, especially Article IV staff reports, in order to improve public appreciation of the institution's work and enhance transparency. Staff's analyses in the report reveal that the Fund had recorded increased credibility and better media visibility among the public in non-English member countries. We believe that this recent development has satisfied the criteria of utility and demand, which staff claimed in the report, as being the considerations upon which the decision to publish in languages other than English are based. Consequently, it has further underscored the need to consider increased efforts in the publication of non-English, as well as local language versions of member countries' Article IV staff reports, including those documents, which are frequently accessed or referenced by the readers in these countries.

As regards costs, although we can appreciate the concern of staff that the initial outlay may be large, we feel that this should not be a deterrent, first, because large numbers of such documents need not be published at the beginning and the authorities of member countries could be partially involved to reduce the cost, and secondly, because of the enormous benefits that the process will continue to generate over time—that of bringing the Fund closer to the civil society—which is very much in line with the submissions in paragraph 7, page 8 of the paper. Special budgetary provision should be established for the expenditure in this area and should not be tied to the administrative budget.

Expand the role of Resident Representatives to enhance the Fund's visibility. As a further step to bring the activities of the Fund closer to the

public and thereby make the institution more visible in member countries, we suggest that the role of the resident representatives should be clearly spelt out to include the need to respond to news and views about the Fund in local media, as well as regular press briefings on issues that concern the Fund's relationship with the authorities. There should also be regular and periodic meetings between the area departments, the EXR and relevant policy departments with a view to improving internal coordination strategies.

Declassify documents and make them available—A substantial number of documents, other than country papers, should be declassified and some selected editors should be granted limited access to the Fund's extranet. Where access to the extranet is not possible, members of the public in member countries should be availed hard copies of the documents through Resident Representatives, possibly at a nominal fee to cover the costs of reproducing those documents.

Conclusion

In our view, the Fund's external communications strategy should not be based on an approach where it is always under pressure and on the defensive, but the approach should be built on a proactive process where it is constantly selling its successes. At the same time, the focus should not be on how to increase the Fund's popularity, but rather on how to enhance the understanding of its activities, and thereby reduce negative perception of its work.

More importantly, the Fund Management should imbibe the principle of effecting amendments to correct policy errors, as well as adopt flexibility in dealing with individual countries in relation to the economic peculiarities of each. The staff appropriately captures the essence of this point in the paper, when they submit that "effective external communications must go beyond transparency to establishing effective two-way communication with its interlocutors". The Fund should continue to engage in outreach and dialogue with the authorities of member countries and the general public, to "listen and learn as well as to inform and persuade", if it must continue to improve its public image, especially in developing countries.

Mr. Le Fort and Mr. Zoccali submitted the following statement:

We thank the staff for an informative paper on the Fund's approach to external communications. We concur with the paper in that the Fund's external communications work has rapidly evolved, that the Fund has become a much more open institution and that stocktaking on this occasion rather than a fundamental reconsideration of the communications policy is the appropriate approach to bring about further improvements. We agree with the publication

of the staff report, SM/03/69 together with the PIN summarizing the Board's discussion.

The recommendations of outside consultants to strengthen the Fund's external communications effort through a clearer message, a sharper focus and improved coordination of the Fund's public output remain valid and should continue to guide the process for improving understanding and support for the Fund and its activities, especially its core functions.

The by-product of the rapid progress made over the last five years in the domain of transparency has, however, been such a voluminous release of material and information that it risks obscuring the Fund's core messages. We concur, therefore, that transparency increases the importance of well focused, clear, coherent and persuasive messages that promote understanding and support for the Fund, its work and its policies.

At the same time, it is also clear that there are limits to how fully the Fund can satisfy calls for additional transparency. Considerations of market sensitivity, allowing the authorities sufficient time to prepare appropriate responses, and privileging the candid and timely policy dialogue with member countries should remain as benchmarks for the Fund's external communications policy, including the release of country-related material. In addition, the more proactive recent forms of engagement and, in particular, the myriad of responses to news and views by an increasingly broad number of authoritative Fund "sources" participating on regional and country-specific external communications activities, underscore the need for selectivity and better coordination to avoid surprises and unnecessary confrontation.

The outside consultants emphasized that "strengthening external communication would require a Fund-wide effort and improvements in internal communications, especially EXR's communications with other departments , but also its communications with resident representatives and regional offices". The lingering syndrome of EDs offices on occasions being the "last to learn" of media developments organized by the Fund concerning the countries they represent, certainly merits attention. In addition to the ways identified in the paper to increase internal coordination, the designation of an internal coordinator, responsible for country-related news and views events involving the Fund in individual cases of intense media interest could add value and enhance efficiency. We consider on balance that the Fund's external communications strategy and priorities are generally pointed in the right direction. The rapidly changing scenarios and circumstances only heighten the importance of its contribution in the margin to consensus and confidence-building in individual member countries as well as in financial markets. It should be able to show how the different elements of the strategy promote a better understanding of the Fund's complex and at times politically sensitive

mandate, while enhancing a perception that the Fund is effectively learning from its interlocutors through an even-handed, two-way dialogue.

On availability and accessibility of Fund information and messages, the progress made has been significant, and we welcome the acknowledgement of outside observers that the Fund is the leader among international institutions in matters of financial transparency. Broadening the reach of the Fund's communications to better encompass the general public in a cost-effective manner is no easy task, keeping in mind differences in the membership and the increasing prominence of technology in the dissemination of information. Producing reports in a language that is more easily understood and use of the internet are two important vehicles for improving accessibility to the Fund and its message. Greater interaction with country authorities in the establishment of country web-sites and the provision of links to data posted therein could serve to narrow the technological divide. In this regard, we welcome the differentiated price structure to facilitate access by users in developing countries and academic institutions. We consider, however, that provision of more publications free of charge, particularly on the website, to non-profit institutions in the developing world of interest to the Fund, should be furthered explored.

We note the intention to institute extranet access in 2003 for journalists to expand ad hoc arrangements through which they can obtain advance copies of certain Fund publications under embargo, to reduce the risk of erroneous reporting. In implementing this arrangement, we attach importance to monitor breaches of conduct and to ensure that only public information is conveyed through this mechanism. Similarly, it will be important ensuring equality of access and wide geographic media representation. In any event, we welcome the development and active promotion of the depository library program to widen readership of print publications, in particular in developing countries. Additionally, we view the offer to Executive Directors to discuss regularly with EXR and area departments communication approaches for countries having Fund programs as an important constructive step for enhancing the quality of the dialogue and, generally, to promote a better understanding of the Fund. We look forward to its early implementation.

Accessibility requires more than a user friendly text, cost-effective distribution of the communication products, and access to Fund officials and the Internet. While we appreciate the attempt to more effectively integrate Fund resident representatives, regional offices and Executive Directors in assisting EXR in finding ways and opportunities to distribute Fund material in the working language of the Fund, we remain concerned by the very limited availability of non-English language versions. This aspect, in our view, tends to constrain the effectiveness of the dialogue beyond official circles and, in

particular, of the outreach that is intended for "listening and learning as well as informing and persuading".

Paragraph 63 of the report refers to the very large number of messages received in 2002 from Argentina, as an example reflecting a lack of basic information about the Fund and how it works. This may in part be linked, however, to the limited dissemination of non-English language versions of Fund material that may in fact be discouraging access to the Fund's website more generally. We strongly support continuing to explore ways of widening the list of non-English language printed versions of such documents in lower-cost format and increasing dissemination to reach a broader audience, and facilitate country-ownership of Fund-supported programs. In this regard, despite the drawbacks noted in paragraph 104, we consider beneficial the efforts to link to non-English versions of country policy intentions documents on official websites. Similarly, we fully concur with the view of area departments and regional offices that extension of the translation and publication program to include publication of selected Board documents in non-English languages would be useful in supporting the Fund's outreach efforts and the PRSP process and see merit in not circumscribing a priori this effort to sub-Saharan Africa.

Additionally on the proposal for outreach, we support the increased dialogue with legislatures, the private sector as well as civil society organizations, including labor unions. Developing regional communication strategies and holding regional and individual country seminars for parliamentarians organized in collaboration with country authorities may be particularly useful given the economies of scale and idiosyncratic similarities. Such an evolution again brings to the fore the importance for the Fund to be able to relate directly in a didactic, easy to understand fashion and in the predominant language of the region or country concerned.

Fund missions and resident representatives are particularly well placed for country outreach activities, given their close monitoring of developments in individual countries and exposure to policy debate, the social conditions and the market sensitivities. A Fund-wide framework for outreach that makes greater use of its field offices as outreach platforms, in coordination with Executive Director's offices and national authorities, as appropriate, represents a desirable evolution of the effort to help foster domestic ownership and better informed policy choices. This greater involvement of field offices also highlights the importance of tactfulness and of developing personal and institutional relationships well in advance. The Fund's high visibility may make it easier to deliver its messages.

Lastly, on the issue of roles and responsibilities, we generally agree with the suggestions advanced for enhanced participation in implementing the external communications strategy. Suffice it, in this regard, to stress the

importance of coherence in highlighting the chosen messages and of judiciously managing the opportunities for message delivery.

Mr. Lushin and Ms. Vtyurina submitted the following statement:

We thank the staff for a comprehensive account of the already completed as well as ongoing work done by the EXR Department, in particular, and by the Fund, in general, in improving external communications. As the paper portrays, over the past few years great strides were made by the Fund in enhancing its transparency and openness. This certainly has helped "the outside world" to understand better the purpose and operations of the Fund and led to an increased interest in the Fund's work.

This said, it is unfortunate that, according to recent surveys and polls cited in the paper, the Fund's public image has not improved since 1998. It would be essential, nonetheless, not to get discouraged and continue to work hard on bettering the image. It would also be important to recognize that it is not the external communications strategy that is not working well; rather, it is a controversial nature of the Fund's mandate, its work and advice that ultimately determine public perception. While the latter point may call for greater clarity and cohesion of the Fund's advice and decisions in general, this would be an issue for a different discussion. Keeping in mind that the purpose of the current paper was a stocktaking exercise of the work done in improving external communications, we will limit ourselves to addressing the issues presented by the staff.

At the outset, we are largely content with the steps taken by the EXR Department on various fronts. Especially noticeable to a naked eye are the high quality of the Fund's website, regular and comprehensive press briefings with Mr. Dawson, speedy and thorough response in the media to the misrepresentation of information about the Fund's work, and a high quality of the Fund's various publications. A host of other activities, which are more discreet but yet very helpful to the public, such as in-country press conferences, seminars, specialized publications, establishment of country resident representative's websites and other various targeted outreach activities, also became an integral part of the EXR Department's strategy. In this context, our Russian authorities would like to commend the Moscow resident representative office on launching its own website, which is a great addition to a still limited number of such websites. This website should help facilitate a continuous dialog between the Fund, the media, the government and civil society on the developments in the Russian economy.

Internal coordination: there has been noticeable improvement in internal communications of the Fund. The EXR Department seems to go to great lengths to help the staff with their communications by reviewing speeches and articles, training the staff and pooling the available information

on topics of public interest to be available to the staff. The Current Account publication has been a valuable addition to the available options for the staff to get familiar with the undertakings of the Fund. We concur with the identified steps to be taken in the future to further improve internal communications. We would only point out the fact that the staff burdened by their current assignments, especially in program countries, are limited in their ability to reach out to the outside in a comprehensive way. Therefore, resident representatives must take on themselves a bulk of the weight in this area and proactively seek communication opportunities, as has been done by a number of resident representative offices already.

Delivery of the Fund messages through the media: as we have mentioned above, we see extremely useful the participation of the management and the staff in media interviews and press conferences, as this constitutes the most direct and effective way to get the Fund's message across. We welcome the initiation of a training course to help mission chiefs and resident representatives to communicate better with the press. It should be noted that there is always room for improving communications between the headquarters and the resident representatives' offices so that to limit the amount of possible misperceptions and a lack of policy advice cohesiveness. We agree that publications in "Op-eds" are one of the key vehicles for a proactive and focused message delivery. While it is obvious that the Fund cannot address all issues and answer to all the statements and individual criticisms, there may be greater scope to deal with these issues by publishing articles on a particular topic of interest/criticism in the regional media. Finally, while the Fund's natural reaction to criticism is defense or a counter attack, there seems to be some room for a more balanced approach to constructive criticism and, possibly, for deeper self-analysis, along the lines of the Fund's "lessons learned" approach so that not to be perceived too defensive and uncritical.

Improving accessibility of the Fund's documents and publications: we see a five-stage process for making Fund material more available and user-friendly as broadly appropriate. Technology-related issues aside, much focus should be put on improving the readability of the Fund's documents through enhancement of the staff's writing skills. Departments should put greater effort in editing documents before they are presented to the Board. While we agree that it would be desirable to make "summings up" and "PINs" clearer documents, it seems that room is limited in doing so as these documents have to be written in technical and legal language. In this vein, we do not think that any "degrees of precision" should be "sacrificed in the interest of clarity, brevity and the more effective delivery of messages to the press and general audiences" (para 29). After all, these are official working documents of the Fund and it has to reserve a right to choose the format most suitable for its operations. Improvements are necessary, on the other hand, in making writing clearer through better editing, use of language and minimization in the usage

of "Fundese" terms. In regards to distribution of documents, it is apparent that developing countries are at most disadvantage, as they have a limited access not only to the internet but also to printed documents. Thus, it would be important for resident representatives to facilitate better document distribution. Finally, we commend the staff for the initiation of a depository library program.

Translating and publishing additional non-English language materials: while it would be desirable to have many Fund publications in languages other than English, this is obviously not possible. We agree with the staff's cost-benefit analysis of this exercise and see the current practice regarding such publications as appropriate. As Departments make a decision on availability of the funds for translating and publishing of additional material in other languages, they should discuss this with the countries' authorities and, possibly, with civil society organizations so that to get the best feel for the necessity of such publications.

Priorities and modalities for outreach: we very much welcome the Fund's efforts in enhancing dialogue with civil society, legislatures and the private sector. The contact with civil society has improved drastically in the recent years thanks to the PRSP process and broader inclusion of the NGOs, for example, in the dialogue with the Fund on a wide variety of macroeconomic and development issues. We encourage further such cooperation. In regards to an outreach to the legislature, echoing Mr. Padoan's comments, more needs to be done to improve understanding of the Fund's operations by such important country entities, which frequently pose a significant challenge to the authorities when it comes to passing the IMF conditionality-related agenda. During program missions as well as Article IV consultations, the staff should seek opportunities to meet with legislators and facilitate an exchange of views. We note that the Managing Director has held meetings with legislators of several developed countries, mostly its largest shareholders. While this practice is extremely useful (not least because of the necessity to maintain strong shareholders' support), it would be extremely helpful if the management could engage in a similar relationship with parliaments of those developing countries, where misunderstandings of the IMF policies because of a lack of information can do much harm to countries' development prospects. It is our understanding that during the recent trip of the group of Executive Directors to Central America, such meetings with legislators were very well received and extremely useful. Therefore, the Executive Directors, the management and the staff should make greater strides in establishing such dialogue. Finally, the dialogue with the private sector has been drastically improved in recent years and the Fund's efforts seem to be well received from private sector participants. We commend the staff for this achievement and encourage further enhancement of such communications.

Roles and responsibilities: the EXR staff made several very useful suggestions regarding the roles and responsibilities of different parties related to the Fund, and we have little to add to those. We agree with Mr. Padoan's suggestions related to the role of Executives Directors. In particular, we support the view that we need to have a separate discussion on the role of Board members in external communications and the possible "code of conduct."

Mr. Callaghan submitted the following statement:

Key Points

The paper provides a considerable amount of information on the activities of EXR, but the challenge is bringing all this together in terms of a 'strategy'.

Good external communications will ultimately depend on the depth of communication skills within the organization. We need to do more to improve the oral and written communications, as well as interpersonal, skills of all Fund personnel. A "communications" problem normally reflects more basic, underlying problems in an organization.

While the concept of the Fund's external communications focusing only on one or two issues may be good in theory, we doubt whether it is practical. The range of issues are diverse and the Fund should not be seen to be focusing exclusively on one topic (such as the SDRM, for example).

The key objective is to ensure that clear, consistent and 'right' messages are being delivered in all outside contacts by the Fund. This requires good internal communications, and more needs to be done on this front. We must also avoid being too defensive.

The paper does not address how the Fund targets its communications to meet the needs of different audiences.

The statement that three regions (Africa, Latin America, Middle East) will be the focus of the Fund's communications efforts in 2003 gives the wrong signals. We are concerned that the need to improve the Fund's standing in Asia is not recognized.

Publication of a broad range of the Fund's material into languages other than English would not appear to be warranted. Rather, targeted publication of specific pieces in other languages would appear more beneficial.

It is unfortunate that this is only the third formal Board discussion on external communications since 1998. There would be value in the Board regularly reviewing this issue, perhaps through establishing a Board committee.

A good external communications strategy has to be 'homegrown.'

A good external communications strategy must be homegrown—it ultimately depends on the depth of communication skills within the organization and the extent to which there is good "internal" communications.

For example, the paper refers to the difficulties outsiders have in understanding Fund documents, a result of the number of documents, their length and, in particular, the way they are written—"Fundspeak" (on this latter point, we would note that the use of acronyms benefits the writer of a document, not the reader). The paper notes that the best way of making Fund papers more accessible and readable is to address the problem at its source, and this means recognizing that many Fund documents are not as well organized or well written as they should be.

We fully agree with this observation. But perhaps it goes to the core of what we need to do to have a truly effective external communications—namely, have good oral and written communication skills, as well as good interpersonal skills, across the whole organization. It is one thing to call for greater outreach efforts by management, mission leaders, senior staff, Executive Directors and resident representatives and so on, but this will only have a positive impact if these outreach efforts are handled skillfully and all involved are good representatives for the Fund. The fundamental issue is how to improve the communication skills of all Fund personnel. The paper refers to resident representatives and mission chiefs being provided with media training. This is good, but the task goes well beyond media training. This aspect is not covered in the paper, yet it is fundamental.

Setting out a Strategy

The paper provides a considerable amount of information on the activities of the External Relations Department (EXR), but the challenge is to bring the mechanics of external communications within a well-articulated strategy. Moreover, focusing on the number of outreach efforts, speeches, op ed pieces or letters to the editor, says nothing about whether external communications are effective. The focus should be on the quality of external communications, not quantity.

One way to approach this issue may be along the following lines:

What is our message(s)?
Do we target our audience(s)?
How effective are we in reaching our audience?
What is our message?

The paper states that the objective of the communications strategy is to increase the understanding of and support for the Fund's work. This is fine, but the objective should be further refined to make it clear that the task is not simply one of image building, or even facilitating the Fund's work—it is about helping the Fund achieve its objectives. The ultimate objective of the Fund comes down to helping its members—helping them adopt "good" policies, where necessary providing financial support, providing them with technical assistance, and supporting capacity building. The end goal is achieving sustained growth and in some cases poverty reduction. That is, our objective is not about promoting the Fund, but about helping our members. Article I is not a user-friendly outline of what the Fund is all about. We need to translate this into a language that people can understand

The paper notes that in taking forward the recommendations of the 1999 Edelman report, the first requirement is to select, and maintain, focus on one or a few key messages instead of trying to address too many issues at the same time. This may be good in theory, but is it working in practice? What are the one or two key themes which are the current focus?

Does the Fund have the luxury of ignoring issues that may be important to the interests of members because these are not the current focus of attention? Is there a danger of creating a perception that the Fund is obsessed with a particular issue at the expense of all others (this complaint was often made in terms of the focus on the SDRM)?

Perhaps rather than attempting to focus on a few key messages, it is more important to ensure that consistent (and hopefully 'right') messages are being delivered. With many players inevitably involved in the communication process, good coordination across the organization is essential. There have been a number of initiatives to assist staff in presenting Fund views about recent developments. It would be good to assess how this is being received, whether it is being used and what steps can be taken to improve the Fund's internal communications. This will require active participation by all those outside EXR. For example, we were particularly surprised that only 40 percent of resident representatives responded to a survey on this topic.

However, we should always remember that what is believed to be a "communications" problem may well reflect more basic difficulties within the organization. The problem may not be that the public is not receiving the

Fund's "message", but rather, they do not like what they are hearing. To repeat, the first priority is to ensure that we have the "right" messages to communicate.

Do we Target our Audience?

We would have assumed that a basic principle of good communications is identifying who is the intended audience, then tailoring the delivery of the messages to ensure that it is appropriate for the audience. While different target groups (legislatures, CSOs, academics, general public) are mentioned in the paper, there is no attempt to pull all this together in terms of what it means for the communications strategy. What efforts are being taken to target the message to the different audiences? For example, are there regional differences that need to be taken into account in the Fund's approach to communications?

We were concerned about the apparent narrow regional focus for 2003, namely, Africa, Latin America and the Middle East. While a regional perspective is important (in terms of appropriately targeting and delivering messages), care needs to be taken in identifying priority areas at any one time and to focus on particular regions at what appears to be the expense of others. In fact, we would suggest that with the way three regions have been singled out as warranting a particular focus is a good example of poor communication—the wrong implications are given. With this point in mind, we are concerned about the need to improve the attitude in Asia towards the Fund. This is a pressing issue but would not appear to be even on the radar of the Fund's communications strategy.

How Effective are we in Reaching our Audience?

The external communication strategy is much more than "transparency" or a publications policy. In recent years, much progress has been made in providing information on the Fund's processes and proceedings to external parties and it has undoubtedly brought benefits in terms of a greater understanding and awareness of the Fund. In fact, we have probably reached the stage of information overload. But as acknowledged in the paper, it is not enough to release Fund documents which, as already noted, are often not as well written and organized as they should be. Putting almost everything on the web can only go so far in shaping/changing impressions—impressions that are often formed at a much more visceral/emotional level. Moreover, the target audience for many of these documents is internal, with the style and purpose being driven by the fact that they are a basis for internal discussion and decision-making. They are not written for 'general consumption'. The release of such documents is good from the point of view of accountability but does not necessarily represent an effective means of succinctly explaining policy developments to a broader audience.

Public Information Notices provide a summary of considerations and Board decisions, but these are drafted in a rather formal style and the true meaning and nuances of many such documents may only be evident to those familiar with the internal workings of the Fund and the Board (for example, 'several' Directors as opposed to 'many' Directors). We agree there is a need to make Fund material available in a more user-friendly way by presenting clear summaries and supplementary material that is written in a 'plain' style. As noted previously, it would be best if this was the basic approach adopted for the preparation of all Fund documents. The Facts Sheets currently provided on the website are useful in providing background on the general operations of the Fund and key issues—they are easily understandable and should be more generally accessible to a broad audience than many Fund documents.

Improving the design of the Fund's website would enhance its accessibility. It is a good facility, provided you already know your way around the site and are reasonably familiar with the Fund. The paper refers to possible expansion of material on the Fund's website. As noted previously, the first priority should not be quantity but quality. Careful consideration should be given before adding to the extensive amount of information already available. The questions to be asked include: what should be added that is currently not there; would the inclusion of more material add value or lead to confusion; is there a need to package existing information more effectively rather than to provide extra material; and so on.

Publication in Languages Other than English

The question of publication in languages other than English has been a long-running issue. It ultimately comes down to a cost-benefit analysis—although the costs are well known but the benefits are a little more difficult to measure.

Experience suggests that there is not a high demand for material in languages other than English. The apparent lack of demand could reflect to a degree that we are not providing the right sort of material in other languages. Moreover, the material may not have been marketed as well as it could and interest could build over time. There is also a positive signaling effect in just making Fund publications available in a country's national language.

On balance, however, we feel the publication of a broad range of material in languages other than English is not warranted, although further attempts at quantification is warranted, if only to increase the rigor of the decision. There would be benefits in releasing specific publications, especially well-crafted explanatory pieces, in a range of languages—but such publications should be well targeted. For example, publication of information on the Fund's poverty reduction efforts may be appropriate, given the

importance of the participatory process. To emphasize again, however, the language used is one thing, but what is particularly critical is how the material is written and presented.

Finally, we believe the Fund should be actively encouraging the translation of appropriate documents into local languages by local entities. Where possible, this should be done under formal agreement with suitable disclaimers. This may involve some cost to the Fund, for example, in the time spent by a resident representative discussing issues with the local translator to ensure the understanding of contexts, or the provision of data or tables and graphs electronically for conversion. However, if the judgment is that easier access to documents will provide better and a wider understanding of the Fund's message, then the cost should be worth bearing.

Where to from here?

The Fund's external communications strategy should be constantly evolving, subject to ongoing review and all—including the Board—should be involved. As noted at the outset, it should be homegrown. It is a sad indictment that this is only the third formal discussion on the Fund's external communications strategy in the past five years.

No doubt a range of issues will arise in the course of this discussion. We need a more regular and more inclusive process to take this matter forward. For example, there may be value in establishing a Board committee on external communications.

Mr. Ondo Mañe submitted the following statement:

Introduction

We would like to thank staff for the well written paper which should help us to make progress in improving the effectiveness of the Fund's external communications strategy. The Fund is still facing external communications challenges, although considerable efforts have been made to increase the Fund's openness in recent years. The Fund's visibility in the media is highly variable and characterized by peaks and lows. In recent months, the Fund has received a high media attention, mainly in non-U.S. publications and in languages other than English (Figure 1). This may constitute an opportunity for the Fund to intensify its external communications strategy, particularly in countries that are implementing PRSP/ PRGF-supported programs.

Challenges and Objectives of the Fund's External Communications

The Fund needs to intensify the implementation of its current external communications strategy to further improve its image in developing countries

where it engages in macroeconomic surveillance and reviews of ongoing PRSP/ PRGF-supported programs. The lack of visibility sometimes makes it hard for the populations concerned to understand the Fund's work. In this context, it is clear that a more proactive external communications approach is of a paramount importance to help preserve and enhance the credibility of the Fund. Doing so, the Fund could achieve deeper improvement of its image, and respond to criticisms so as to better present its actions in countries involved.

As regards the Fund's image compared with that of other international institutions, it appears that the Breton Woods institutions trail the United Nations and Red Cross, while between the BWI, the World Bank's image looks better than that of the IMF. Although we agree on the importance that the Fund needs to increase efforts to improve its image, we are not sure that the Fund and the UN are dealing with the same issues. They are not endowed with the same political power in their attempt to convince the public. The situation is similar between the World Bank and the Fund. What is essential, in our view, is how the Fund can make its outreach effective and efficient so as to win the support of the authorities and other stakeholders as well. What counts is to achieve increasing understanding of the Fund's work and the necessary support and make sure that the Fund can exercise its mandate fully.

Indeed, in the aftermath of the Board discussion, in July 1998, and that of February 2000, much has been done to enhance the openness of the Fund, as it has been able to develop a stronger strategy of external communications, focusing on a clearer and sharper message, and to improve coordination of the institution's public output. Since then, the Fund has increased its relations and dialogue with CSOs and NGOs, including national legislatures and trade unions, international labor unions, private financial sectors and the media. The question arises as to which countries the IMF is looking for to focus and develop its external communications strategy. Undoubtedly, a particular focus seems directed at developing countries. We however think that strong actions in industrialized countries should not be overlooked. Not only do industrial countries have a number of financial institutions and NGOs highly involved in the IMF-supported programs countries, but they are also well equipped with media instruments that could help to convey very quickly appropriate information. Industrialized countries also are interested in the IMF involvement in member countries' economic issues.

Improving Outreach and Dialogue

Outreach and dialogue can help substantially improve the Fund's external communications. In our view, this role can be shared by the resident representatives assigned in the countries, the heads of mission, and management. Although we acknowledge that the time they can devote to this exercise is limited, the Managing Director, as Chairman of the Executive Board and head of Fund staff, along with his Deputies could contribute

markedly to deliver the Fund's messages through public speeches, briefings, and interviews. However, some difficulties persist. For example, in the private sector, sometimes it appears that the staff might not find it appropriate to speak, while the resident representatives may be hesitant. Furthermore, for press conferences, it is not always clear what can be said and what cannot. We strongly believe that it would be more productive to keep the language non-technical and the message well-focused. The Fund should improve the public's understanding of its work.

We share the view that the Fund should engage in outreach and dialogue "to listen and learn as well as to inform and persuade." It is clear that successful programs could improve significantly the IMF image. It is also important that during program implementation the Fund should try to understand what the criticisms that it faces are and be committed to correcting them. The ideological antagonism that emerges often during program negotiation could be conducive to a lack of frank and candid dialogue.

It is important that the Fund "takes into account the views of its critics as well as those of its supporters in revising and improving Fund policies, practices, and advice ". In our view, it is essential that the Fund take into account the need and concerns of the authorities who sometimes are faced with very difficult situations related to the country's environment. They know better than anybody the current social and political developments in the country. The mission, particularly the head of mission, has an important role to play during the discussion with the authorities. A Fund mission that is visiting a member country for program negotiation triggers a great deal of expectations from the authorities, the civil society, and the population in general. On the other hand, more transparency and efficiency, improved cooperation, and coordination should take place between the staff and the Executive Directors' Office to better share information they may have on countries of their constituency. There is a need to develop a training course for staff involved in the fields on how to communicate effectively with journalists, NGOs and populations; and we agree with the mandatory training for new mission chiefs and resident representatives. Executive Directors have also a critical role to play in countries of their constituencies in explaining the work of the Fund and member countries responsibilities.

IMF Website, Publications, and Languages

The IMF will need to improve the accessibility of the Fund's documents and publications. The website is very useful but we are concerned by the limit of its scope. We strongly encourage Management to increase website information in other languages in order to attract more people. We agree with publishing on the website press briefings, the Economic Forum series, and other seminar events. Other Fund publications might also be translated in various member countries' languages. Translations will involve

additional expenses, but they will contribute to a better understanding of the Fund's work and policies.

Conclusion

The country authorities also could be involved much more in external communications. They are in permanent contact with the Fund and they have a good knowledge of their population expectations. In this context, they should play a proactive role in strengthening the effectiveness of the external communications together with the staff. We appreciate the efforts made by management by creating the Media Training followed by the more improved Mission Training. Staff training in external communications needs to be intensified and performance in the field should be evaluated. To this end, the IMF front office and senior staff of area and functional departments will have an important role to play in monitoring the performance and behavior of the mission in the field. We think that, in view of the importance of their work in the countries, the function of the resident representatives should be strengthened with more local and IMF staff so that their communication skills be upgraded. As regards the role of the mission chief, it becomes more important, due to the high expectations raised in PRGF-supported countries with ownership, transparency and participatory process, that he has to communicate often with the authorities, press and other stakeholders so as the expectations remain realistic. The best outreach and dialogue depend on the head of mission. Furthermore, enhanced cooperation should take place between the mission and the country staff so as to build a true and friendly advisory relationship.

It is also important that the Fund considers, to some extent, the political and social dimensions of situations they see in the field, since political developments can often explain a number of economic and social behavior, particularly in developing countries. We think that some social and political information on the countries could help understand major developments as regards a number of decisions taken by the authorities and the economic objectives that they support.

Mr. Yagi and Mr. Miyoshi submitted the following statement:

Key Points

Too much published information could risk becoming an impediment to a better understanding of the Fund unless the information is tailored towards the needs of different audiences. If documents are to be published, Management and staff should ensure that they are accessible and easy to understand even while they are still only for internal use.

Non-EXR senior staff members should become involved more in external communications. Strong incentives should be provided to do so, for example, by attaching more importance to their external activities in evaluation of their work performance.

Although strengthened dialogue with civil society organizations (CSOs) and parliamentarians will generally contribute to improving understanding of the Fund's work, there should be a clear understanding of the aims and effectiveness of communications with CSOs. Staff should also be sensitive to recognize the differing relationships between the legislative and executive branches among members, and should respect the views of the Executive Directors concerned with regard to a dialogue with parliamentarians.

Language can be a serious obstacle to improving understanding of the Fund's work in non-English speaking countries. The Fund should attach importance to external communications activities in different languages, at the very least to explain the Fund's role in the international community and the core principles of its policies.

We highly appreciate the staff paper, which comprehensively discusses the current situation and issues concerning the Fund's external communications policy. We are pleased to see favorable developments, including a significant change in the perception that the Fund is secretive following the Fund's strengthened transparency policy, and swifter and more effective response to criticism of the Fund thanks to the commendable efforts by the Management, Mr. Dawson, and other senior staff.

Improvement in external communications is indispensable to the effective implementation of the Fund's operations. This chair broadly supports the staff's view that there is more room for improvement in the Fund's external communications, and the work underway for this objective. We will therefore limit our comments to the points outlined below, for emphasis.

As staff points out, we should be realistic about improving the relatively low popularity of the Fund in view of the nature of the Fund's operations and the situations in which the Fund becomes most visible to the media. In this regard, we share the staff's view that improving understanding of the Fund's work and the credibility of its policies is more important than increasing the Fund's popularity per se.

While we believe increased transparency has greatly contributed to a better understanding of the Fund's work, particularly among outside experts, too much information could risk becoming an impediment to a more widespread understanding of the Fund by non-experts unless the information is tailored towards the needs of different audiences. Therefore, in addition to

focusing on key messages, it is important that, when documents are to be published, Management and staff should ensure that they are structured in such a way as to make them accessible and easy to understand even while they are still only for internal use. This attention does not, of course, mean sacrificing candor in the staff's analysis and advice. For example, executive summaries of staff papers, as well as press releases and PINs, should explain the background and context of the issues. Staff should use clear language and avoid jargon as much as possible in these documents.

We believe that staff, especially EXR, has made substantial efforts to strengthen internal coordination aimed at improving the Fund's external communications. The Fund has a good reputation as a well-coordinated institution with regard to its response to outside audiences, and it is important to maintain this strong point. We think that it is desirable for non-EXR senior staff members to become more involved in external communications by acting as the Fund's spokespersons. It is important that strong incentives be provided to staff at the division chief level and above to do such work. For example, assessment of their external activities should be an important aspect of the evaluation of their work performance , in addition to leadership in economic analysis and managerial skills in internal operations. As for making use of resident representatives for external communications, staff should be careful about ensuring smooth internal communications between resident representatives and headquarters, in order to avoid any possible discrepancies of views and misunderstandings.

Generally speaking, strengthened outreach activities towards civil society organizations (CSOs) and parliamentarians will contribute to improving understanding of the Fund's work among a wide range of people. However, communications with CSOs should be selective and there should be a clear understanding of the aims and effectiveness of such activities, since the number of these organizations has increased rapidly and some CSOs are ambiguous about their objectives. Concerning the dialogue with parliamentarians, staff should be sensitive to recognize the differing relationships between the legislative and executive branches among members. Greater exposure to parliaments may not always be a good thing because it could run the risk of increased political pressure on the Fund from MPs. Staff should respect the views of the Executive Directors concerned in carrying out such outreach activities. In any case, flexibility will be necessary with due attention paid to the national sentiments of each member country.

Executive Directors could play a role in external communications, for example through meetings with the local media in the local languages and through participation in regional groupings of authorities and peoples from other sectors to explain the Fund's policy. It should be noted, however, that Executive Directors are responsible for reflecting the views of the authorities of the members of their own constituencies, at the same time as being

members of the Fund's decision-making body. As for Governors and Ministers, it would be difficult for them to speak on behalf of the Fund in most cases because they are essentially representatives of their own government. However, they should not to try to make the Fund a scapegoat during program negotiations for political reasons.

Our final comment concerns publication in languages other than English. The costs associated with the translation of documents are certainly significant, and there is low demand for documents in languages not widely used in a number of countries. Therefore, we understand the substantial difficulty regarding external communications in languages other than English. Moreover, most of those who access technical and detailed Fund documents are experts in areas covered by the Fund and understand English. However, for the general public in many countries, language can be a serious obstacle to their understanding of the Fund's work. We therefore suggest that funds should be allocated in the Budget to ensure that, at the very least, the basic information about the Fund's role in the international community and the core principles of its policies is available in a number of languages. Also with regard to external communications in general, we believe that the Budget should be reviewed if necessary, given the critical importance of external communications to the Fund's ability to implement its operations effectively.

Mr. Portugal and Mr. Rambarran submitted the following statement:

We welcome this opportunity to examine the recent progress made by the Fund in external communications and the possible next steps to improve the strategy, and thank the staff in the External Relations Department (EXR) for the report.

Since 1998 the Fund has made a concerted effort to improve its external communications. The Executive Board has discussed the issue twice and has established general guidelines for the communications policy. A number of external studies were commissioned in 1999. The staff of EXR, which was stagnant at about 61 persons from FY 1995 to FY 1997 experienced a substantial increase to 90 budgeted positions in FY 2000. The performance of EXR has been excellent in terms of providing more information to the public, developing a more user-friendly external website, providing regular briefings to the press, writing op-ed articles and material for media publication, participating in more seminars, and engaging in structured relations with critics of the Fund.

Yet, despite these efforts, the Fund's external image has not improved significantly in relation to a few years ago and continues to trail those of other international organizations, including the World Bank. In developing countries, the Fund is often seen as an institution dominated by the major industrial countries, that acts as a disciplinarian of poor countries imposing on

them fiscal and monetary strictures to the benefit of private financial markets, contributing to worsen recession and unemployment. On the other hand, in industrial countries the Fund is sometimes seen as an ineffective international bureaucracy that wastes taxpayers' money by helping developing countries that do not want to adjust, becoming an instrument to promote corporate welfare, and increasing moral hazard. Certainly these images do not correspond to reality, but unfortunately, in today's world, perceptions are almost as important as realities. EXR has done a very good job and is not to blame for this situation. However, we should ponder on the reasons for the Fund's unfavorable public image and on ways of changing it.

The staff paper argues that such an image is partly associated with one of the jobs that the Fund performs, namely to help countries during crisis situations when painful, often delayed, measures have to be adopted. The paper hence argues that the mandate of the Fund inevitably place limits on its popularity, and makes success in communications to be modest and incremental. There is certainly truth and merit in this argument. It is also possible that public images take longer to change, and that the Fund is still to reap more benefits from the increased communications effort initiated in 1998.

However, there might also be other reasons for the Fund's poor image. Even if the mission of helping countries in crisis is not an easy one, it does not necessarily condemn those that perform it to an inevitable misunderstanding. Therefore, it is important to keep conveying the message that the Fund's policy advices are not arbitrary impositions, but are part of a necessary adjustment process and that the Fund's financing, in fact, diminishes the size of the needed adjustment. But the Fund also needs to consider whether its bad image is partly a reflection of its own mistakes and whether there might be some elements of truth in some of the critiques, such as, for instance, the criticism that the Fund is too much under the influence of powerful countries. As the paper suggests, in its communications strategy the Fund should listen and learn as well as inform and persuade. We certainly agree with that and maybe the Fund needs to do more listening and learning. It would certainly bode well for the Fund's public image and accountability if the institution would more openly and willingly acknowledge its mistakes.

Since the staff paper suggests that part of the bad image is associated with the mission of helping countries in crises, another way to try to improve the Fund's image could be to focus more the communications strategy on the purposes of the Fund other than its mission to help countries in difficulties. The IMF was created to be the main international forum for consultation and collaboration amongst countries on international monetary and financial issues. Ideally, it should be the main forum for macro-economic policy coordination amongst the major industrial countries, and this would give developing countries an opportunity to provide inputs, and to influence the

macroeconomic policies of major industrial countries, which largely determine outcomes in the world economy. We wonder if there is scope for the Fund's role in keeping the stability of the international financial system, in multilateral surveillance and bilateral surveillance of major industrial countries, to be more prominent in the communications strategy, as a way of trying to improve the Fund's image.

The objectives of our external communications strategy should be to provide accurate information about the Fund's activities projecting a truthful image of the IMF, to correct misperceptions, and to influence markets and public opinion as a means to achieve the Fund's purposes, while avoiding, at the same time, press and communication incidents.

There is a natural tension between being more proactive in external communications and avoiding press incidents. These incidents may be particularly troublesome on country matters, which are usually difficult to correct and can be costly for relations between the Fund and the country concerned. We, therefore, welcome that training is been provided to staff on how to interact with the media. While this is very important, notwithstanding such training, the risks of mistakes are large, since even experienced politicians sometimes cannot avoid the pitfalls of contacts with the media. Therefore, we also welcome that a set of "Media Guidelines" for staff has been prepared and would be interested in knowing what those Guidelines currently are.

Although at the risk of presenting obvious suggestions that are already applied, we would like to suggest some guidelines with respect to public communications on country matters for consideration and eventual adoption by EXR. First, no Fund officer should speak to the press anonymously or off-the-record. Second, Fund officers who do not have specific responsibility for a particular country should avoid speaking publicly on matters related to that country. Third, Fund officers who speak on-record to the press on country matters should not express personal views, and should limit themselves to views that have been previously approved or endorsed by the Executive Board or by Management. Fourth, Fund officers who present personal views on country matters in seminars or on staff papers should always make an explicit disclaimer that their views do not represent the Fund's view. Fifth, whenever the press publishes a country matter that does not represent the views approved or endorsed by the Executive Board or by Management, or whenever the press publishes personal opinions of Fund officers on country matters without the disclaimer that these are not Fund views, the EXR, if requested by the Executive Director concerned, should put out a press line stating that that matter does not represent the view of the Fund. Sixth, it is always useful for staff before speaking to the press on country matters to inform the Executive Director of the country concerned and to seek his or her counsel.

We have serious misgivings about the use of resident representatives for a proactive communications strategy. There have already been press incidents with resident representatives in countries of our constituency. Resident representatives perform functions similar to those of ambassadors and, in fact, have the same privileges as foreign diplomats. Their main function is to represent the Fund to the authorities. They should be extremely careful in media contacts, preferably limiting themselves to factual information, and, in principle, avoid expressing views publicly on affairs of the country where they are serving.

We broadly agree with most of the steps that might be taken to improve the efficacy of the Fund's external communications strategy. We need to keep messages short, simple, and accessible to targeted audiences, while remaining consistent with the Fund's mandate. The message must also be credible. Any communications strategy is only as good as the product or idea it is promoting. We also agree on the need to be more proactive in explaining more simply and clearly what the Fund is doing and why to legislatures, the private financial sector, civil society organizations, and prominent critics. Of course, contacts with legislatures and CSOs should always be cleared with the authorities beforehand. It is important also to broaden the reach of the Fund's communications, expanding our external website especially in non-English language media where the Fund's visibility is near peak levels.

While we see merit in outreach efforts in which the Fund is willing to listen, learn and change if warranted, outreach efforts in order to lecture should probably not be undertaken, to prevent further alienation against the Fund. In that regard, the report documents the frequency of interactions between Fund missions and domestic actors other than finance ministries and central banks, and makes a judgment about the merits of those interactions based on the opinions of staff. What seems lacking are the opinions of staff's interlocutors regarding the benefits of those interactions. Along the same lines, while we concur with staff (paragraph 36) that it is important for the Fund to provide training opportunities for legislators, we also see substantial merit in the staff receiving instruction on how the polity operates in different countries.

We do not agree with the conclusions of the Task Force on the costs of translation of Fund papers. The Task Force should explore the possibility of outsourcing translation services to translators located in developing countries where the costs of translation are a fraction of the costs in the United States. Translating more documents into the native languages of member countries may be a powerful instrument to improve the Fund's image. We would like to share a fact stemming from recent experiences in some countries within our constituency. A recent book by a world-class academic in which the Fund is severely and, in many instances, unfairly criticized has nurtured the domestic

debate on international development and financial issues precisely because the book has been translated from English, and made available to a larger audience. In that sense, we might want to consider translating important policy documents, not under a blanket-policy of expensive and sometimes useless translation, but on a case-by-case basis, using less expensive translation options.

It is possible to spend as much time evaluating communications strategies as it takes to actually implement them, but perhaps staff could indicate what are the key performance indicators to evaluate how well the Fund is succeeding in its external communications efforts.

Mr. Oyarzábal submitted the following statement:

At the outset, I would like to thank staff and management for the comprehensive report before us today. It surely brings out the significant steps that this institution has made in outreaching to the public at large, making itself more transparent and offering valuable information relating to the work of the Fund. Now, I believe we are beginning a new stage in the communications effort, one that can build on the past effort and that hopefully will help consolidate the initiative of the past three years, as well as focus more efficiently in strengthening the understanding of the mission of this institution and how it works, while further promoting a more favorable public image.

It is important to recognize the wide-range effort at strengthening the external communications strategy that already is part of the culture of the organization. Without going into too many specifics, as they are well laid out in the report before us, it is necessary to mention that considerable steps have already been taken to improve the availability and accessibility of Fund information and messages. Also, there has been increasing dialogue with legislators, private sector and civil society organizations, in a manner that promotes trust in the fund by listening and learning as well as informing and persuading. One of the most effective mechanisms in this outreach has been the use of the Fund's external website. One cannot ignore the role played by the different actors in these efforts, including the Managing Director, area department heads, mission leaders, as well as the resident representatives.

Now, it is time to look forward, and in that respect, I would like to suggest that more frequent evaluations of the external communications strategy be brought forward for the Board's discussion. Although it is clear that the effect of a communications strategy usually obtains results in the medium term, it is worthwhile to have more frequent follow-ups on whether pre-established goals of the communications strategy are getting closer or not. Secondly, I believe it is also useful to take into account the contribution of the external consultants of Adelman Public Relations WorldWide and Wirthlin

WorldWide to this initiative, which was presented for discussions in July 1999. This tool, which surveyed the Fund's image as well as the issues relating to different populations throughout the world and their understanding of the Fund and its functionings, could still be useful in looking forward. One would suggest that it might be necessary to update and repeat this analysis to evaluate whether the perceptions of 1999 with respect to the Fund are still valid today and should they be addressed as part of the future communications strategy of the Fund.

With respect to the Web page, I would like to make two comments: I agree that it should be made more efficient, basically because there is a huge volume of information available to the user and in some cases, pieces of isolated information—for example, in relation to countries references—which are not so useful for the user. Also, I believe it is important to take into account the institutional as well as the geographic distribution in the demand for the use of the Web page. It is feasible to think that for many countries in the world, only a few institutions, in each case, would have access to this means. This would entail to make the services more user friendly and, if my assumption is correct, develop a strategy to address communications in those countries that have limited access to the Web page through other mechanisms. Here, in effect, the possibility of accessing the web page in languages different from English would certainly be a big step forward in establishing user-friendly policy on this mechanism. In any case, as the value of information in some quarters is perceived as extreme, emphasis should be placed on the quality of information. It should convey a message, be readily understandable by different audiences and stress the effectiveness, responsiveness and balanced attitude of the Fund in dealing with members countries.

Relying again on the report of the external consultants, it is quite striking that the most significant result of their effort is the view that there is a "General Lack of Understanding of the Basic Mission of the Fund. Moreover, the Fund's Policies are thought likely to harm the country in which they are implemented as to help it, and the Fund is viewed as insensitive to the social and political ramifications of its policies". This view cannot be taken lightly and I believe it raised some questions which must be addressed in our future strategy. If there is a general lack of understanding about the basic mission of the Fund, how can the public at large—whether they are legislators, private sector or civil society organizations—appreciate, understand and value the type of information that is currently being distributed or presented to them? Staff's comments would be welcome.

It seems logical that if these audiences were educated and knowledgeable of the mission of the Fund, they might then be able to have a better understanding of the institution and value the information supplied accordingly. But there is still another aspect relating to the efforts in

communicating different issues the Fund has been dealing with. This relates to the language used in communications because most, if not all, of our present output of information is of a highly technical nature and pretty surely it cannot be understood by those audiences that I have mentioned before. Again, the use of languages different from English could be very helpful.

It is not clear from the paper if we have identified and agreed upon a clear message that should be sent out to the different audiences. Moreover, one would have to ask if through the different actions taken in promoting better communication so far, they have not been focused on a specific message. Not withstanding the significant volume and technical information that has been distributed, there appears to be an absence of a clear focus message to be sent by the institution. One that can be understood by the general public.

In fact, I believe that looking forward that clear message should be identified, agreed upon and put forward to the different audiences. The content of that message should clarify the Mission of the Fund and how the Fund's Policies help member countries, while taking into account social and political sensitivities. The quality of the message, which relates to the content as well as the language, would have to take into account the different audiences targeted. Today's output from the Fund probably reaches, in a favorable way, informed and educated audiences aware of macroeconomic policies and their complexities. But possibly, in many member countries, even at the decision making levels, one cannot accept this situation as a matter of fact and therefore, the message has to be adequately treated to take into account the audience to which it is addressed. Moreover, the message must be proactive, must be constant and should be assessed to measure if the desired understanding and/or image is being attained.

Mr. Reddy submitted the following statement:

The Fund has made dramatic improvements in its communications strategy in the recent past, specially after the Asian crisis. This has notably been achieved through changes in both the Fund's message as well as the way we communicate. Significant policy changes made including in the areas of transparency, evaluation, dissemination of standards and codes have enhanced the quality of our message. Such an enhancement has been accompanied by significant changes in the medium. A range of instruments including the exhaustive web site, the wide variety of the Fund's high quality publications and the conscious outreach efforts to cover different stakeholders and opinion makers have contributed significantly to these successful efforts. We would like to commend all the persons involved in the implementation of the Fund's communications policy and in particular Mr. Dawson. A necessary condition for the continued enhancement of our communication is continued

improvement in substance accompanied by continued sensitivity to the concerns of member countries and other stakeholders.

The staff document, while providing a variety of detail underlying the communications effort, raises a number of interesting points. While we have noted the issues which are administrative and managerial in nature, we would like to confine our comments to those issues, flagged in the paper, which have a bearing on the principles and strategies required to underpin the communications effort.

A central issue is the one relating to internal coordination. On country issues there are three important players involved in the communications effort—the Area Department, the Resident Representative and EXR. In our view , improving coordination should simultaneously be an exercise in balancing the demands of decentralization—for the appropriateness and credibility of the message it enables; with the requirements of centralization for the uniformity and consistency of the message which it provides. By the very nature of the institution and the diversity of its membership, a decentralized approach has much to commend itself. Improving coordination is also an exercise in balancing three important issues—communications, facilitation, and accountability. Accountability and communications credibility can be enhanced if the persons directly involved in fashioning the message are also involved in its communication. We therefore agree with staff that communications policy should not be the responsibility of EXR alone and should be visibly shouldered by senior staff of area and functional departments as well as Management. While not detracting from the excellent role it is performing , perhaps EXR should progressively work as a facilitator––organizing and creating an environment conducive to the Fund's interaction with the outside world and the primary actors implementing the Fund's communications policy should be Management and senior staff. This will ensure that external feedback/ criticism is received and acted upon by the persons involved in the formulation of policies /programs, and perhaps will enhance the credibility of the message to be delivered. We note that to some extent this is already occurring in some departments in the Fund and would urge that this practice be broadened to cover all the operating and policy departments. To ensure this, the incentives for senior staff to directly participate in communication efforts as well as to cooperate with EXR may need to be strengthened.

The document identifies a number of interest groups with whom the Fund has initiated outreach and dialogue exercises. While we support the ongoing outreach efforts, it is necessary to recognize that the primary focus of the Fund's message must continue to be the member country's government institutions and policy planners to ensure that their ownership over domestic macroeconomic policies is complete. Given such an environment, we believe that member countries will automatically respond to create synergies. As an

example let me quote the case of India. After the Union budget was presented last week, a leading Indian financial daily in its editorial pointed to the possibility of the government of India taking on IMF assistance to improve select monitoring systems. Here we have a case of good communication at work—a need is expressed and a possibility of IMF help articulated, without the IMF being seen as actively offering its services.

Three issues in the effort to engage with legislatures, the private sector and civil society are of concern (a) We must ensure that in the outreach exercise, the Fund does not even appear to undermine the role of national authorities (b) The inter se priority to be accorded to each of these groups, and within a group needs to be decided, depending upon the context and the country, e.g., in the case of democracy-based polities, the national authorities may need to be consulted while deciding upon the credibility of such groups. (c) The Fund's expository material such as documents, pamphlets, press releases may need to be adequately differentiated and further refinements introduced to respond to the specific concerns of different interest groups and regions. Further, the intensity of the Fund's outreach/dialogue efforts need not be decided solely based upon the level of formal and existing interaction such organizations have with the Fund.

Due care needs to be adopted while specifying the role to be played by Executive Directors, given their responsibilities. We feel that Executive Directors can play a constructive and active role in generally explaining, within their own constituencies, the Fund's activities in their constituencies, policies as well as the messages which emerge from deliberations like the IMFC meetings. In other country cases, EDs may have to play a more limited role for two reasons. First, because they are not privy to all the background information as well as the latest developments. Second, there is a possibility that different Executive Directors may provide varying emphasis on different issues.

For issues relating to their own constituency, Executive Directors could be assisted in several ways. In this regard , we welcome the setting up of web sites by the Resident Representatives which includes an account of the outreach efforts made by them. The New Delhi web site is an excellent example of a relevant and updated web site. In this connection, we would like to emphasize the need for the Resident Representative to represent the view of the member country in the Fund as strongly as he voices the converse views and necessary incentives to achieve this should be put in place. We feel that improvements can be made in this area of communicating members view points to the Fund, as part of the two way communication process.

The staff document mentioned the present exercise as an effort at stock taking. In fact this is an excellent review, and it is important to periodically review the Fund's communications strategy to adjust for the changing

circumstances and emphasis. The proposal to set up a Board sub committee on communications policy, as suggested by Mr. Bennett in his preliminary statement is perhaps worth pursuing.

The Director of the External Relations Department (Mr. Dawson) made the following statement in response to questions and comments from Executive Directors:

We have received a very interesting set of preliminary statements. They contain both kind words on the progress made in advancing the Fund's external communications strategy, and constructive suggestions on how to do things better. On behalf of my staff, other staff involved, and myself, I thank everyone for their contributions.

On the overall strategy, there does seem to be wide support for the general direction proposed.

I will just make a few particular points in response to Directors' statements so far.

With regard to setting out a clear mission statement, a suggestion made by Mr. Bennett, Mr. Callaghan and Mr. Oyarzábal, we agree that Article I, while containing nearly all of the right stuff, is not written for the lay person, nor in the prose of the 21st century, and that it should be "translated" into a user-friendly mission statement for the Fund. We will work on this.

With regard to focusing on a few key messages, most Directors favor doing so, although it can be difficult to accomplish, and it is important not to neglect other messages by concentrating too much on just those core ones, as Mr. Callaghan has emphasized. The Edelman report emphasized that trying to convey too many messages at once creates a muddying and confusing picture, especially for journalists, who need to be carefully guided. The two views can be reconciled, at least in part, by adjusting the focus for regional differences and for specialized audiences.

With regard to admitting mistakes and touting successes, we agree that admitting mistakes is important for enhancing credibility and should be done early when possible. We also agree on touting successes, and have made efforts in this direction, but it is hard to get media coverage for success stories such as good work done on more regular activities like surveillance, technical assistance, and research. Nevertheless, we have made efforts through such things as media outreach in connection with the WEO and the G-7 Article IV consultations. The "public good" nature of surveillance is acknowledged, for example, in the commentary on the recent U.K. Article IV consultation that appeared in the Financial Times. However, we have to be modest in hoping that the media and other public audiences will consistently pay attention to surveillance and other less glamorous subjects. As a prominent media scholar

noted, the media has a bias toward covering deviant behavior, the phenomenon referred to in local TV as: "If it bleeds, it leads the news." The charts in the paper demonstrate how interest in the Fund rises at times of crisis.

Several Directors commented on or raised questions regarding the targeting of our communication efforts by region, and the need to differentiate between industrial and developing countries, as well as between developing countries, program versus non-program countries, and by whether the audience is made up of parliaments, civil society, or others. We take Mr. Callaghan's point that we should have made clearer that mentioning three regions in the paper does not mean that we are neglecting external communications in other regions. In Asia, in particular, we coordinate with APD on a regional strategy and we have been doing considerable outreach which will continue in the months ahead. Regarding targeting communications to specific audiences, we do differentiate our approaches to audiences, for example in terms of complexity of presentation.

We generally agree with Directors' comments on the need for a culture change within the Fund to get non-EXR staff more engaged in external communications activities. However, we would be interested in further comments by Directors on who should do what, with what guidance. It may require a sea change in the culture of the institution, but I think many of us do favor that.

In terms of measuring the effectiveness of our efforts, surveys are perhaps the most important means of doing so in a somewhat systematic way, but consultants and surveys tend to be expensive, especially when many countries are covered. The Wirthlin survey cost approximately $400,000 and the total Edelman/Wirthlin consultancy was about $700,000. Nonetheless, it may be worth doing something similar in terms of surveying in the next year or two.

On a related question by Mr. Portugal about key performance indicators, we consider that the polls have limited reliability and utility. More useful indicators can be found by differentiating by audience and country or at least by region, as was done in the Wirthlin survey. Short of that kind of research, we must rely on less formal and less direct indicators. We monitor press coverage and commentary, for example; we monitor comments made by NGOs and others, including formal and informal statements; and we compare notes with area departments, mission chiefs, resident representatives, as well as with Executive Directors.

We agree on the desirability of more frequent reviews by the Board. It is true that this third review of external communications in the last five years is also only the third in the Fund's entire history. We would welcome annual

reviews, as well as more frequent informal seminars with the Board on specific topics, not unlike the seminar that we had recently, though perhaps focusing on a particular topic may be more mutually beneficial.

In terms of making efforts to write in plain language, English or otherwise, and to provide simple explanatory materials about the Fund, we agree that there is a need to build on what is currently produced for general audiences—for example op-eds, economic issues papers, fact sheets, or videos. We must also consider how to distribute those products better.

On outreach issues, there is broad support among EDs for the steps taken to expand outreach. Mr. Portugal asked about the opinions of staff's interlocutors among CSOs in the press on the benefits of interactions with them. We have some evidence on this. Ann Pettifor, for example, of Jubilee 2000, which is now Drop the Debt, was quite complimentary on the way the Fund invited outside opinions into the SDRM proposal. She described it as, "open and transparent and participative," and she added that she would, "like to congratulate the Fund on that, because I think it indicates a degree of intellectual confidence, which is very welcome." John Cavanaugh, another critic whom we invited to an Economic Forum, was also complimentary, saying, "I am a big fan of this form of discussion, of open debate, of respectful debate, and I have already been able to spend a bit of time with the other panelists and have already learned a great deal." I should add that one Executive Director, Mr. Bennett, has done his own research on the question, with results that seem encouraging. Mr. Bennett says in his preliminary statement that, "from our own survey of major correspondence, the press conferences are much appreciated and seen as an important source of up-to-date information and as an opportunity for the Fund to better explain itself and the action it is taking. Also, the NGO community has a much better appreciation of the Fund's objectives, constraints, and accomplishments as a result of increased transparency." That said, we agree with the many Directors who have noted that we need more of a cost-benefit analysis on civil society organization engagement. There is no point in engaging those who show no interest in a genuine dialogue or who appear to have a strong stake, financial or emotional, in being permanent Fund critics.

There appears to be general support for more engagement with parliamentarians, but with due care to national differences in consultations. We agree on this point. I would note that, in the last three years, one can detect a shift in the balance of our efforts slightly away from civil society organizations and NGOs, and in the direction of parliamentarians.

In terms of outreach to developing countries, an issue raised in Mr. Lushin's statement, we have done seminars in Kenya and Zambia in the past year. Additional seminars in Africa are planned for this year. The Managing Director has had meetings with parliamentarians during his trips in

developing countries. For example, he met with the Chilean Senate Finance Committee during his visit late last year to Latin America and with parliamentarians from Tanzania in his visit to Africa last year.

On the role of resident representatives and mission chiefs, some Directors want resident representatives to be ambassadors, keeping themselves above the fray; others want greater immersion by resident representatives in the local milieu. I think more views and guidance would very much be appreciated. Regardless, we would agree that each resident representative's terms of reference should be explicit in what is expected from them on the communications front, and should be tailored to the characteristics and needs of the region.

Mr. Portugal asked about media guidelines. Media guidelines are a part of a communications guide issued a couple of years ago. The guidelines describe the overall communications strategy of the Fund, Fund relations with the media, and institutional support for staff outreach to the media staff. They contain specific guidance for mission chiefs and resident representatives, including such details as how to conduct an interview. We would be happy to share the communications guide with Directors.

With regard to the website, we thank Directors for their complimentary remarks and do agree that, going forward, we need to focus as much on the quality of what we are posting as well as on the quantity.

On the issue of non-English languages publication, some seem happy with the status quo; others want more. Our goal was to raise awareness that the costs are not trivial and thus the benefits need to be carefully considered. We will seek opportunities to expand selectively and cost effectively, but the scope to do so with current budget resources is quite limited. Mr. Portugal asked if we could outsource the translation jobs to sources in developing countries. We understand from TGS that they are indeed aware of the cost differential between freelance translations performed in industrial countries and those performed in some developing countries, and they are using this market as much as possible. But the ability to outsource is limited by three factors: quality, confidentiality, and timeliness. Of these, quality is often the driving consideration. It is not easy to find qualified translators who can produce translations of the quality required by the Fund. Our documents contain materials that are highly specialized and complex, which even good translators cannot normally handle without significant training and experience. I cannot resist reporting a conversation I recently had with Mr. Hino of the Office in Tokyo, who told me that he thought that it would be a useful exercise to try to translate parts of the Japanese Article IV consultation into Japanese, but then realized that not even he was up to the task. Bluntly, he said that the English was in such a fashion that it could not be translated into any kind of Japanese, either. So, I think there are limits.

Finally, we did consult with TGS and the Bureau of Language Services on this issue. If draft translations have to be revised, the cost also can become prohibitive, and timeliness can suffer. Nonetheless, we will continue our efforts to identify good translators who can help us cope with an increased demand while keeping our costs down. I believe Language Services is outsourcing some 50 percent of the translation demand to both industrial and developing countries, and of course we agree with the case-by-case approach recommended.

Mr. Egilsson made the following statement:

I would like to congratulate the external communications people for their successes in the last few years. We have seen a significant improvement in the Fund's external communications. Also, the Fund's transparency policy has been positively developing in the last few years, and the Fund's documents have been increasingly disseminated.

We, in our recommendations, would like to emphasize that the Fund tries to highlight a few key issues at any given time, not to spread over too broad an agenda. We also support the Fund's rapid approach to unbalanced and inaccurate stories. We encourage the Fund to publish op-eds, but it is essential that all external communications are vetted by the External Relations Department in order to secure that the Fund is seen to have a coordinated view on critical issues. That should, of course, not exclude the debate that is outside the Fund on Fund matters; I think this kind of debate should be encouraged. But what comes from the Fund itself should be seen as a coordinated view, describing conclusions that have been made. The website of the Fund is excellent, and quite informative.

On other issues, we welcome very much the outreach to legislatures, the private sector, and civil society. We think that the outreach to legislatures involved in policymaking can be particularly productive and, accordingly, we would like to emphasize the importance of a more sustained and systematic outreach to parliamentarians, including conferences, seminars, regular briefings, and the maintenance of contacts by country teams of resident representatives.

As a parliamentarian in my previous career, I can say on this that parliamentarians do not usually like to be told what to do, but they are very much open for dialogue. I would strongly recommend this institution to organize parliamentary conferences and bring together parliamentarians from many members, preferably from all the members of the IMF. If successful, this would make parliamentarians both more aware of the importance of the work of this institution, and also make them stakeholders in the whole work that is being done here. Such conferences should be organized in such a way that they would be both informative for the parliamentarians, and also create a

forum where parliamentarians would be able to express their own opinions and enter into a dialogue with the staff and the representatives of the governments involved.

Now, in order to increase public awareness and understanding of the Fund and Article IV consultation missions, we recommend that mission teams would hold a press conference or give press interviews in the country in question immediately after conducting a mission. This has been done already for a couple of years in many of our countries, and we have found it a good way to increase public awareness of the Fund's work in the respective countries.

Ms. Indrawati made the following statement:

I thank staff for preparing a comprehensive set of document which reviews current implementation of the external communications strategy and provides wide range of issues for today's discussion. Over the past few years, significant steps have been undertaken to successfully improve the Fund's external communications strategy. In this regard, availability and accessibility of Fund information and message has been extended to meet the need of the public, authorities and private institutions etc. Notwithstanding significant progress mentioned, there is still more room for improvement in the Fund's external communications.

Availability and Accessibility Should be Increased.

One way to improve public understanding of Fund's policies is by improving its visibility particularly in its coverage by print media. Current occasional coverage including in conjunction with certain events such as the Annual Meetings is insufficient. Write-ups about the Fund and its policies that should appear in print media have to be regular, focused on key policy issues and written in the most user-friendly language. In addition, the important IMF publications should be made available even in the major libraries and major book shops of the member countries.

Translating materials on Fund and its policies in languages other than English is surely one way of enhancing better understanding not only among the public but also for officials and the academicians. It is especially important in program countries where the issue of ownership is critical and where consideration about the program necessitates the participation of not only the authorities, but more so the parliament, private sector, trade union, the academicians and the general public. By having materials translated in local languages would help bridge the gap in understanding and strengthening ownership of the Fund program. In this connection we support Mr. Portugal's view that that translating more documents into the native languages of member countries may be a powerful instrument to improve the Fund's image.

For the countries that have the Fund's Res. Rep. Offices, we would suggest that local staff of the resident representative's office could be assigned to undertake the translation without incurring additional cost.

Who is the Target Group?

The Fund's transparency policy has helped increased public understanding about Fund's policies with dissemination of a great deal of information on Fund's policies as well as country-related issues. Regarding information on Fund's policies intended for the public, it might be more effective (in terms of trying to enhance understanding on the policies) if a summarized version of the materials be prepared and disseminated. By transmitting materials in their original form—which may be voluminous and technical in nature—poses the danger of core messages being diluted. However, if the target recipients are officials and people in academia, it would be useful to disseminate the information in their original form.

Improving Internal Communications

The improvement of external communications does not seem to be under the responsibility of only the external Relation Department of the Fund. In fact to strengthen the Fund external communications, the most effective channel is through Fund personnel including Managing Director, Departmental Heads, mission chiefs, and res. reps. In this context, we would like to share the view of Mr. Callaghan and Mr. Padoan that communication skills for the Fund personnel are critical and crucial.

Similarly regular meeting or seminar every six months among the regional and res. rep. offices and departments directly involving in the external communications could be instrumental for improving internal coordination as well as the external communications strategy. Likewise the regular (every year?) board discussion in stead of having such meeting in every two years would also be helpful for the improvement.

External Communications as an Instrument to Defend Fund Policy

Various surveys conducted since 1998 concluded that the Fund trails the World Bank and the UN in regards to public understanding as well as public perception on the workings and merits of Fund's policies. If the problem relates to inadequate information available and accessible to the public, certainly there are many ways that can be done to improve this situation. If the issue is more fundamental as to the effectiveness of Fund's policies, then external relations exercise could only help reduce negative publicity relating to the failure or ineffectiveness of Fund's policies or engagement. To a large extent, there is no way that external relations exercise would mask Fund's shortcomings.

Priority and Resources for External Communications

We welcome the work to improve the fundamental weakness of the communications strategy including the improvement of transparency and surveillance. Despite the increase in the allocation of Fund's resources for external communications in recent years, they might not be sufficient. These extra resources could emanate from the need to recruit more staff, greater need for publication as well the use of better communication technologies.

Other Concerns

We also share the concern raised by Mr. Callaghan on the need to improve understanding of the Fund works in Asian region. In this connection, we suggest to set up more offices in the region in order to increase the effectiveness of the Fund program and improve the understanding of the Fund's work. In Asia, there is ample room to capitalize the success of the Fund together with the authorities to cope the crisis in the region. With regard to enhancing the ownership, local language has played a vital role. For this, we can cite the case of Indonesia. An article by Professor Stiglitz translated in the local language from English and circulated in the media was very effective and popular among the people instead of some of the best IMF-supported program documents written in English. This is very important since it reflects the ownership and achievements of the Fund's policy and program in the countries.

Ms. Lundsager made the following statement:

At the outset, I want thank Ms. Indrawati for her comments, which were very thoughtful and insightful.

I want to join others in welcoming this opportunity to review the external communications strategy, and in noting my appreciation for Mr. Dawson's briefing last month. Following up on Mr. Dawson's comments earlier, it might indeed be useful to have an occasional informal seminar focusing on particular aspects of the communications strategy. The strategy has evolved in recent years, and I would join others in agreeing that a lot of progress has been made in making external communications more effective, especially in the context of increased transparency. It does seem that the Fund is getting more credit for being an open, accessible institution.

As we go forward, strengthening transparency is going to help us improve external communications further and will continue to pay dividends for our image and for members' economic policies, both through informing markets with more focused messages, as others have noted, and by boosting public discussion on economic issues and thereby enhancing ownership of policy positions.

Continuing progress in improving the IMF's transparency and its image depends on members as well as the institution itself, and publication of many of the documents of greatest interest to the public is linked to the consent of the countries themselves. As I said many times before and continue to believe, we should have an increased publication rate for Article IV staff reports. That is very important, and we continue to urge all members to move toward this objective. We have made progress, but we could make much more progress. What struck me in reading and listening to Directors' statements is that all colleagues around the table feel it is very important for everyone to understand policy issues. There has been this discussion of and focus on translation, but policy issues are mainly going to make sense to audiences in so far as they can see how those issues affect their own countries. That is why it would be very helpful to have greater publication of Article IV staff reports, so that the general transparency of the Fund has particular applicability in countries and enhances understanding in our membership. I know we will be coming back to that issue later in the year.

In that regard, I would also like to reiterate a point that we have made before, and that is that all documents should be made available on a five-year lag. I realize that this issue is not for discussion today, and that we will also come back to it at another time. Nevertheless, it is an important way in which transparency could be enhanced.

Generally, we are supportive of the proposed communications strategy laid out in the paper, and I just want to highlight a few points.

We certainly agree with the staff and others that the coordination of message delivery, especially in terms of having a narrow, focused and clear message, is most important and that this has improved over time.

The Edelman report discussed at the last Board meeting in February 2000 put the emphasis on strengthening internal communications, and Mr. Egilsson highlighted that as well in his comments. We agree that the External Relations Department has strengthened its efforts to communicate among departments, as well as with resident representatives overseas. This is commendable, and we urge that it continue. In that regard, the Current Account, which is written very clearly and concisely, is very useful. I have noticed that it lays out for the staff around the world what policies are coming to the Board, but I wonder whether it also provides any kind of follow-up in terms of what the Board actually discussed, decided, and what the guidance is. It could be a useful vehicle for that as well, particularly as the Board often takes a somewhat different view from the staff proposal, and reporting those nuances could be useful to the staff.

The Fund's external website has been terrific. There is plenty of information there. I have walked people through the website and explained how to find things, and they very much appreciate it.

On the participation of Fund representatives in implementing the external communications strategy, we think that this is important as well. Resident representatives can be very useful in helping members explain their policies and the role of the Fund in that context. While we would not want to put too much responsibility on them or too much of a burden, resident representatives are the most immediate image of the Fund in many countries, because they are the ones who are there working with the authorities everyday, and who are meeting with donors and with other international institutions. It is important, as Mr. Dawson said earlier, that they be charged with communicating with the public, and that their terms of reference be very clear in that regard. There are not enough people at Headquarters who can travel and fill that role. We need to help our resident representatives to use their talents, and to enhance their abilities to communicate effectively if they are going to be talking with the authorities, the press, and parliamentarians. I think resident representatives also need to be accessible to local NGOs, because that helps spread information to the rest of the population.

When the staff does speak to the public—through mission statements, for example—it is important to make clear that they are not reporting on the final decision of the Board, but rather on what will be sent to management, and proposed to the Board. All statements should make that distinction clear.

We also agree that there is scope for Executive Directors to take a more active role in explaining the work of the Board and the Fund to the public, not just through the press but also through NGOs and parliamentarians. Many of us are already doing this, particularly in the context of Article IV consultations, and it has proved to be useful.

With regard to the publication policy task force, the cost of translating and publishing additional non-English language material could outweigh the potential benefits. I take Ms. Indrawati's comments in terms of wanting additional publications in local languages, but I can also recognize how many native languages we have, in 184 member countries, and the cost that could be involved. What might be more useful is to ensure that documents are drafted in plain English, rather than in the very technical and jargon-filled form that tends to prevail. Speeches by the Managing Director and Deputy Managing Directors, for instance, tend to be very clear and focused, and contain compelling messages that can be widely understood. Perhaps more of that kind of product could be made available. I am certainly willing to consider additional translation of materials, if departments or local offices themselves can find the budget to finance them, but we will have to be a little cautious on that, and wait to see the findings of the publication policy task force.

One thing I wanted to mention on Mr. Egilsson's remarks about having a large conference with parliamentarians is that such events often get to be too large and unwieldy. The outreach might be more effective if it is done on a smaller scale, and in countries where mission chiefs or management are already visiting. I appreciate that the Managing Director and the Deputy Managing Directors have made themselves available around the world, and it is clear from their travel reports that the visits are very valuable, because they help increase countries' sense of ownership to know that the Fund is listening to them. Outreach on such a scale seems preferable to larger endeavors. Also, many countries send parliamentary groups to the United States for bilateral exchanges with our Congress, and some of them ask to come to the Fund when they are in town. That may be the kind of engagement that we can encourage.

Overall, I feel that we are very much on the right track. There is certainly more that can be done, and I think the work of the External Relations Department should continue to deliver a good, coherent, and focused message out.

Mr. Bischofberger made the following statement:

Let me join others and thank staff for a clear structured and well-written report that provides a good overview of the Fund's current external communications strategy. We broadly agree with the analysis and the proposed steps to increase the effectiveness of the IMF's communications strategy. Therefore, I will just make four comments that touch on the issues of transparency, the translation of Fund's documents in other languages than English, the role of Executive Directors and the outreach to NGOs.

First, we concur with staff that major advances have been made under the Fund's transparency policy. Indeed, it is a welcome development that the Fund is now seen as less secretive than only a few years ago. Here, I would like to commend Mr. Dawson for doing an excellent job, and I think it is to a considerable degree also his personal contribution that there is now a broader and better public perception of the IMF's work. Nevertheless, there is room for further increasing the understanding of and support for the Fund's work, thereby improving the Fund's overall public image. We therefore support every effort to increase the Fund's openness and transparency. However, we should also keep in mind that transparency cannot be increased without limits. As staff describes in the report, some information must be kept confidential at least temporarily because it is market sensitive or to allow the authorities some time to respond. Furthermore, greater transparency should not come at the expense of candor in the Fund's dialogue with members. That being said, I would like to emphasize, that this chair will continue to strongly support efforts for more transparency and openness. In this respect, I fully agree with Ms. Lundsager's earlier remarks on the publication of documents.

Second, we agree with the finding of the Publications Policy Task Force that the translation and publication of additional non-English language material by the IMF itself is not advisable given scarce resources and the unfavorable cost benefit ratio. However, if the original country document is drafted in a language other than English, this document should be added to the respective non-English website. Here, I agree with Mr. Padoan that the marginal benefit of making these documents available in the original language is likely to exceed the marginal cost of editing. Moreover, the user friendliness of the IMF's website could be further improved by adding links to national websites with local language versions of IMF related documents. A standard disclaimer to indicate that the Fund has not verified the accuracy of the non-English language texts should be included.

Third, I would like to add some brief remarks on the roles and responsibilities Executive Directors can take on in the Fund's external communications strategy. I agree with the line of reasoning in the report that the priorities on near-term policy issues are set by Governors through the IMFC and by the Executive Board in the context of the work program. It is then the task of Management, of course with assistance of EXR, to deliver the chosen messages to the public. However, Executive Directors can also make their contribution to our joint communication efforts. They have of course a double function as they represent the position of their authorities and the IMF at the same time. But they can effectively contribute to disseminate the vision of the Fund and to help that the Fund's role and views are better understood in its member countries. In this regard Mr. Padoan makes an interesting point, that in doing so, a "code of conduct" should be observed. In any case, Directors should speak publicly only about countries of their own constituencies.

Fourth, the significantly increased outreach and dialogue with civil society in recent years is a welcome development and should continue. We support the greater effort the Fund is now making to increase its outreach to NGOs in developing countries. But here we should keep in mind that NGOs do not necessarily represent the overall public opinion in a given country and that they sometimes are regarded by the public as much as an elite group as politicians are. Therefore, it might be worthwhile to make even more efforts in contacting groups that have a broader connection to the people, for example because they are working in the field of education, including teachers, university professors and so on. More frequent contact to such groups, also through the resident representatives, can help to increase the understanding of IMF policy. However, we have to keep in mind that this is a long-term process and no quick results can be expected. Furthermore, like other Directors, I think it is important to recognize that there are limits regarding the extent to which the Fund's image can be improved. These limits are determined by the nature of the Fund's work and mission and the "bitter medicine" it often has to prescribe.

To conclude, Mr. Chairman, we think that significant improvements in the area of external communications have been achieved and that the current strategy is largely appropriate. As a consequence and also with a view to possible budgetary implications, we do not see the need to significantly extend the activities in this area.

Mr. Wei made the following statement:

I would like to thank the staff for the well-prepared and comprehensive paper.

The Fund has done a remarkable job in improving external communications, promoting the transparency of this institution and its members, and improving its image over the past several years. We recognize the efforts made by management, and staff, especially Mr. Dawson and his staff in EXR. Notwithstanding the significant change in the external perception of the Fund, as pointed out by staff, there is still room for improvement in the design and implementation of the Fund's external communications strategy—more focused, better prioritized, and more cost-effective—to provide more accessible and user-friendly information.

We are satisfied with the general direction and coverage of the external communications strategy. Based on feedback from my authorities and anecdotal evidence, the transparency of the Fund has been enhanced significantly and the public image improved. The public can now access more information more easily. Nonetheless, judging from the varying and sometimes drastically different public viewpoints each time there is a crisis, we consider it important that our communications with the media and the public should be further improved. This would require the efforts of both the management and staff, and both at headquarters and in member countries. EXR's prompt response to criticism based on false information in clarifying the Fund's role and policies is very important and should be continued. On the other hand, the criticism with constructive ideas should be welcomed and taken into consideration so that lessons can be learned and similar mistakes avoided in the future. Furthermore, greater transparency of the Fund's policymaking process would definitely help in dispelling outside misperceptions. I would echo staff's point that the aim of our external communications strategy is not to woo public favor but rather to enhance public knowledge of the Fund's operations and policies. In the end, what we want to accomplish is to have the Fund serve its purpose of helping member countries to pursue policies that promote macroeconomic stability and growth.

Mr. Portugal and Mr. Rambarran made a number of suggestions on guidelines with respect to public communications on country matters for the consideration of EXR. These are useful suggestions. I especially agree to the

point that it is useful for staff to seek the counsel of the concerned Executive Director before they speak to the press about a country.

On the issue of translation and publication of materials in non-English languages, our experience has shown that the Fund's publications in Chinese have been very helpful for government institutions, policymakers, academics and other users. I am sure that other developing countries, which place great emphasis on the Fund's role in their policy-making, share the same experience. We would like to see more efforts devoted to the translation and publication of Fund publications in non-English languages. That said, we note that in the finding of the Publication Policy Task Force cost is a big concern. It is therefore crucial to compare the costs and benefits and adjustment of priorities be made accordingly so that resources can be used most effectively. Responses from the member countries could provide useful indications in setting priorities.

On the issue of outreach to legislatures, the private sector, and civil society—especially in country outreach—we consider it advisable for the staff to seek the authorities' opinions with regard to priorities and modalities, and we share Mr. Portugal and Mr. Rambarran's view that contacts with the legislature and Civil Society Organizations should be cleared with the authorities beforehand. In the outreach efforts, like Ms. Lundsager, we see an important role for the resident representative offices to play. They serve as a bridge between the authorities and the Fund in the sense that they may be more perceptive to the authorities' needs; and given that they are in closer contact with the authorities, they are in a position to "reach-out" in communicating the Fund's policies and building its image.

Mr. Al-Turki made the following statement:

I thank the staff for this comprehensive update on the Fund's external communications strategy. The paper sets out to represent a stock-taking rather than a fundamental reconsideration of the existing approach. I will nonetheless make a few general comments on the basic issues.

At first glance, it is indeed disappointing to see that the Fund's public image relative to other major international organizations is still where it was in 1998. It is certainly important to enhance the Fund's public image. However, it is also unrealistic to consider making comparisons with charitable organizations or even the United Nations for that matter.

Indeed, given the Fund's unique function, its policy recommendations would often involve painful decisions to make the necessary economic adjustments. The changes typically involve costs that impact adversely on different parts of the economy. The real test, therefore, is in the outcome of the Fund's policies. Ultimately, the Fund's image depends on the success of

the policies and programs that it recommends and supports. Here, while I take note of Mr. Dawson's remarks at the beginning of today's discussion, the EXR should indeed remain proactive in drawing attention to the Fund's successes.

As the report notes, there are areas where the progress has been already acknowledged, as in the decline of criticism over the Fund's openness. I welcome the greater public perception of the Fund as "less secretive". However, it is important to be also candid about the need on occasions to be discrete in the interests of both the member country and the Fund. In that regard, while continuing to promote transparency, I encourage the staff to be candid to the public on the limits within which the Fund operates.

The staff has rightly noted that the greatly increased provision of information could have the unintended consequence of obscuring the key message. Given also the inherently controversial nature of the Fund's work, it is critical that the EXR's focus be on a frank presentation of the work assigned to the Fund under the Articles of Agreement. Furthermore, it is important to be discriminating in choosing the target issues and the audiences for the communications strategy, as in, for instance, choosing among the many NGOs that have varying claims to legitimacy and effectiveness.

I would like to stress that, in engaging the critics, the Fund's own inputs should continue to be on the highest professional level of discussing the issues. It is also important to ensure that staff continues to speak with one voice. That is, the public should have the assurance that views expressed by staff represent the positions of the management or the Fund as a whole, as the case may be.

I support enhanced training to improve the communication skills for all parties charged with the responsibility to have exchanges with the public on behalf of the management or the Fund. Regarding the accessibility of information, a more user-friendly approach should aim at facilitating easy linkage of the website data to the work of the Fund. This could be done on a suitably targeted basis for greater effectiveness and resource conservation.

Regarding publications in languages other than English, cost-saving should not be the only driving concern. Instead, the focus should be on effectiveness. There are indeed cases when the additional costs for non-English publications would be critical for the public to be aware of the Fund's work. Ms. Indrawati just alluded to such a case. The matter should be therefore addressed as needed on a selective basis. On the matter of communications by Board members, I can support the "rule of thumb" that Mr. Padoan mentions in his preliminary statement.

Mr. Duquesne made the following statement:

Let me thank the staff for a well-written report that covers many aspects of our communications strategy, and let me also commend Mr. Dawson personally and his team for their difficult work. I would like to formulate two general comments and follow with technical points.

My first general comment echoes Mr. Padoan's preliminary statement, as I believe that there are limits to which the general perception of the Fund can be improved by communications only. As mentioned by many colleagues in their written statements this morning, the Fund's action may lead it to make painful diagnoses and prescribe unpleasant medicine. I would, however, add one caveat to this judgment : if we should not build expectations that are too optimistic as a result of a "good" communications strategy, I have no doubt that a "bad" communications strategy can deeply worsen the image of the Fund. I therefore welcome the progress made in our communications over the past years, notably through increased transparency, and I support the efforts to pursue this path even if it leads to some new expenses.

My second general comment deals with the approach of today's discussion. The staff report is certainly comprehensive, but I wonder whether it could have been more thought-provoking, notably by looking more aggressively at the respective roles of the Board, management, and staff in this area. We have all in mind a few cases of communication mishaps over the last months, and the need for more consistency in our communications process has been underscored by several Directors in the Board. Maybe an analysis of these past "incidents" could have been added to the 64 paragraphs of the staff report. I should add that the rules on Board involvement and confidentiality laid down during a recent discussion on access might help prevent future "incidents", but they will not be sufficient.

Let me now stress four points for emphasis.

First, Annex I of the staff report sends us a very strong message about the cost-benefits of increasing publication in languages other than English. You will not be surprised if I say that I believe that publication in several languages is a key component of any global communications strategy, and so I cannot but share the views expressed on that question by Mrs. Indrawati. Let me mention two points: first, the low demand for material, in languages other than English could be, at least partially, explained by the delays in translation. To take one example, I am pretty convinced that the demand for the Fund's Annual Report in French would be significantly higher if this document were to be published at the same time as the English version. So, progress is certainly achievable in this area.

Second, like Mr. Padoan and Mr. Bischofberger, I cannot understand at all why Fund documents originally written and negotiated in languages other than English cannot be published in their own original language on the Fund's website. I have no doubt that the benefit, notably in terms of ownership of the program, of making them available in the original language would largely exceed the cost. Indeed, the costs come here from the translation, so if you want to reduce the cost, do not translate documents into English before posting them on the website.

Third, I fully support the demand made by Mr. Lushin, Ms. Vtyurina, and several other colleagues for improving understandings of the Fund's operations by legislative bodies. Staff should take every opportunity to meet with legislators, in emerging as well as industrialized countries. However, I would like to point that this recommendation goes beyond our communications strategy. It is also an issue of political economy, as it improves the understanding by the Fund of the balance of powers in any given country, and allows for better assessment of what can be expected in terms of reform and policy implementation. So, in a nutshell, outreach to the legislative bodies is a priority for the Fund not only in terms of communications, but in terms of surveillance and program design.

Fourth, I welcome the emphasis in the staff report on the role of resident representatives with regard to communications. Like Ms. Lundsager, and as this chair stated on several occasions, we support an increase in the role and the number of resident representatives, for various reasons, including communications. Indeed, they are in the best position to make a judgment of any criticism addressed to the Fund in the media of their country of residence and, if warranted, to answer promptly and efficiently. Their knowledge of the national media and contacts built over time represent decisive advantages for them. Fourth, I think, like Mr. Bennett, that an "overview report" on communication issues should be presented to the Board once a year, with updates, if warranted : I thus welcome the agreement given by Mr. Dawson on that point.

In conclusion, let me say that there is a need in our communications policy on countries in crisis to have a long-term vision of the difficulties they are facing and a way of solving them, rather than trying to react publicly on a quasi-daily basis to the various comments made on questions raised by politicians, academia, journalists, and civil society. The sensitivity of some negotiations might require from our institution, but also, of course, from the country concerned, that they remain silent during these negotiations. In one word, good communication is often linked to a cool temper. I know this is the way Mr. Dawson acts: just look at his answer during yesterday's briefing on a possible transfer of IMF Headquarters to Europe...!!

(After adjourning at 1:05 p.m., the Board reconvened at 2:30p.m.)

Mr. Kiekens made the following statement:

Since I am the first speaker after lunch, and can offer my statement as a kind of dessert, I should be rather sweet. I think that sweetness is appropriate, because the Fund's policy on external communications is working rather well, indeed even very well. I think we have constantly been improving our policies and our performance for the last ten years. There is another reason for choosing a span of ten years because it allows me to give well-deserved credit not only to Mr. Dawson, the present Director of the External Relations Department, but also to his predecessor, Mr. Anjaria, who was at root of the fundamental changes in the Fund's external communications policy that started in the 1990s. Since then, much has been achieved, and we should continue on this path.

If I were asked what are the Fund's most important instruments and channels for communicating with the broader public, I would mention two instruments and two channels that are preeminent among many others.

One of the most important instruments of communications are the speeches given by the Managing Director and the Deputy Managing Directors. I am an avid reader of these speeches because they always give, in a concise and well-structured manner, clear messages to the general public. A second publication that I often recommend to persons who ask me what they should read to stay au courant with the Fund without losing time on inessentials, is the excellent quarterly Finance & Development, which some time ago was a joint publication of the Fund and the World Bank, but now is solely published by the Fund. This Board meeting is an excellent opportunity to praise all persons who contribute to this outstanding publication.

There are two channels of communication which are very important. The newest is of course our website. The other channel, besides the Managing Director and Mr. Dawson as our spokespersons, are the Fund's resident representatives. They play a very important role in channeling the Fund’s messages, and I will come back to that.

As I have said, we are on a path of constant improvement, and since our last review of the Fund's communications several useful initiatives have been appeared. Let me first mention the economic forums to which we invite foreign participants. I think it is no longer unusual for prominent leaders of NGOs like Ms. Pettifor, or prominent critics of the Fund like Mr. Jeffrey Sachs, to be invited to one or another of the Fund’s seminars organized in the last couple of months. This is useful.

I would like to repeat how useful it is that the Fund and the Managing Director carry on intense dialogues with the World Confederation of Labor and the International Conference of Free Trade Unions. One or two months

ago, there was an impressive visit of trade union leaders from all over the world to the Fund and the World Bank. I am very glad that the Managing Director and other staff members have engaged in candid dialogues with these trade union leaders. I may say that the many reactions I received during bilateral contacts were quite encouraging. I insist that we should continue and expand our dialogues with trade union leaders.

I would also like to praise the quarterly newsletter that EXR is now publishing for the benefit of the NGOs. And finally, I think that the "Current Account," now published for the staff at large, is an equally useful communication. Something I learned only today, because my Advisor brought it to my attention, is that EXR's internal website even offers a guide to clearer writing. I plan to look and see how I can further improve my own writing, and I think this could be helpful for the staff as well.

What suggestions can I make for further improving our communications? Well, I think that to begin with we should have a clear understanding of the objectives of our communications. For me the foremost objective is to convey a long-term message to opinion makers all over the world. We have limited resources and cannot hope to reach the whole population of the world. We must find channels to help us, and these are the public opinion makers in our countries: members of parliament, NGOs, and the press, instead of attempting to target worldwide pubic opinion directly.

Second, we should not attempt to answer every criticism that the Fund receives. This being said, we should find an appropriate balance between longer-term messages and responses to criticisms, and limit the latter to cases where a response is justified and will be helpful. This is a matter of judgment, to be applied on a case-by-case basis. We should not worry too much if one or more criticisms do not receive an immediate reply.

What further suggestions do I have for improving our communications strategy? One concern involves the use of language. Here I think we should take a common sense approach. Other Directors have said that a good number of Fund documents or country documents are drafted and negotiated in French or Spanish, for which we have external websites. Like Mr. Duquesne and the others, I see no valid reason for not publishing these French or Spanish documents on our Spanish and French websites, and I join them in insisting on it. I also think that the initiative taken by EXR of including hyperlinks to country authorities websites is useful, and I can only regret that country authorities have not made good use of that. I call on my colleagues who represent countries with languages other than English, French or Spanish, that post Letters of Intent and so forth on their national websites in their national languages, should insist on having a hyperlink included on the Fund's external website.

I have another very modest but practical suggestion. One of the conclusions of our PRSP review was that some additional outreach efforts should be directed at NGOs in those developing countries that are preparing a PRSP. This brings me back to the role of the resident representatives in those countries, as well as those in emerging market countries that are not preparing PRSPs. I think resident representatives can play a very important role in disseminating the Fund's messages to the general public in the countries where they are stationed, and it should be a clear part of their duties to do so, especially by reaching out to public opinion and to the NGOs in the countries where they work.

This should be made clear to the authorities of the countries concerned, but I also understand that in some countries one must also be duly sensitive to the feelings of these authorities. Nonetheless the Fund should make clear to authorities who seek or accept the installation of a resident representative that the representative so installed will also have an external communications function. The resident representative must be particularly careful to make sure that his communication activities do not undermine the perception of country ownership. Governments are often careful to present their program as their own, and of course this must be clearly supported by the way the resident representative chooses to communicate with the public and the press.

Another delicate situation arises when criticism of a government must be expressed. Any criticism must clearly be in line with what the Fund says in its public statements or writes in public documents.

A third suggestion has to do with the publication of Article IV consultation staff reports. Each consultation confronts us with a rather diffuse set of documents, including a basic document and corrections and supplements, perhaps an additional correction, and then a summing up. I think that the OECD's policy of publishing a single coherent and consolidated document is far preferable the diffuse set of documents published by the Fund.

Finally, Mr. Chairman, I have a matter for consideration by the Management. You may be aware that the World Bank participates periodically—maybe annually—in an exercise called a Conference of the Parliamentary Network, that discusses policies of the World Bank. I am not suggesting that we set up a parallel network of parliamentarians and invite them to discuss the working of the Fund, but I think that the Fund and the World Bank could have a common conference for parliamentarians to discuss the functioning of both institutions.

The Director of the External Relations Department (Mr. Dawson) noted that he was leaving the next day to attend the Annual Meeting of the Parliamentary Network of the

World Bank, and the Managing Director would also be joining the conference us a few days later. He hoped that such interaction with parliamentarians would be a continuing process.

The Acting Chair (Mr. Sugisaki) thanked Mr. Kiekens for his commendation of Messrs. Dawson and Anjaria, as well as the staff working for Finance & Development.

Mr. Rouai made the following statement:

> We thank the staff for the comprehensive review of the Fund's external communications strategy. The staff report clearly shows that good progress has been made in better informing the public about the role, policies, and activities of the Fund. It recognizes also that much remains to be done to consolidate this progress and indicates that a challenge remains in gradually enhancing the Fund's image. We agree with the conclusions of the report and support many of the staff recommendations.
>
> More important than the improvement of the Fund's image, is the effectiveness of the Fund's message in helping outsiders to understand the Fund and to get a fair and timely assessment on Fund's policies and relations with member countries. From our own experience, management speeches and visits to member countries constitute effective opportunities in promoting the Fund and should be considered an integral part of our communications strategy. For example, at the occasion of the Managing Director's recent visit to Tunisia, the authorities distributed in advance a brochure based on the fact sheets published by EXR. This proved to be extremely helpful in informing the public and the media. The Managing Director's press conference and communiqué, prepared by Mr. David Hawley from EXR at the end of the visit, were also effective and referred to by many investors in capital markets during a recent road show of my authorities.
>
> We agree with other speakers that there are limits to what a proactive communications strategy could achieve to render the Fund likable in view of the nature of its work. However, staff are right in their conclusion that an effective external communications strategy is not just an EXR job, but one that requires a continuous, well-coordinated Fund-wide effort**,** involving in particular resident representatives. In addition, like in any marketing department, the job of EXR will be easier if the underlying product is good. Here, we support Mr. Usman's comments on the importance for the Fund to "truthfully addressing the critical areas of frequent emphasis by its critics." We hope that recent Fund initiatives to promote country ownership through the PRSP and to streamline conditionality will contribute to enhancing the global perception about the Fund and its role in helping countries adopt sound policies.
>
> Progress achieved by the Fund and its membership in the area of openness and transparency is proving helpful in eliciting interest in the work

of the institution. However, too much information could risk becoming counterproductive and could dilute the Fund's core message. Therefore, in addition to improved focus, it is important that efforts be made to render published documents easy to understand and more accessible to the general public and to make greater use of executive summaries, press releases, and PINs.

Reliance on outreach exercises and contacts with NGOs and CSOs and interactions with parliaments and labor unions are important as they allow, by targeting the audience, to better explain and gather feedbacks on Fund policies. Contacts with government entities outside the central bank and the ministry of finances are also important for enhancing ownership, in particular where there is a comprehensive reform agenda. We support rapid response and greater use of op-eds to set the record straight. It is important, however, to be receptive to criticism and to avoid adopting a war-room mentality.

The IMF website is a powerful and cost-effective tool for the implementation of the external communications strategy. There is no doubt that the website is among the best, within the IFIs community, as far as content is concerned. For example, the section on Fund financial relations with member countries is outstanding. It is very comprehensive, up-to-date, and user-friendly. We commend Treasury, TGS, and EXR for their efforts. The site could, however, be enhanced and benefit from recent innovation in technology to facilitate access to and discovery of the wealth of information in the repository. We had a very interesting exchange of views with EXR staff on this issue. Considerations could be given for example to:

- implementing a portal approach and allowing for the personalization of access to information to match the profile and interest of users;

- enhancing presentation of the country information page by being selective in the information posted and featuring the most useful links to important documents, for example, Article IV staff reports, program papers, ROSCs, FSSAs. This page could also link to translated documents available in countries' official websites;

- the EXR intranet contains useful information to help explain Fund policies and to provide staff with briefing material . This includes current account, headline issues, counterpoints, and response to common criticisms of the Fund. Other important information is also available on other departmental sites. Most of this information could be posted on the external website;

- discussion forums could help to conduct outreach and to solicit outside views on Fund policies.

We support the initiative of a depository library program and the intention to set-up an extranet for the press. The Fund and particularly EXR should seize the opportunity of the spring and annual meetings to promote new initiatives and products.

On translation of Fund documents, we share the view and recommendation regarding outsourcing to developing countries expressed by Mr. Portugal and Mr. Rambarran and I take note of the comments made by Mr. Dawson on this issue. Many central banks, including in our constituency, translate their publications into English. Concluding translation agreements with these institutions could be cost-effective and very helpful in ensuring better quality and timely availability of translation. Nevertheless, many low-income countries lack technical or budgetary resources to translate Fund documents.

We recognize that there are budgetary costs involved in expanding translation jobs in the Fund. Therefore, priority should be given to the Fund Annual Report, WEO and GFSR and to key country documents slated for publication.

Finally, we can support more regular targeted reviews of our communications strategy.

Mr. Skurzewski made the following statement:

We generally support, and in fact we are quite satisfied with, the direction and scope of the current external communication strategy of the Fund. It has benefited, over the past few years, from various changes in our institution, especially from the efforts to promote transparency, both in the Fund and in the member countries. There is, however, some field for further improvement, and we broadly support the proposals made by the staff in this respect. At this point of the discussion I can only add few remarks and I will submit my full statement for the record.

The purpose of the changes should be to improve the effectiveness of the external communication to the benefit of the institution and our members. However, as Mr. Callaghan noted, our main goal is to help member countries. Therefore the Fund should not be too concerned about its poor ranking in the public opinion polls, which is largely influenced by the nature of Fund's work. There is a need for some targeting of the audience, ensuring its better understanding of our messages and for our listening to the outside world.

Turning to more specific recommendations. It seems that our internet website became the main tool for communication, in line with the trends in the outside world. We do not think that the amount of documents available on the website is too extensive, and the search functions allow to quickly find the

interested documents. Perhaps the most basic materials about the Fund and its policies should be better exposed so the non-economists can find them easily. To better judge the value of the internet communications it would be useful to present some data on the visitors to our pages, their number and geographical location, and the most popular material downloaded. Website cannot, however, eliminate the old fashioned hard copy publications. In many countries internet access is difficult or costly and the Fund should continue to provide paper copies there. The increased use of depository libraries is a very good idea, perhaps the Fund should also send out its fundamental publications to some targeted academic and governmental libraries, which are not chosen as depository to offer the full range of publications. Also the resident representatives could increase their PR activities, including by distributing some publications in a more active way.

The extranet is one of the latest ideas, thought to improve communication between ED offices and capitals. It may play a role in improving the voices of developing and transition countries, as our recent discussion concluded, but it should not be extended beyond the range of officials currently granted access. The main focus should be, as Mr. Rouai just noted, to encourage more use of extranet by the authorities.

On translation of documents, like many other speakers I think that in view of the costs and benefits involved this should be done on a case by case basis, with priority given to some important manuals, guidelines, policy papers and the fact sheets (which currently come only three language versions). Also the translations of economic pamphlet series are disappointingly few. Translation of the PRSPs is obvious but para. 79 says that the staff believes that nearly all PRSPs exist in non-English, local languages. Perhaps this can be verified and confirmed in the published version of the strategy.

On the necessity to respond rapidly to news and views. The need for quick reaction should not, however, lead to a *de facto* bypassing of the regular decision making process within the institution. In particular, this pertains to announcements regarding the use of exceptional amounts of Fund resources. Accordingly press releases on exceptional access cases should not be posted until the Board has been adequately informed. – as I recall the February 21 release on Uruguay was the most recent example where the Board had not been informed prior to the release.

We agree that EDs, to the extent possible, should also be part of this general effort for better communication. Regarding the modalities of their contribution, as with any other matter regarding relations within their constituency, it is up to the individual EDs or its authorities to decide. Our office, for instance, has started to issue a monthly bulletin, summarizing main developments in the Fund, which is distributed to our authorities. To my

knowledge it is also a practice in some other offices, including Mr. Callaghan's, and we have had rather good experience so far with it.

Finally, we agree that the communications strategy should be reviewed more often, perhaps annually.

Mr. Scholar made the following statement:

I thought this was a very useful paper and there is a broad consensus forming around it, so I do not have too much to say, but would just like to pick up a few points.

First, I think we really should recognize, as many people have noted, the great strides that have been made in recent years in the Fund's external communications. I was glad that Mr. Dawson mentioned the Ann Pettifor comments at the outset, because that was something I was going to mention, too. She came to see me after the SDRM conference. For those of you that know her, you would probably agree that nobody could really describe her as an ardent supporter of the IMF. She had quite a few things to say to me about the IMF and most of them are probably not repeatable in this room, but she was genuinely impressed by the approach which the Fund was taking to consulting on the SDRM, with that conference being a particular example of it. I know that she said this to many of her NGO colleagues back in the United Kingdom.

I think the approach which the Fund is taking is really changing public attitudes in a very significant way. The more that we are open, the better we are able to persuade people both of our overall approach and also of our institutional culture. A reputation for not being secretive or even a more qualified reputation for not being as secretive as we used to be is really very much a good in itself and strengthens our effectiveness overall, so I can only applaud that work and support it.

On a few specific points, I think communications goes much wider than EXR, of course; it touches every single part of the Fund. I would like just to say a few words on EXR, because I think the department does a really excellent job collectively in getting across the Fund's message. Communication on the whole is extremely well judged. There is a good balance struck between the desire, on the one hand, to repudiate stories, and the equal desire, on the other hand, not to, as we say in the United Kingdom, give them legs. The practice of on-the-record briefings every fortnight is really exactly the right way forward as a way of anchoring press briefings at regular intervals and in a public way. I join others in praising that work. But, as I have said, it is an issue that goes much wider.

On various policy points, I agree with what people have said about the website, about internal communications, about the welcome improvements in transparency and the need to push that further, and also about the importance of communicating with parliamentarians; I think that is absolutely essential. As a number of Directors have said, the Board can do more here. Many of us already do quite a bit in terms of talking to parliamentary committees, NGOs, the press, and so on; but I think there is always more that can be done. I rather like Mr. Padoan's suggestion of looking further at that and perhaps considering a code of conduct for that.

On the question of languages, there is a very real tension here. On the one hand, and I think Ms. Indrawati described this very eloquently, there is a very, very clear link between the language of documents and public debate and participation and sense of ownership of these processes. On the other hand, as Ms. Lundsager said, in an organization with 184 countries and I am not quite sure how many languages, clearly the question of cost is a significant one. But I do think that we can do better than we do at the moment. In particular, I very much agree with those that say that, where a document is drafted originally in a language other than English, there must be a very strong case for releasing that. I cannot believe that the cost can be other than minimal there, so I would support that. I am sure a lot of work has been done in the past that I have not caught up with, but on the overall cost of a change in the translation policy, cost is an important issue and has to be discussed in the budget. We have to look at offsetting savings, and all of that. But I do think it is important to remember that there are benefits here, so I would be happy to look further at that.

My final comment is one that Mr. Callaghan makes in his statement. He reminds us of a very important point that, when an organization has a communications problem, it is usually the symptom of a wider problem. Improving our efforts further will require, as the paper suggests, quite a broad cultural change within the organization, which is already underway but which has further to go. When you are engaged in public policy, as we are, there are two things that you have to do which are actually equally important. First of all, it's to do the right thing, and the second is to win the argument and persuade people that it is the right thing to do. Policies can be perfect, but if you cannot win arguments and cannot persuade people, you are not going to be effective as an organization.

The Fund has further to go in integrating into its thinking at every level, at every stage, the need to present policy in a persuasive way. The comments that have been made on the written style of the Fund are very important in this regard. It is not just non-English speakers and people outside the IMF that have difficulty in understanding these documents. I actually find that people in the Treasury in London who have not been here often simply just do not understand. The Fund has a language of its own, and we have to

change that. It is not something that will happen overnight, but such a change would have very far-reaching and beneficial consequences.

This paper has taken us very much in the right direction on these issues, and I fully support it.

Mr. Yakusha made the following statement:

The paper extensively discusses the current situation with the implementation of the Fund's external communications policies. The volume of EXR activities have been impressive recently and we thank our dedicated staff for their efforts. These recent years have been challenging for external relations, because the Fund itself has become even more open and transparent. This openness has not yet led to a radical improvement in the image of the Fund, which appears to remain similar to what it was in 1998. If this is a key criterion for the effectiveness of the external communications strategy, what would be the interpretation of this fact? There are three possibilities:

(a) that the external communications measures taken since 1998 have not been effective enough to improve the public image of the Fund;

(b) that some of the activities of the Fund itself have not improved to a sufficient extent, thus making the measures on the side of the external communications less effective;

(c) that there are objective limitations for the popularity of the Fund coming from the Fund's message and core functions, which have to emphasize risks and to deal with often deeply entrenched problems of financial instability.

There is probably some degree of truth in all of the above explanations. Despite some objective difficulties, it is worth exploring further ways of improving the current activities of the EXR. In this context, this Chair finds itself in agreement with the main points already raised by Mr. Callaghan in his preliminaty statement. In particular, we think that the challenge of the Fund being associated in public opinion almost entirely with lending operations and with only few policy issues, needs to be addressed. Technical Assistance, training and research work, work on developing and implementing Standards and Codes have to be emphasized in a more proactive manner. Of course, surveillance and lending are core activities of the Fund. In many cases, however, because of the critical remarks with respect to the country's economic policy and the strong conditionality of the Fund's support, including unpopular measures, the general public associates the Fund's activity with negative, rather then positive facts. This is probably unavoidable. While explaining better its policy in these cases, the Fund could focus more on popularizing its activity in other spheres.

The targeting and tailoring of the Fund message. A lot has been done on that, but we would like to support other Directors who think that adjustments to different cultural environments and audiences have not been made to a necessary extent. The style of the Fund message is decisively North American and often way too technical. The potential of the Board in advising staff on how to proceed with targeting audiences in member countries has not been really tapped by EXR. I also agree with Mr. Duquesne and Mr. Kiekens on the issue of the role of the resident representatives.

Better targeting is not necessarily achieved by just publishing documents in languages other than English. Like many other Directors we are not yet willing to support a massive effort in translating too many Fund documents. Moreover, without a more clear criteria and measurements of the effectiveness of the Fund's external communications, this Chair is not ready to support any new significant budget allocations for EXR.

Like other Directors, I would like to acknowledge the great effort put in the Fund's external website. However, I have a few comments. First, our website is unique—we keep information there forever. No policy seems to exist on when information becomes irrelevant and should be put into archive. Only few academics may need access to historical data, and keeping a huge number of documents may make downloading problematic. Moreover, I agree with Ms. Lundsager, that at times one needs "to walk" people over the site. Navigation should be streamlined and the site may need to be adjusted to the needs of people, who are less familiar with the Fund.

And last but not least, the popularity of the Fund varies from country to country. This fact deserves to be investigated. The reputation of the Fund among the general public in Bulgaria, for example, is quite high. This is not the case in some other countries in the region. The good experience should be therefore promoted.

Mr. Shaalan made the following statement:

It would be an understatement to say that the Fund, in its external communications policy, has gone a long way in recent years. Beyond a doubt, the Fund has indeed broken new ground in its communications policy. Mr. Kiekens, in his intervention, referred to that fact based on his experience during the last ten years he has been on this Board. If I may, I would like to go further back into history.

When I first joined the Fund, the communications function, if one can call it that, was carried out by a unit called at the time the Information Office. The unit consisted of one person, the Director, who had been a journalist prior to being recruited by the Fund, and one assistant. That was the totality of the office. The office had one main function, which was specifically to keep the

Fund out of the news—and it was extremely successful in that regard. So, you can see how far along we have come today, with the increasing interest in the activities of the Fund and the fact that we are living in an entirely different world to which the Fund has adapted quite significantly in the recent past. Unfortunately, the interest always seems to be on the rise in the event of a financial crisis or an economic calamity, but this is the reality of the behavior of the media. As Mr. Dawson noted in his opening remarks earlier today, good events do not make good news.

In this environment, I believe that External Relations has done a most credible job in managing the transition from a tight-lipped Fund to a more open Fund. Given the limited resources of the Fund—and I was surprised I did not hear that very often today—we should really begin to prioritize our various activities and be quite selective in the functions we decide to emphasize, in view of our limited resources and capabilities. In addition to the wealth of proposals made by colleagues, I would like to address a few specific issues.

One should not lose sight of the fact that the Fund, first and foremost, is created to serve its membership and not the media. Accordingly, in our relations with the media and other interested groups, we should accord this principle the highest of priorities. In this connection, we need to continue to pay due attention to the issue of confidentiality, and by highlighting this point I am in no way suggesting or casting doubt that confidentiality has not been guarded in our communications policy. It has been quite well guarded.

The paper we are discussing today, which I should say is well organized and rich in substance, states that, in our approach to the outside world we should, "listen, learn, inform, and persuade." I fully agree with the first three pillars, namely listen, learn, and inform. In contrast to Mr. Scholar, however, I would like to put forward a caveat with regard to the issue of persuasion. In my view, the best form of persuasion is the clarity of presentation of our policies and of the rationale behind these policies or positions. I would not like to see the Fund engage in a Madison Avenue-type persuasion exercise. We are not selling anything, and we should not be seen as selling anything except explaining our good policies.

The need for a stronger internal communications strategy was highlighted by a number of colleagues in order to strengthen the external strategy. In this connection, I would like to highlight the role of resident representatives in this endeavor, not the role of the staff as a whole in this endeavor. We have to be extremely careful on that score, for one reason, among many, namely that staff resources are already strained and this function requires certain qualities that may not be available to many staff.

> Finally, on outreach activities, and again in the spirit of serving the membership, I very much favor a shift in the emphasis to the legislative bodies, and here I agree with Ms. Lundsager on her proposal as well as with colleagues who expressed the view that any such activities should be cleared with the relevant authorities. Again, I thank Mr. Dawson and his staff for a job well done.

Ms. Vtyurina noted that, while she broadly agreed with the findings of the cost-benefit analysis of publications in other languages, Ms. Indrawati's comments had made her think about the policy again. It was striking that one of the Fund's major borrowers and current program participants, Indonesia, did not have its Article IV program documents published in its own language. How could one expect a positive response from the country's civil society if people could not get access to and understand what the Fund advice was? That fact did not bode well for the Fund's desire to improve its image in Indonesia and in that region as a whole, actually. Rather than paying so much money to survey firms to find out how the Fund was perceived, that money should be put into publishing at least Article IV consultation papers, summings up, or PINs on program countries. That might be a bit discriminatory toward other members of the Fund, but the Fund got a lot of attention and criticism mainly in the regions and countries that had Fund programs, so it was there that such efforts would be most helpful. She agreed with Ms. Lundsager that publication of Article IV staff reports should be encouraged, but if they could not be understood by most of the population, then that publication would not serve its full purpose. Perhaps that issue should be discussed further in a separate discussion, based on some cost analysis of how much increased translation might cost the Fund. For many of the major program countries—like Brazil and Argentina, for example—the languages used in those countries were already official languages of the Fund, and the Fund already had translators for that. It would probably also be possible to use a common language to publish reports for countries like the CIS-7. Publishing them in Russian would certainly be better than not translating them at all because of the prohibitive cost of translating them into the languages of each country. She would encourage EXR and the Fund to look into those issues.

Ms. Indrawati, clarifying her previous statement, noted that she certainly agreed that EXR's choice of Singapore as the base for communicating with the capital markets in the region had been a good one. However, her constituency was made up of countries at very different economic levels, facing very different problems, and receiving different support under various types of programs with the Fund. Therefore, targeted communications for each program country was especially important to foster greater ownership, and language was a very important component of that.

The Director of the External Relations Department (Mr. Dawson) made the following additional remarks in response to further questions and comments from Executive Directors:

> I would very much like to thank Directors for their kind comments, on behalf of the EXR staff and other Fund staff involved in communications, as well as Mr. Anjaria, who left the department and me on my arrival in a

position to be able to take advantage of a great deal of work that had already been done.

If I could perhaps go back even further than Mr. Shaalan, although I do not personally go back further than him, I am told that, even prior to the Information Office there was an Advisor to the Managing Director whose function was to be the communications person. But I understand that his role was even more limited: when he asked the Managing Director for instructions on what to tell the press, the Managing Director sat back in his chair, stroked his chin, thought for a while, and said, "You will tell them nothing."

I have to say that when I was initially an Executive Director on this Board, I had very little contact with External Relations. By the time I left, I was having some contact with Mr. Anjaria, who at that point had started as Director, but it was still limited. In contrast, now, every few weeks at least I am in touch with virtually every single Executive Director's office, or my immediate staff are. I try to maintain this continuing contact, and in fact one of my goals has been to try, in some sense, to bring down the barriers between the staff and the Board; and I think that we have made some progress in that regard.

A great deal of interest has been demonstrated in the discussion today on the issue of posting documents and publishing material in languages other than English. I would like to respond to the questions raised in that regard both in general and on some specific points. Mr. Bischofberger, Mr. Duquesne, and a number of other Directors asked whether documents that were originally prepared in languages other than English—mainly policy intention documents—might be posted on the external website or at least on the authorities' website with Fund linking to that posted document. As we indicated in the paper, we would welcome opportunities to provide links on the Fund website to such posted documents with the appropriate disclaimer. Mr. Duquesne is correct that there is not a large cost to this posting, per se, although there may be some marginal costs, but I think we will observe that as time goes on.

There are a couple of questions that we need to be aware of, however. One is whether we need our Language Service to review the non-English version to determine whether there are discrepancies. It may be that the so-called "health warning" is enough, but we should make a decision at least on that issue. Second, if the documents are posted in languages other than those for which we already have a foreign language website, we need to ascertain how speakers of that language will find the document if they are accessing, for example, through the English language website. These are not insurmountable obstacles. Indeed, if there is a resident representative website for the country in question, those websites are maintained in the language of the country, so they might provide a solution. These are issues that we need to address. There

are substantial costs to having fully functional language features on the website, but I do believe that if we do this on a case-by-case basis with countries that are interested, we probably can make a great deal of progress at a reasonable cost.

The question was raised of expanding the website, for example, to the six or seven main international languages. However, that would still leave a number of important uncovered countries, including Indonesia. In fact, I recall meeting Ms. Indrawati for the first time at a meeting of parliamentarians in Jakarta where she was called from the audience to act in effect as an interpreter in explaining much of what was going on in the session, so I think there is a long history of difficulties. I think one tends to need to interpret economics as well for the parliamentarians. But the World Bank did a study of this question and they found that 51 of the 185 member countries do not have one of the seven main languages as their official or national language, and those 51 do include some of the Bank's biggest borrowers and some of the Fund's main program countries. That is why we have thought that a better approach is to find ways to link to other websites when they exist. I also have to note that we had a discussion in the Board on publication policy not so long ago, in which the Board came to the view that the posting of draft Letters of Intent or the linking on the Fund website of draft Letters of Intent that may have been posted in the country as part of the country's own consultative process was not something the Fund Board wished to support. My own personal view is that a draft Letter of Intent that is being considered by the national authorities and the national body politic is probably one of the most relevant documents that the public, in general, would want to know about. Perhaps it is sufficient that this document is viewed only in the country itself, but it seems a little anomalous that when we are asked for a draft Letter of Intent at Headquarters we are not able to provide it, because it is not considered an official Fund document. If there is a way we could get around this linkage question, I think it might solve some problems.

On the issue of translations, we will look into this more carefully. There is a variety of practice at the moment on translations. I am aware of one of the Central European countries where the national authorities, as a matter of practice, do the translations themselves from English into the language of the country. There are some countries that may have the resources to do that. There are other countries in which maybe the resident representative office will be able to do more of that. I believe that it is likely that this is something on which we can make a fair amount of progress.

On parliamentarians, I did note that the Managing Director will be attending this weekend the Parliamentary Network on the World Bank. I and Ms. Bhatia last year attended their annual meeting in Berne, and we have maintained contact with them over the subsequent year. There does not seem to be a particular desire to change the name of the network to World Bank and

IMF, but there does seem to be a strong willingness to give us essentially a strong junior partner role in the organization. We would expect to be continuing to participate very regularly with the parliamentary network.

Ms. Indrawati also made references to Singapore. Clearly, we do view or use Singapore as a regional media center because of its position in the capital markets. Indeed, we use Singapore, frankly, more often than we use Hong Kong. We also have the advantage of the Singapore Training Institute there, which provides us with some logistical support. But I take the point Ms. Indrawati made with regard to our need to have more country-focused activities. At the moment, Kanitta Meesook, the head of the Asia team within EXR, is in fact in the region at a regional conference with the resident representatives and we will be spending much more time on individual country-focused activities.

Directors indicated a desire to emphasize our non-program work. Indeed, my recent visit in January to the Asian region indicated some of the difficulties in this regard, because while it would have been a good opportunity to talk about the Fund's non-program work, the reality is that the press, media, and academic commentators were interested largely in WEO issues. Getting the public to pay attention to these issues is difficult, but we accept the point, and we will try to press it.

Ms. Lundsager asked whether the Current Account follows up on what the Board has actually decided. The short answer is no. I have had a brief bilateral discussion with Mr. Anjaria on this issue. The Current Account has been focused on trying to improve internal communications within the Fund. At least as far as the staff goes, there used to be a form of summaries of Board decisions and actions, and we will discuss with Mr. Anjaria as to how either Secretary's or the Current Account staff might find some way to be able to inform staff and the Board of issues coming out of Board discussions, including the possibility of adding links to the Current Account when, for example, summings up are released.

With regard to the coordination of our outreach activities to parliamentarians, civil society and others, with the relevant Executive Director's office and the authorities, I would like to assure Mr. Wei and others who raised this question that we are very sensitive to that issue. We do follow what a number of Directors have called a common sense approach. When we organize events from Headquarters, without exception, the Board members involved know what we are doing in the country involved, and they often participate by indicating who might be invited to meetings, and so on. That is quite common.

Individual resident representatives do, of course, have their own terms of reference and working relationships with the country in terms of what

activities they engage in, and I think that process will vary—and Directors have indicated that this is desirable—very much from country to country depending on the ground rules. Similarly, with regard to the press, when we get into crisis situations or particularly sensitive market situations with regard to possible announcements, I think both Mr. Zoccali and Mr. Portugal would be in a position to confirm that we always carefully coordinate our statements with them to avoid having an impact on negotiations, and so on. On the other hand, it is unrealistic to expect that such coordination could take place for every country in the Fund. We need to use common sense in that regard.

Messrs. Duquesne and Bennett made references to some recent incidents of "pre-announcements" in the media of either agreements or information about the status of negotiations with program countries before the Board has had an opportunity to be briefed. We do try to avoid that. One of the reasons these happen is because, once an agreement is reached, it is very quickly going to get out in any event.

We also try, in the form and substance of the announcements, to make it clear what the agreement is and that it is almost, without exception, an agreement ad referendum to management, then to be considered by the Executive Board. Needless to say, markets and sometimes country authorities get a little bit ahead of themselves when they see the size of a program and think it may in fact be rather reassuring to the markets, but we do try to act in that regard.

I wanted to pay tribute to Mr. Kiekens, in particular, for having helped organize and "incentivate", if I can use a word that's not really a word, our dialogue with labor. We have made a great deal of progress in that regard in the last couple of years, and Mr. Kiekens, I think, deserves a great deal of credit.

The idea of consolidating and making more coherent the Article IV consultations documentation, perhaps along the OECD lines, is a good one. I think it goes right back to the writing in plain English issue. The reality is still that many of our publications, particularly from an EXR point of view, are frankly cut-and-paste jobs, and over time hopefully we will write them in a better fashion from the beginning so less cutting and pasting is necessary, but I accept that that is a weakness and something we need to deal with.

Mr. Rouai, I believe, paid tribute to the clarity and information on the Financing of the Fund section of the website. I would like to pay tribute to Mr. Brau, in particular, for having made the financing of the Fund intelligible. I think Ms. Lundsager may recall that one of the most unfortunate incidents that a U.S. Executive Director has ever had to go through with the U.S. Congress was Ms. Lissakers's testimony in 1998 in front of the House Financial Services Committee, when she was asked questions about Fund

financing, liquidity ratio, etc., and it was a completely agonizing experience, I am sure, not only for Ms. Lissakers, but for some of us who were sitting behind her waiting to be the next people to testify. We do not get those questions anymore. The transparency of the Fund's finances is well established and we are, in fact, as some Directors mentioned, something of a model in that regard.

Mr. Skurzewski mentioned the Uruguay press release. I think we should have a bilateral conversation. I am not sure that we did tip the number, but it is quite possible that the press stories tipped the number, because the numbers sometimes come out from a different source and they put the two together, but we will certainly look at that.

I agree with Mr. Scholar's characterization of Ms. Pettifor, with whom I have actually a very friendly relationship. I told Mr. Stanley Fischer not long ago that we were getting along well, and Mr. Fischer was perhaps a little incredulous, but I think we have made progress. And perhaps even Ms. Pettifor has moderated a bit, but do not tell her that.

Mr. Yakusha made the point, which we agree with completely, on the need to tailor our messages and activities to the regions. But every country is different, and we try to address each one with a case-by-case approach.

If I could perhaps close with some slightly philosophical comments: I do believe that we have made a fair amount of progress in the last almost 3 1/2 years. But, in sum, we have done the easy part. We have done most of what can be done without a change in the philosophy, culture, orientation, and training in the institution. A number of points were made by Directors that had to do with issues of political economy, sensitivity, and so on. These are issues that are far wider than EXR. They have to do with the way we do business, the way we think about how we do business, and that is something that, if we are to radically further change the institution, is going require a lot more than just the kinds of efforts we have been doing now.

In my own conversations with management, at times we do feel a little beleaguered that there seems to be a rather limited number of members of management and staff who are actually out there in the front lines dealing with many of these issues. Frankly, there are many Fund staff that I would not want particularly out in the front lines, but I do think we have enough talent in this institution and ability and internally developed information that more people could be doing more. Again, that requires a cultural change so that a Director of X Department believes that when asked a question about Y issue, if they know about Y issue they answer it, as opposed to asking somebody from the other department or somebody from EXR to answer the question. I think we need to have a little bit more cross- training and self-confidence to be able to deal with these questions. After all, the Director of EXR answers

questions he does not know much about all the time, so I cannot imagine why the rest of the B5 level staff cannot do a bit more.

The nature of the institution is one that we should do a better job of selling. It is important and valuable to emphasize the cooperative and consensual nature of the institution, and the fact that, because this is an institution in which every country is a member, we try never to attack an individual member, or to say that we do not agree with its policies. We try to find another way to deal with differences. The institution's strength comes for the fact that it is cooperative and that all have in some sense an equal investment in it. But I find that this strength on the inside is not the way it is usually portrayed on the outside.

Finally, with regard to the openness issue, it does warm my heart every once in a while when I hear that people sometimes ask the World Bank why it is not as open as the IMF. That is something that a few years ago would have been absolutely inconceivable. I do not know which institution is more open now; the institutions are quite different. But the fact that we are not accused now of secrecy the way we used to be is a big change. We have more work to do, but I do think that we have made major strides.

Mr. Kiekens noted, on the question of publication in languages other than English, that there should be a decision that day on the publication on the website of country policy intentions documents available in local languages in the original, since the cost would be insignificant.

Mr. Duquesne expressed his support for Mr. Kiekens's request.

The Director of the External Relations Department (Mr. Dawson) replied that publication on the website of country policy intentions documents available in local languages in the original would be done to the extent possible. However, since it would also be necessary to publish an English version, there would be some cost and delay—albeit relatively minor—involved in terms of needing to verify the compatibility of the two versions. Moreover, EXR had been offering for about a year an opportunity for governments to post documents—such as Letters of Intent—with links to the Fund's website, but there had been little interest in doing so, and only one had been established. Finally, while historians might be interested in approved Letters of Intent, from a current events point of view it was the draft letters and other policy documents that the public was most interested in.

Mr. Kiekens said that he was quite reluctant to accept that the Fund would publish draft Letters of Intent. There should be a clear line on what should be published and what should not—only Fund documents should be published. Those documents included Letters of Intent and PRSPs, which were government documents but which were sent to the Fund to sustain or to support a request for a loan, and which were considered and accepted by the Fund as such. Draft Letters of Intent, however, should not be published by the Fund, though there could be considerable interest in knowing that it was up to the authorities to publish

them. To facilitate access to such government documents that were not yet also Fund documents, it might be useful to follow the example of the BIS, which had a list of links to almost all central banks in the world. A similar feature on the Fund website—whereby central banks and governments of our members would allow the Fund to publish on its own website a limited number of links to national websites that were relevant for Fund business—would be useful.

With respect to the earlier question of documents drafted in another language, he knew of a particular case—the Democratic Republic of Congo—where the Letter of Intent had been negotiated with the Fund in French, signed by the authorities in French, and accepted as such by the Fund, but where the Board had received only a translated version, Mr. Kiekens continued. That made the French version the original, legally binding one. Such documents should be published in their original languages on the website, and the Board should be provided with both the translated and original versions.

The Director of the External Relations Department (Mr. Dawson) noted that EXR had inquired with member governments about their interest in having a link on the Fund website to their central banks and/or finance ministries. It was his understanding that only about half of the governments had expressed an interest. However, EXR would raise the issue again to see whether the level of interest had changed.

Mr. Duquesne remarked that English was not the official language of the institution; it was only the working language of this Board. Therefore, he did not see the need to have absolutely everything translated into English. Even if the translation into English took some time, he did not see the problem with making the original version of a document available to the public immediately, if the authorities agreed to publish it. On sending documents to the Board, as Mr. Kiekens had noted, the legal document was the original one.

The Acting Chair (Mr. Sugisaki) stated that he had taken note of Mr. Kiekens's last point—namely that if the official document was prepared in a language other than English, then the original document itself should be published—and Mr. Duquesne support for it. However, the issue was beyond the scope of the external communications policy, and should be discussed separately.

The Director of the External Relations Department (Mr. Dawson) observed that since documents posted on the website needed to be approved by the Board first, the issue Mr. Duquesne had raised would not present itself, since an English translation would always be available by the time the document was discussed by the Board.

Mr. Kiekens asked once again whether a decision could be drafted that day with the intention that, for Letters of Intent and PRSPs drafted in foreign languages, negotiated as such with the staff, sent to the Managing Director as such, and for which there was a website of the Fund in that language—Spanish or French—such Letters and PRSPs would be published on those websites.

The Acting Chair (Mr. Sugisaki) observed that such a decision would mean that Spanish and French would be treated differently from other languages for which there was no website.

Mr. Kiekens considered that there were good reasons why the French and Spanish websites had been set up, and they should be used to their full extent. He did not think that it would be discriminatory to other languages. In any case, there were other official languages—such as Arabic—but he did not have the impression that Arabic- speaking countries would necessarily insist on having an Arabic external website.

Mr. Rouai suggested that documents in their original languages could simply be posted on the relevant country page, regardless of whether that was on the English, French, or Spanish websites.

Mr. Shaalan said that he would very much favor an Arabic website.

The Acting Chair (Mr. Sugisaki) noted that, if there was no limit to the budget, websites in many different languages could certainly be considered. However, there was a limit, and one had to work within it.

Mr. Oyarzábal remarked that, since next year's budget still had not been approved, if there was some cost consideration, it could still be taken into account.

Mr. Bischofberger considered that more reflection should be given to a decision which might have major budgetary implications.

Mr. Kiekens said that he accepted that there was probably not enough willingness of the Board to take a decision that day, but he hoped that the nonavailability of websites in Arabic or other languages would not be an argument for Directors to oppose the publication of Letters of Intent in French or Spanish.

Mr. Duquesne noted that he would be ready to study any document produced to fulfill the desire of Mr. Bischofberger for further reflection.

The Director of the External Relations Department (Mr. Dawson) stated that Mr. Rouai's idea of putting documents on the country page was a good one. He also noted that PRSPs were in fact published prior to Board meetings; therefore PRSPs, many of which were prepared in another language, would be available prior to Board meetings.

The Acting Chair (Mr. Sugisaki) noted that PRSPs were even made available in draft form, and distributed very widely.

Mr. Duquesne observed that the PRSPs, however, were not published by the Fund in their original version until the English version was available.

The Acting Chair made the following summing up:

Executive Directors welcomed the opportunity to review the Fund's External Communications Strategy. Their discussion took stock of the progress achieved in recent years in increasing the IMF's openness and enhancing its responsiveness to outside views, including concerns and criticism. Despite the significant improvements made in these areas, Directors agreed that challenges remain, and that more needs to be done. They considered that continued improvements in external communications are needed to improve further the public's understanding of the IMF's work, so that it can serve its member countries more effectively.

Directors felt that the current relatively high media visibility of the IMF offers a valuable opportunity to enhance the implementation of its external communications strategy. They observed that, although the work of the IMF—based on its mandate to safeguard the macroeconomic and monetary foundations of economic growth—is vital to economic welfare and rising living standards worldwide, much of its work tends to attract controversy. This is not least because a prominent part of the IMF's job is to advise countries on how best to face economic reality in difficult circumstances, including when they need the IMF's financial support. In this context, Directors considered that improving understanding of the IMF's work and respect for its competence, and enhancing the credibility of its policies, are key objectives of its communications—and more so than increasing its popularity. A continuing, concentrated effort to improve understanding of the institution will, over time, be valuable in increasing support for its work in member countries even if progress may seem incremental and modest. Directors generally considered that more can be achieved by better focusing and prioritizing external relations activity within the existing budgetary envelope, although a few Directors thought that the budget should be reviewed if additional funds are deemed necessary in view of the critical importance of this effort.

Focus and Coordination

Directors agreed that the IMF's communications should be sharply focused and that the main themes should be derived from guidance provided by the International Monetary and Financial Committee (IMFC) and from Executive Board decisions and work plans. Directors recognized that external communications are a shared responsibility of the Board, management, and staff, and that the External Relations Department (EXR) necessarily plays a crucial role in ensuring that the IMF's external communications are well developed, coordinated, and delivered. EXR's responsibilities, Directors noted, include keeping staff informed about the key issues for external communications, drafting and revising material for public statements, and coordinating and advising on public speaking opportunities and interactions

with the media. In this connection, Directors generally commended the staff, especially EXR, for their substantial efforts to strengthen internal communications and coordination aimed at improving external communications. With the inevitable involvement of an increasing number of IMF players in such activities, Directors believed that it will become increasingly important to ensure that consistent messages are being delivered.

Availability and Accessibility of Information

Directors observed that the IMF's transparency policy has led to the release of a greatly increased volume of policy and country papers and summaries of Board discussions, with the IMF's external website (www.imf.org) being the primary vehicle for dissemination. The IMF also publishes vast quantities of research and statistical data as well as comprehensive information on the IMF's finances. Directors acknowledged that the sheer volume of information released by the IMF, together with its technical and specialized content, increases the importance of providing clear and brief summaries and explanatory material for non-specialists. Directors indicated their support for ongoing efforts to improve the drafting, editing, and summarizing of IMF material intended for public dissemination. They considered, however, that more needs to be done to make such material understandable—including by presenting it in plain English and reducing jargon. In a similar vein, Directors called for continued efforts to enhance the communication skills of all IMF staff, which will be important not only for improved interactions with the public, but also for enhancing the learning culture of the institution more broadly. Many Directors underlined that senior staff across the Fund can make a positive contribution in external communications, and we will need to consider how best to advance in this respect.

Proactive Outreach and Dialogue

Directors shared the view of management and staff that the purposes of outreach and dialogue include listening and learning, as well as informing and providing explanations for interlocutors, and that the IMF now, more actively than in the past, seeks to take into account the views of its critics as well as supporters in developing and revising IMF policies, practices, and advice. Directors welcomed the considerable expansion in recent years of the IMF's communications with nonofficials, particularly legislators and civil society organizations. Going forward, they agreed that, given its limited resources, the IMF, like other international organizations, will need to be selective and set priorities for outreach and dialogue. Most Directors supported giving priority to communications with legislatures, labor unions, and the private sector, in coordination with national authorities. Several Directors urged a further strengthening of efforts at constructive dialogue with nongovernmental organizations and academic and policy research institutes on

IMF-related issues, especially major international NGOs and those active in program countries. Most Directors supported a more active role for IMF resident representatives and mission chiefs in outreach, with several Directors noting that outreach should take care to respect the preferences of the authorities and be tailored to the needs of each country in order to be effective in complementing the IMF's core work. Directors also noted the important impact of management speeches—which are direct and clear—as well as visits by management to member countries. Directors welcomed the staff's proposal to prepare a guidance note for Fund staff outreach to civil society organizations. While encouraging staff to highlight the IMF's successes, Directors considered that the IMF's public image and accountability can only benefit from the institution's willingness to learn lessons from its experience and to openly acknowledge mistakes when they do happen. Directors were generally supportive of prompt, vigorous responses to biased or inaccurate media reports regarding the Fund and its activities, while recognizing that a key objective should be to provide consistent long-term messages to opinion leaders throughout the world.

Broadening the Reach of IMF Communications

Directors welcomed the significant contribution to communications and outreach being made by the availability of vast amounts of information on the IMF's external website. They favored continued development and expansion of the website, which should focus on the quality of information provided and maintain its ease and speed of access for users everywhere. Several Directors encouraged the efforts to make the content of the IMF website more user-friendly, less technical, and more streamlined. Directors supported efforts to expand distribution of the Fund's print publications, especially in developing countries. They also welcomed efforts under way by EXR and area departments to better plan and coordinate the IMF's external communications programs for specific regions and countries, taking into account the differing circumstances and perceptions from one country to another and without ignoring any region. Directors also noted that, within a given country, the impact of Fund communications will vary across groups and institutions, calling for gearing communication efforts to the particular background and concerns of different audiences. Several speakers suggested the adoption of a Mission Statement by the IMF to help convey the essential purposes and goals of the institution in plain language.

Publications in Languages Other than English

Directors discussed the conclusions of a report from an interdepartmental task force on IMF publications in languages other than English. They agreed that increased publication of IMF documents and other information in languages other than English, including local languages as well as the most widely used international languages, can be very helpful for

increasing understanding and support for IMF policies and advice as well as fostering country ownership. For country policy intentions documents available in local languages in the original, the practice of linking to authorities' websites, or posting on the IMF website in the case of the major languages for which links exist on the homepage, should be encouraged. In other cases, translation costs may be significant. Although some Directors favored an exceptional allocation of resources for the purpose, most considered that this should be accommodated within existing budget ceilings on an as needed and case-by-case basis. They encouraged the staff to identify low-cost options and cases where the benefits of publishing translated material are likely to be high relative to costs. For example, some Directors suggested that the Fund should actively encourage the translation of appropriate documents into local languages by local entities, with the Fund possibly bearing some cost, particularly where easier access to documents will help provide a better and wider understanding of the Fund's message.

Role of the Executive Board

Directors expressed a range of views on the role of Executive Directors in the external communications process. Several Directors noted the complexities involved in playing a prominent public relations role, as this entails balancing their roles as representatives of their countries and as officers of the IMF. Several thought that Executive Directors could play a useful and active role, including in explaining the IMF in their constituencies. The suggestion was made that Directors could be guided by a "code of conduct" that the Board itself could develop subsequently.

This has been a useful and constructive discussion on the points captured above, and many others. We have noted the many valuable suggestions made by Directors and will endeavor to incorporate them into our communications strategy. We have also noted the interest of Directors in having more regular—perhaps annual—Board reviews of the communications strategy and, as needed, informal seminars focused on particular issues in the strategy, and we will be prepared to do so.

3. LIBERIA—2002 ARTICLE IV CONSULTATION; AND OVERDUE FINANCIAL OBLIGATIONS—REVIEW FOLLOWING DECLARATION OF INELIGIBILITY, AND SUSPENSION OF VOTING AND RELATED RIGHTS

Documents: Staff Report for the 2002 Article IV Consultation, Overdue Financial Obligations to the Fund—Review Following Declaration of Ineligibility, and Decision on Suspension of Voting and Related Rights (EBS/03/20, 2/20/03); and Selected Issues and Statistical Appendix (SM/03/78, 2/26/03)

Staff: Shields, AFR; Lin, TRE; Fisher, PDR

Length: 1 hour

The staff representative from the African Department (Mr. Shields) submitted the following statement:

> This statement reflects information provided by the Liberian authorities since the circulation of the staff report (EBS/03/20) to the Executive Board on February 20, 2003.
>
> The Liberian Minister of Finance, Mr. Charles Bright, informed staff on Monday, March 4, 2003 that the government of Liberia had decided to increase its monthly payment to the Fund from US$50,000 to US$75,000 effective from the start of its next fiscal year, beginning July 1, 2003. Mr. Bright also provided staff with a copy of the financial audit of the Liberian Petroleum Refining Corporation (LPRC) for 2000 and 2001 recently completed by the audit firm Pannel Kerr Foster, Inc. He indicated that the audit for 2002 is expected to be available within the next six weeks.
>
> Mr. Bright clarified that no commitment has yet been made by the European Union (EU) on the funding of independent financial audits of the Bureau of Maritime Affairs (BMA), Forestry Development Authority (FDA), and LPRC. The European Commission has confirmed that some resources would be available within the current envelope for Liberia, but that additional resources would probably need to be mobilized if a decision were taken to finance the audits. To date, the only action that has been undertaken with respect to the audits is the circulation of a preliminary draft of terms of reference.
>
> If Liberia's payments to the Fund increase to US$75,000 per month from July 2003, total payments in 2003 would represent 0.1 percent of Liberia's arrears to the Fund or about 10 percent of its obligations falling due. They would be equivalent to 0.5 percent of Liberia's recorded exports of goods in 2002.
>
> This information does not affect the thrust of the staff appraisal or the staff's assessment that Liberia has not adequately strengthened its cooperation with the Fund since the last review.

Mr. Usman submitted the following statement:

> Introduction
>
> We thank the staff for a detailed and candid report. My Liberian authorities wish to express their deep appreciations of the Fund management's

patience and understanding of their concerted efforts to arrest the country's declining economic conditions, as well as to address the problem of their overdue financial obligations to the Fund. However, these efforts to deliver on the reforms spelled out in the Managing Director's letter of complaint and in the last decisions of the Executive Board have been seriously constrained by the harsh and very difficult political, social and economic conditions which they face, including the persistence of the unfavorable external environment that has prevailed. Indeed, the external conditions difficulties have been compounded by the drying up of foreign aid flows making it extremely difficult to meet even the token monthly payments.

However, as mentioned in the staff report, the Liberian authorities have endeavored since the last Executive Board discussion, within the opportunities presented by the prevailing circumstances, to deliver on the recommended structural reforms. Following the last staff mission, the government of Liberia has also taken several economic measures to further address the outstanding issues of concern to the Fund. These measures will be highlighted in the course of this statement. Also, in their desire to improve their working relationship with the Fund, they were assiduous in arranging all the meetings asked for by the staff mission and have tried desperately to meet the staff requests for data and background information.

My authorities would therefore wish to emphasize that the Executive Board in arriving at its decision, should take account of the realities of their economic circumstances and the strong desire of the government of Liberia to remain constructively engaged with the Fund as evidenced by these efforts, and that they would continue to address all remaining areas of the Board's concern.

The adverse domestic political and social conditions confronting the authorities are enormous and are still prevalent.

Rebel factions reportedly control one-third of the countryside and render the Liberian government barely functioning. The recent conflict in neighboring Côte d'Ivoire is compounding the security and social situation in Liberia with the return of a large number of Liberian refugees causing new strains in international relations. The long years of conflict has also led to serious depletion of infrastructure, limited exploitable resources, as well as shortage of capacity. Even the attempt to resolve the political impasse was frustrated by the rebel factions which failed to attend the National Reconciliation Conference in Liberia in August-September 2002.

These harsh realities which prevailed during the last Board discussions in October still characterize the Liberian political and economic environment, with the result that the country still faces an extremely difficult economic circumstances. Government departments are understaffed, with substantial

wage arrears, while the authorities have also been drawing on their extremely limited resources to meet even the token monthly payments to the Fund.

International isolation has further contributed to the exacerbation of domestic economic conditions.

The United Nations sanctions, including restrictions on travel by senior members of the government, which have been in place since May 2001, were extended in May 2002, and even prevented the erstwhile Liberian finance minister from attending the last Executive Board discussion to present Liberia's case. Much the same fate would likely be the lot of the current minister of finance who is desirous of coming to address the Executive Board during the current discussions.

Other than humanitarian aid, the authorities have received no direct assistance from donors in 2002 as against transfers equivalent to about 10 percent of revenues in the previous years. The small manufacturing sector has also continued to suffer from a virtual absence of foreign investment as a result of the adverse impact of the UN sanctions and cessation of donor support.

In spite of the identified constraints, the Liberian authorities have undertaken some far-reaching reforms.

Since the October 4, 2002 meeting of the Executive Board, as much as 90 percent of the revenues remitted by Liberia's corporate and shipping registry (LISCR) are now deposited directly in the central bank, with only 10 percent retained by the Bureau of Maritime Affairs for its operations.

A survey of the commercial banks has been conducted to identify the deposits of all government agencies, and the General Auditing Office has been instructed to engage a local accounting firm to conduct financial audits of the agencies responsible for maritime (BMA) and timber operations and revenues (FDA). The management and services audit of these two agencies was re-awarded, after the initial project was abandoned at the review stage by the accounting firm of Deloitte & Touche, which claimed that it had been coerced by its New York and London offices to disengage from the contract. The second phase of the audit has been completed by the local firm and a copy of the report has been submitted to the staff. My authorities promise to forward progress reports to the Fund as they become available. Also, the financial audit of the Liberia Petroleum Corporation (LPRC) covering 2000 and 2001 is almost completed by a local accounting firm, and copies of the reports will be forwarded to the staff soon.

The Liberian authorities have improved on the timeliness of monthly payments to the Fund on the agreed amount of US$50,000. In foreign

exchange management, the central bank acted to discourage speculation in the market including the investigation of evidence of collusion between foreign exchange bureau operators, reprimands to commercial banks for taking excessive foreign exchange positions, and through moral suasion.

The overall tariff structure has been simplified and most tariffs now fall in one of six bands, between 2.5 percent and 25 percent, with an average overall tariff rate of around 12 percent, making it one of the lowest in the region. For the product market, there is a proposal and renewed commitment by the authorities to ensure the complete liberalization of the rice market, while for now, the market share of the two largest distributors has declined.

Further reforms in the tax system and product liberalization are being proposed by my authorities in the near term. These include the introduction of the Phase II of the Revenue Code, which would provide a unified framework for the taxation of agriculture and resource extractions, and bring the existing exceptions into the framework of the code.

There has also been improvement in the area of governance. After government succeeded in pushing back rebel forces in the wake of the incursions in 2002, the state of emergency was lifted in September, and greater freedom was provided to conduct political activity.

In addition to these earlier reforms and following the last staff mission in December 2002, the government of Liberia has also taken additional measures to address the outstanding concerns of the Board. In the area of financial audits, the European Union (EU) has consented and identified funds to conduct independent financial audits of the Bureau of Maritime Affairs (BMA), the Forestry Development Authority (FDA) and the Liberia Petroleum Refining Company (LPRC). The EU has recently furnished the Liberian authorities with the terms of reference covering this engagement, and the document has been circulated among the relevant government agencies for their review and comment. My Liberian authorities anticipate that this exercise would be completed shortly.

On rice importation, my Liberian authorities have always maintained that it does not encourage any monopoly or oligopoly position and that rice imports are subject purely to market factors. They are, however, concerned, because of the sensitive and strategic nature of rice, that there is always sufficient buffer stock in warehouses around the country. Nonetheless, the Ministry of Commerce and Industry, on January 29, 2003, commenced publicity in which it reminded all interested business houses of the openness of the market.

My authorities have also kept the promise to reverse the administrative regulations on the suspension of the implementation of the goods and services

tax (GST) on some items. It would be recalled that the Liberian authorities, during the last Board discussion, informed the Fund that the introduction of these regulations was time-sensitive and that when conditions changed, they would be reversed.

One such reversal was effected by the authorities from February 15 this year, when they decided to end the derogation and have made application of the goods and services tax to cover domestically produced and imported cement.

Prospects for the Liberian economy remain bleak unless there are positive changes in the domestic political situation and in international relations.

Liberia's growth prospects will hinge largely on the resolution of the domestic conflict, as well as a positive change in the attitude of the international community to the country. While activity in the logging sector will drive the growth process, domestic conflict in the regions still under rebel control and other environmental considerations may impose restrictions in the performance of the sector. In a similar vein, output in the timer, rubber, and smallholder agriculture sectors may also continue to be affected by threat of rebel activity and low level of investment, leading to a decline below 3.0 percent in the GDP growth for 2003. The closure of many customs offices at land borders, particularly those close to Côte d'Ivoire and slower activity through the port of Monrovia will also impact adversely on government revenue and thereby put a strain on government current expenditures.

The external current account deficit is also projected to widen as a result of a rebound in imports, despite a moderate increase in export value, owing to higher world prices. In the absence of budgetary support from donors and since no revival is anticipated in direct private investment, aggregate current transfers are expected to fall in 2003, resulting in an increase in Liberia's external arrears by some US$67.4 million or 11.1 percent of GDP.

My authorities appeal for the understanding and cooperation of Liberia's development partners in this onerous task of reviving the economy.

My authorities appreciate the past efforts of the development partners in Liberia's economic development, and they still count on their continued support in addressing the outstanding issues that would pave the way for sustainable real growth and poverty alleviation. The authorities recognize that reforms can only be effectively undertaken if adequate external resources and foreign technical assistance are provided to build capacity in the relevant areas.

One very crucial area of immediate need of technical assistance is in the provision of data for information and economic planning. For instance, the outstanding reforms in the provision of important economic data on national accounts, social conditions, exchange and interest rates, consumer price inflation, monetary data and government fiscal account, as well as in the preparation of the proposed new revenue code, have been constrained by continuing lack of resources and inadequate capacity. Also, little progress has been made in either documenting the prevalence of HIV/AIDS or in tackling the problem for similar reasons. The crucial role of foreign technical assistance was clearly demonstrated by the capacity constraints and disruption caused by the departure of Fund advisors in 2000, while the current reengagement of the EU has helped to revive the abandoned financial audit of some government agencies, and has underlined the indispensability of foreign partners in Liberia's economic development process.

As a result of limited financial assistance from foreign donors, including the limited activities of NGOs, the provision of social services by the Liberian government continues to be under severe pressure in the face of a growing proportion of the population being displaced and the continuing threat of the HIV/AIDS pandemic.

The prospect of achieving a viable recovery of the economy in the medium-term or even developing a foundation for sustained growth and poverty alleviation, therefore, becomes a mirage, not likely to be overcome by sole reliance on declining domestic resources. A resumption of external support, therefore, will permit a significant improvement in Liberia's growth performance, support the rebuilding of the country's physical infrastructure, accelerate resumption of direct private investment and help in resolving the external debt overhang.

Conclusion

- Political instability coupled with a tense security situation;
- UN sanctions, together with travel ban on the president and his ministers;
- dried up donor aid and near zero FDI;
- lack of administrative, technical, institutional, and human capacity;
- absence of a motivated, skilled and dedicated personnel to confront the challenges;
- an economy in a "dire state," with a high poverty rate, serious deficiencies in health, education, and sanitation standards, and a per capita GDP at US$169 in 2002, among the lowest even in Africa;
- dismal short-term economic outlook with limited sources of economic growth over the next 5 years; and
- prospects of increasing regional conflict, political instability and security concerns.

The foregoing indeed summarizes the staff report, giving a gloomy picture and the sad story of Liberia. It shows that overall, Liberia's economic prospects are not only difficult to formulate, but also projections into the future are near impossible because of the many constraints, uncertainties and enormous challenges.

Against this background a decision to suspend the voting and related rights of Liberia in the Fund would serve little or no useful purpose. In fact, it is unlikely it would help improve Liberia's economic prospects or enhance its chances of meeting its overdue financial obligations to the Fund or indeed any other creditor. If anything, it is more likely to worsen Liberia's situation. Liberia would not only be denied any form of technical assistance and support from the Fund, which it so desperately needs to address the many deficiencies and challenges highlighted by staff, but there is also the apparent signaling to the rest of the international community not to bother to provide the necessary external resources needed to facilitate bringing Liberia out of the "quagmire" it has been "trapped in," and its early integration with the rest of the international community.

The Liberian people have suffered tremendously from their unfortunate situation and will continue to suffer more with a decision to suspend Liberia. But Liberia now more than ever, needs all the support, all the technical assistance, all the advice, and all the guidance it can get from the BWIs, particularly from the Fund. The economy needs to be put in an intensive care unit and would require necessary rehabilitation, counseling and guidance from the Fund and not further isolation or exclusion.

The authorities do recognize that they need to deliver on reforms, especially in the areas of governance, and security. They recognize also that they need assistance to rebuild administrative, technical and institutional capacity so seriously lacking in order to significantly arrest the slide and reverse the decline. They have indicated their renewed commitment and continued readiness to make the necessary policy reforms and to stay constructively engaged with the Fund.

Presidential and legislative elections are scheduled for October 14, 2003, and a large number of political parties have registered for the elections. The people of Liberia deserve another chance. There is at least a window of opportunity and some glimmer of light and hope at the end of the tunnel. Their appeal to the Executive Board deserves sympathetic consideration.

Mr. Bennett submitted the following statement:

Last October, we noted that Liberia had been given ample time, warning, and opportunity to re-engage with the Fund. Most Directors agreed,

and voted in favor of suspending Liberia's voting and related rights in the Fund.

A few Directors, however, wanted to give the authorities "one last chance" to enhance cooperation with the Fund, but indicated that they would suspend Liberia's voting and related rights at the 2002 Article IV consultation discussion if the staff once again came back with an assessment that Liberia had not significantly improved cooperation with the Fund.

The staff has now undertaken the Article IV consultations and concluded that: ". . . Liberia has not adequately improved its cooperation . . . Accordingly, the staff recommends that the Executive Board suspend Liberia's voting and related rights in the Fund."

The Board should support the staff's recommendations. To not suspend Liberia's voting and related rights in the Fund would undermine the credibility of the Fund's policy on arrears, and would make it difficult to discipline other non-cooperative countries.

Should Liberia significantly improve its cooperation with the Fund in the future, as Mr. Usman states in his statement the authorities are planning to do, we would support reinstating Liberia's voting and related rights in the Fund. Indeed, the proposed decision mandates a review of the situation within six months.

We appreciate the effort the staff has invested in completing the Article IV consultations. We found the report to be very informative and frank, and we agree with the staff's assessment.

Mr. Ondo Mañe submitted the following statement:

We thank Mr. Usman for his insightful statement, and the staff for a detailed report on recent developments in Liberia. At today's meeting, the Board is being asked to make a delicate decision, which if accepted, would have important consequences, particularly for the people of Liberia.

It is regrettable that there has been no improved cooperation with the Fund since the last review, both in terms of economic policy implementation and payments performance. This has led staff to propose that the Executive Board suspend Liberia's voting and related rights in the Fund. Under normal circumstances, this would be appropriate, but considering the extremely difficult economic circumstances confronting Liberia, we share Mr. Usman's plea to the Board for understanding and for providing another chance to the people of Liberia.

In light of the considerable constraints facing Liberia, we believe that we need to take account of the realities prevailing in the country and the authorities' strong desire to remain constructively engaged with the Fund. In particular, it is important to assess Liberia's case against the background of the difficult political and social environment prevailing in the country. As Mr. Usman rightly points out in his statement, there is a rebel faction that controls one-third of the countryside, and constrains the functioning of the government. The long years of war have resulted in a serious destruction of infrastructure, limited exploitable resources, and shortage of capacity. It is unfortunate to note that the harsh realities that prevailed during the last Board discussion in October are still prevalent. As a result, the country still faces extremely difficult circumstances, as evidenced by the understaffing of the government departments, considerable wages arrears, and the difficulty to meet even the token monthly payments. Moreover, many companies have closed or have slowed down their business activities, waiting for a more secure environment and the end of rebel actions.

As regards arrears vis-à-vis the Fund, it is regrettable that its level has increased, despite the efforts that the Liberian authorities have made to remain current on the monthly payments agreed upon with the Executive Board in 1997. Several factors have contributed to this situation, including the difficult social and political environment, and the drying up of foreign aid inflows.

Despite the difficult circumstances confronting the authorities, we commend them for implementing some structural reforms, particularly with regard to Liberia's corporate and shipping registry (LISCR), the conduct of a survey of commercial banks, auditing of BMA and FDA, the near completion of the financial audit of the Liberia Petroleum Corporation (LPRC), the simplification of the overall tariff structure, the authorities' renewed commitment to ensure the complete liberalization of the rice market, as well as the improvement in the area of governance. We also note the additional reforms being proposed in the tax system and product liberalization in the near term.

With regard to Liberia's growth prospects, we encourage the authorities to push ahead with the resolution of the domestic conflict and improvement of relations with the international community. It is clear that positive changes in these areas will boost the country's potential in logging sector, timber, rubber, and smallholder agriculture sectors. In particular, a resumption of external support will be key in improving growth performance, support the rebuilding of the country's physical infrastructure, accelerate recovery of direct private investment, and help to resolve the external debt overhang problem.

The importance of technical assistance was demonstrated by the capacity constraints and disruption caused by the departure of Fund advisors

in 2000. In this connection, to improve the quality and coverage of economic data, we share Mr. Usman's view as regards the importance of addressing the immediate need facing Liberia, mainly through technical assistance, necessary to improve key economic data on national accounts, social indicators, exchange and interest rates, monetary data and government fiscal account. Technical assistance will also serve to rebuild administrative, technical and institutional capacity.

With regard to the organization of presidential and legislative elections scheduled for October 2003, we are pleased to learn that this process will involve a large number of political parties. However, can staff elaborate more on the involvement of the international community in the electoral process, including the financing?

Finally, as we indicated during the last Board in October 2002, Liberia continues to have the characteristics of a post-conflict country. As such, we hope that the Fund would reconsider its assistance to Liberia. We believe that Liberia needs to be helped. The people of Liberia have suffered much from their unfortunate situation, and will suffer further with a decision to suspend Liberia's voting and related rights in the Fund. The Fund should continue its close dialogue with Liberia, and provide it with the necessary technical assistance that will help to improve economic performance.

Mr. Daïri made the following statement:

We thank the staff for the excellent report, and Mr. Usman for his comprehensive statement. The civil war of 1989–96 devastated Liberia's economy and inflicted a heavy material and human toll. With abatement of the war and support by the international community, Liberia achieved a measure of recovery in 1997–2000. However, in the past two years, continuing rebel activity, the effects of UN sanctions, withdrawal of donor assistance, and domestic policy weaknesses have caused major disruptions to the economy. Growth has stalled, inflation pressure has mounted, domestic arrears have increased, and the external debt burden has escalated—including accumulation of substantial arrears to IFIs. The authorities have been slow to take strong actions to restore international confidence and attract the requisite support to turn the situation around. The most pressing challenges confronting the authorities are to seek a resolution of the conflict, improve economic policies and governance, and normalize relations with the international community.

Fiscal policy is undermined by inadequate resources and weak expenditure control. Current and social expenditure has been curtailed while arrears have accumulated. Stated capital expenditures may include security-related and other unspecified outlays, and the real level of investment spending may be low. While the deficit has been kept low, in part due to

arrears build-up, fiscal policy, in its current form, is not sustainable. Revenue needs to be expanded based on suggestions by the Board. In particular, all revenue from the key sources and cash balances of off-budget agencies should be transferred to the CBL to enhance transparency. Furthermore, tax derogations should be eliminated while completing independent financial audits of the key revenue-generating agencies. On the expenditure side, there is a need for effective control, transparency, and prioritization. More importantly, all government agencies must be accountable for their expenditure—which should be subject to the appropriate authorization process—and the practice of tax credits for expenditures should be eliminated to avoid abuse. Effective control should be exercised over suppliers by streamlining expenditure authorization by government departments.

Maintaining monetary control is important to keep inflation under control, protect reserves, and prevent excessive exchange rate depreciation. However, the central bank lacks effective instruments and adequate capacity. The CBL should begin to develop appropriate instruments of liquidity management. The recent use of certificates of deposit by the CBL for this purpose did not only give rise to a multiple-currency practice, but it was also costly and involved exchange rate risk. The banking system is fragile and threatened by large government arrears, rising NPLs, high unremunerated reserve requirements, and capped lending rates. The widespread dollarization and the potential exchange rate depreciation have increased the vulnerability of the banking system, contributing to depressed deposit rates and low financial intermediation. However, the authorities are to be commended for maintaining an open exchange system and flexible exchange rate regime devoid of net intervention.

The over-regulation of key domestic markets is contributing to pervasive cost-price distortions, while creating monopoly privileges and incentives for corruption. Liberalizing the distribution and pricing of key commodities will enhance competition and efficiency to the benefit of consumers. Civil service reform should be accelerated aimed at downsizing and enhancing productivity and efficiency. The lack of control, accountability, and transparency in economic governance is a matter of concern. To regain donor and investor confidence, a stronger commitment to the enforcement of appropriate financial procedures and elimination of bureaucratic discretion is critical.

The medium-term economic outlook based on prevailing security conditions and unchanged policies is bleak. The baseline scenario points to depressed growth, constrained government expenditure, increasing financial imbalances, and worsening social indicators. On the other hand, resolving the conflict, improving policies and governance, and normalizing relations with the international community promise to attract external assistance to support government expenditure, spur growth, and improve the living standards of the

people. Resumption of donor support will allow exploitation of new major sources of growth—given the limitations of existing ones—including in oil exploration and mining, and the rebuilding of infrastructure and institutional capacity.

Economic and social data need to be improved to facilitate policy analysis and surveillance. Furthermore, providing adequate information on petroleum transactions and the composition of government expenditure will signal increased transparency in public resource management.

The issue of Liberia's overdue financial obligations to the Fund has been a protracted one. While the authorities have honored the promised $50,000 monthly payment—in spite of Liberia's precarious financial situation—this is not enough to stabilize the arrears. The authorities have taken some policy measures—and, indeed, have indicated their commitment to take further actions—but this has fallen considerably short of Fund demands. Notwithstanding, there is no evidence of a complete breakdown of cooperation between the authorities and the Fund, and we welcome the recent measures announced in the staff statement, including the increase in monthly payments. Therefore, while we could reluctantly support a consensus to suspend Liberia's voting rights at this time—particularly because of the protracted nature of the issue and also in view of the need for the Fund to signal firmness and decisiveness—our first preference is to provide another chance to the authorities to deliver on their promises and to review the matter within 6 months. Indeed, in view of the dire situation, we agree with Mr. Usman that a decision to suspend Liberia's voting and related rights would serve little or no useful purpose. It would weaken the camp of the pro-reform elements in the government and the society, and make the economic prospects even gloomier with catastrophic effects on the population.

Mr. Josz made the following statement:

Liberia currently suffers the consequences of mismanagement, poor governance, political uncertainty, and weak security. Such conditions do not add up to a basis for sustainable GDP growth, which is very badly needed to remedy Liberia's pervasive poverty. The staff's baseline scenario shows clearly that GDP growth of 3 percent cannot begin to improve Liberia's poverty situation, which is one of the worst in Africa.

Still on the subject of growth, I agree with Mr. Usman that it is difficult to describe Liberia's economic present and nearly impossible to predict its future, given the multitude of constraints, uncertainties, and challenges. Turning the economy around will require the authorities to restore order, ensure political stability, and drastically improve the governance of Liberia's public institutions.

During the period under review Liberia made almost no progress toward improving governance. Let me illustrate this absence of progress with some recent examples:

- the abuse of monetary policy to guarantee exceptional returns to a few selected counterparts of the central bank;
- a decrease in public revenues from 16 percent to 13 percent of GDP between 2000 and 2002;
- the absence of a full accounting of public revenues in the maritime, forestry, and oil sectors;
- the failure to give the staff any information supporting the claim that 70 percent of public expenditures went to capital spending; and
- the failure to make enough progress toward improving governance in the five areas cited by the Managing Director in his letter of April 18, 2002, in the time since our last meeting on Liberia in October 2002.

This bring me to the proposed decision to suspend Liberia's voting rights. Last fall, this chair deemed it useful to give the Liberian authorities more time to comply with the five requests aimed at improving governance which were contained in the Managing Director's letter—requests that were well attuned to Liberia's very limited administrative capacity. The decision to allow more time was based on evidence of good faith, consisting of first steps that the authorities had made to improve governance, and on their stream of payments to the Fund.

The regular payments which Liberia has continued to make are much more than token payments, considering the catastrophic situation of Liberia's economy: they paid $600,000 during 2002, equal to about one-third of the foreign exchange reserves held by the central bank, and about one-half of the interest charges they could reasonably be expected to pay based on HIPC Initiative criteria of debt sustainability and the current level of their export receipts.

But these payments have not been accompanied by any meaningful progress with the governance issues listed in the Managing Director's letter. With the exception of the removal of the goods and services tax exemption on cement which took effect last February 15, the few measures taken by the authorities and reported in Box 1 of the staff paper are identical with those already reported last fall. The authorities' last minute provision to the staff of the long-requested audit of the oil company, and their welcome but very late decision to increase their payments to the Fund by 50 percent beginning next July, change neither the staff's appraisal nor my own that Liberia has not adequately strengthened its cooperation with the Fund during the last six months. I therefore support the decision to suspend Liberia's voting rights.

This suspension should not become a pretext for abandoning all attempts to improve governance or payments on overdue obligations to the Fund. In Appendix IX of the staff report, the staff demonstrates that a genuine effort to improve policy performance, combined with external support, has the potential to improve Liberia's economic performance and social outcomes. The international community has shown many times—most recently in neighboring Sierra Leone and the Democratic Republic of Congo—that it will provide timely assistance for country authorities' efforts to improve policies to the benefit of their whole population. But it is up to the authorities to create conditions justifying such support.

Mr. Ralyea made the following statement:

Let me start by saying that we fully concur with every point made by Mr. Bennett in his preliminary statement. Liberia has not adequately improved its policies or cooperation with the Fund in this regard since the Board meeting in October, as noted by the previous speaker, to warrant a change in our position. We support the staff's recommendation to suspend Liberia's voting rights.

We hope that the authorities realize that the measures that the Fund requests of them will benefit Liberians, above all. This point should not be lost on other Directors as well. Repayments to the Fund are important and a tangible sign of cooperation, but improvement in the policy environment is just as critical.

More broadly, the economic growth needed to reduce poverty will not materialize without implementing the recommendations made by the staff during the Article IV consultation. In that regard, we give highest priority to improving the transparency of government operations, including reflecting all revenue and expenditure flows in the budget. Basically, we hope the authorities start doing what is best for their citizens.

Mr. Farelius made the following statement:

Let me first say that I appreciate the staff's efforts in completing the Article IV consultations. I broadly agree with the staff's assessments, and I have nothing further to add on the policy recommendations.

Regarding the other issue, on the proposal to suspend Liberia's voting and related rights in the Fund, I would like to associate myself with the remarks made by Mr. Bennett in his statement. The fact is that Liberia's arrears to the Fund have risen further since the last review and Liberia has therefore not adequately strengthened its cooperation with the Fund. When we discussed this issue last time on October 4, 2003, this chair was of the view that the Board had provided the authorities sufficient opportunities and that

failing to act by suspending Liberia's voting rights in the Fund would risk undermining the credibility of our policy on arrears cases. We still stick to this position and support the staff's proposal. We also urge the Liberian authorities to normalize their relations with the Fund.

Mr. Fabig made the following statement:

We thank the staff for a very candid set of papers, and Mr. Usman for his statement. Since we have commented on the situation in Liberia on many previous occasions, and since this situation has not changed decisively, I shall be brief today.

We fully endorse the staff's analysis. As the staff report brings out very clearly, the situation in Liberia is indeed disheartening. I would like to emphasize that this difficult situation is to a very large degree homegrown. It is not appropriate to blame the withdrawal of foreign aid or the international isolation for the difficult situation in Liberia. Rather, as spelled out in the staff report, it is the other way around: Liberia's internal conflict, its involvement in neighboring conflicts, the poor human rights situation, and the authorities' failure to provide domestic security, improve governance, run the public sector efficiently, and improve fiscal and monetary policy are the very reasons for this withdrawal and isolation.

The staff is perfectly right in pointing out that without decisive action by the Liberian authorities to address this myriad of problems and challenges, there is no prospect of achieving economic recovery or developing a foundation for sustained growth.

We strongly urge the Liberian authorities to implement the measures recommended by the staff, in particular, those related to fiscal policy. Government revenue needs to be increased and fiscal transparency must be improved as soon as possible.

Regarding monetary policy, we fully concur with the staff's judgment concerning the introduction of special certificates of deposit, and we urge the Liberian authorities to refrain from using this instrument in the future.

Let me now turn to today's decision concerning the suspension of Liberia's voting and related rights in the Fund. While we welcome the announcement by the Liberian authorities to increase their monthly payments to the Fund from US$50,000 to US$75,000 starting July 1, 2003, this does not change our decision to support the staff's proposal to suspend Liberia's voting and related rights. We have already explained our position last October. Given the largely unchanged situation, I will not repeat all the arguments we put forward on that occasion, but I fully concur with Mr. Bennett's excellent

statement. Let me just emphasize once again that today's decision is not least a question of credibility for the Fund.

To conclude, our sympathy is with the Liberian people. Since humanitarian assistance is not the Fund's business, all we can do today is to send a very strong message to the Liberian authorities about our discontent with their economic management. However, as Mr. Bennett's statement rightly points out, acceptance of the proposed decision triggers a review of the situation in six months. Given sufficient progress, we would be happy to consider a reversion of today's decision.

Mr. Gallardo made the following statement:

Since the last report on October 2002, economic conditions in Liberia have further deteriorated. GDP growth slowed to 3.3 percent in 2002, and prices rose by an average of 14 percent over the year, and the exchange rate depreciated in terms of the U.S. dollar by 10 percent. On the fiscal side, government revenues fell to 12.9 percent of GDP in 2002, and expenditures have risen on security and capital projects, with no access to borrowing restricting other current expenditures to 4.6 percent of GDP. Arrears to government employees amount to eight months of the wage bill. The authorities have not made sufficient progress to improve revenue performance and transparency according to the Executive Board recommendations during the 2001 Article IV consultation. Liberia's payments to the Fund have remained well below the level needed to stabilize the arrears. The stock of Liberian public sector debt amounted to US$3.1 billion equivalent to 550 percent of GDP. Total external arrears at end-December 2002 were US$2.5 billion, and as of end-January 2003, Liberia's arrears to the Fund amounted to SDR 498 million, or almost 700 percent of quota. Donor assistance has ceased, foreign direct investment is minimal, and UN sanctions on diamond exports have been in place since May 2001. According to staff the short-term economic outlook is dismal due to domestic conflict, institutional neglect, destroyed infrastructure, and UN sanctions. We deeply regret such a dire situation and the suffering it is causing to the people of Liberia.

The staff's proposal for suspending voting and related rights of Liberia is what is envisaged in the Fund's procedures. However, Mr. Usman's statement underscores the authorities' commitment to make the necessary policy reforms and to stay constructively engaged with the Fund, requesting, on behalf of his authorities, for a postponement of the decision. As Mr. Usman has said, against the existing background a decision to suspend Liberia's voting and related rights in the Fund would serve little useful purpose and would not improve the prospects of the country meeting its obligations to the Fund. If the authorities appeal could contribute to advance a solution, we would be ready to support it, as we have done in the past. We have to say, however, that we are not convinced either that a postponement could help

advance a solution. Therefore, if the Board decision is otherwise in the direction of a suspension of voting rights, we would also be prepared to go along with it and join a consensus. We believe this is a major decision, which should be taken by broad consensus.

Mr. Steudler made the following statement:

We very much regret that Liberia has once more missed the chance to strengthen its cooperation with the Fund. No progress has been achieved since the last review. This is especially disappointing after having granted Liberia another year to implement necessary measures before considering the suspension of its voting and related rights in the Fund.

No efforts have been made to expand the revenue base and improve collection procedures and oversight although staff urged Liberian authorities to implement several measures.

No steps were taken to improve fiscal transparency. The prioritization, monitoring and control of government spending have not yet been introduced. Off-budget agencies are still not subject to independent audits and their accountability remains very limited.

Rising expenditure on security and capital projects together with falling government revenues have lead to a further build-up of arrears in wages of government employees. The salaries are now eight months in arrears.

The monthly payments to the Fund have not increased up to now and arrears to the Fund have also continued to rise.

As Liberia persistently neither meets its financial obligations nor completes policy recommendations, we fully support staff's decision to suspend Liberia's voting and related rights in the Fund. A further postponement of the suspension would harm the Fund's credibility and send a wrong signal.

It is important to see that a suspension of voting rights is not an irreversible decision. Should Liberia significantly improve its cooperation with the Fund, we would be glad to support reinstating Liberia’s voting rights in the future.

Mr. Daïri considered that a decision to suspend Liberia’s voting and related rights in the Fund should be arrived at with a very broad consensus, and not simply through technical majorities. Such an approach was particularly important in light of the Fund’s current efforts to examine issues related to increasing the voice and participation of developing countries—especially the poorest ones—in the Fund’s decision-making process.

Mr. Santos made the following statement:

It is somewhat difficult to make a very informed judgment of Liberia's economy. The report provides a basis for that; however, uncertainties surrounding the information available complicate substantially any effort to assess economic and policy performance or to make policy recommendations, and the margin of error is considerably higher than normal.

Yet, there is little doubt that Liberia's economy has come under increased stress over recent months. And if that should come as no surprise given the conflict and the virtual withdrawal of financial and technical support by the international community, it is also clear that policy slippages had a role in the deteriorating economy.

In these circumstances, the economy is already undergoing a strong adjustment, although it is a chaotic type of adjustment mostly driven by scarce domestic and external resources and increased supply constraints. For instance, when measured on a cash basis, domestic and external macroeconomic imbalances remain at manageable levels. However, these relatively small cash imbalances uncover a large accumulation of domestic and external arrears. In particular, accumulating domestic arrears contributes to blur significantly the economic picture as it means that purchasing power is being artificially restrained and so is inflation and currency depreciation. Hence, the true extent of macroeconomic imbalances is difficult to assess and the consequences of current policy slippages will only be fully felt in the future, as settling the arrears will place an additional burden on policies.

For all this, and because in the end adjustment is always inevitable, we believe that Liberia would be better off adhering to a structural adjustment program than staying with the current chaotic adjustment. The choice should be obvious and we just hope the Liberian authorities realize it sooner rather than later. Indeed, if they normalize relations with the international community and engage seriously in a structural adjustment program, the policy stance would not need to be substantially tighter than the present one but the payoff in terms of financial support and stronger growth could be substantial.

Finally, on the proposal to suspend Liberia's voting and related rights in the Fund, since Liberia has already been cutoff from Fund financial and technical assistance, the decision to suspend voting rights is mostly symbolic, and its consequences should not be blown out of proportion. Besides, as past experience has shown, that decision can be reversed fairly quickly as soon as the authorities meet their end of the deal and deliver better policies. For all this the authorities should not be discouraged if the proposed decision is approved and Liberia has its voting and related rights suspended.

That said we support the proposed decision and wish the authorities well.

Mr. Kelmanson made the following statement:

At our last discussion on October 4, 2002, this chair regretted the lack of improved cooperation in the areas set out in the Managing Director's letter of April 2002. We regret to note that since that time little has changed. We share the staff's conclusions that Liberia has failed to adequately address key concerns, in particular improving transparency and the management of revenues and government expenditures. Furthermore, we note with regret the observation in the paper that resources are reportedly being diverted for covert military use and private gain. This makes progress on improving transparency and resource management all the more important. We would stress to the authorities that any chance of future Fund and donor support lies in demonstrable improvements in the areas above, a point made by Mr. Josz. In this context, we would encourage the authorities to swiftly take forward the policy measures outlined by the Managing Director, which is set out in Box 1 of the staff report. Without demonstrable progress in these areas to date, we therefore support the proposed decision to suspend Liberia's voting and related rights in the Fund. We say this with regret and with a clear willingness to return to this issue should improvements be demonstrated in the key areas of governance, economic management, and the social sectors, and in Liberia's relations with its external creditors. We therefore urge the authorities to rapidly address these issues.

Mr. Daïri is certainly correct about the need to increase the voice of developing countries. The NEPAD initiative is a very good example of how this can be done. One of the fundamental elements of NEPAD are peer reviews in support of sound policies and improved macroeconomic stability, growth, governance, and social conditions. Liberia and the other African states should focus on these areas.

Mr. Calderón-Colin made the following statement:

We thank the staff for the set of papers provided for this meeting, and Mr. Usman for his very insightful statement regarding the complicated situation of the Liberian economy.

It is very unfortunate to hear from staff and from Mr. Usman that economic conditions have continued to deteriorate in Liberia. Moreover, we are concerned to hear that economic prospects are in no way encouraging. The economic recovery after the 1989–96 war has lost its momentum; infrastructure continues to be highly depleted; and the rebel faction controls one third of the countryside. There does not appear to be any easy return to prewar levels of production.

Public finances remain constrained, as revenues are being affected by the lack of external lending, as well as grant receipts, and by low tax collection owing to the weak economic performance and the large size of the informal sector. In this sense, expenditures remain very limited and have changed their composition, reducing current expenditures, while within capital expenditure, national security expenses have increased considerably. Spending on health, education and other social services have been severely affected. Public sector debt is extremely high—at 550 percent of GDP at end 2002—most of it in arrears.

Inflation resurged due to pass-through effects from the depreciation of the Liberian dollar. Monetary control is not an easy task in Liberia, where the central bank's ability to affect monetary conditions is constrained by the government's fiscal position, limited instruments, and the high degree of dollarization of the economy. The banking sector is at risk, troubled by a 70 percent annual increase in non-performing loans as of last September, high reserve requirements, a maximum lending rate, and an increase in the government's arrears. According to the staff, the CBL's role as a lender of last resort is limited, and no deposit insurance is currently in place.

Liberia could benefit enormously from the Fund's advice and technical assistance, and we remain concerned regarding the economic and political situation in that country. Moreover, Liberia is one of those challenging cases that remind us why this institution was created. Regarding the proposed decision to suspend Liberia's voting and related rights, we can go along with the consensus and urge the authorities to improve their governance, as well as its cooperation with the Fund in the future. In case of a suspension, and if Liberia improves its cooperation with the Fund, we would be happy to support reinstating their voting rights.

Mr. Komatsuzaki made the following statement:

This is the second Board meeting to discuss the suspension of Liberia's voting and related rights in the Fund. At the last Board meeting, many chairs, including this chair, were already of the view that Liberia had not improved its cooperation with the Fund and that, therefore, its voting and related rights in the Fund should be suspended. However, the Board decided to give Liberia one more chance.

Liberia's cooperation with the Fund has not improved since, and we believe that we should take appropriate action now. This chair agrees with the staff that Liberia has not adequately improved cooperation with the Fund. It is clearly illustrated in Box 1 of the staff paper. Therefore, we support the recommendation to suspend Liberia's voting rights. As many chairs have already pointed out, however, this procedure can be reversed if the cooperation of the authorities improves, which we hope will happen.

Regarding the macroeconomic analysis and policy prescriptions, we fully concur with the staff appraisal. The Liberian economy is in a dire state, and the authorities' economic policies in 2002 were poor. The staff made many useful suggestions such as measures to mobilize revenue, improve expenditure control, control monetary aggregates, dismantle monopoly rent in important sectors, and improve governance. We urge the authorities to understand the message of the international community and correct economic policies, address concerns and conflicts, and improve human rights and governance. The starting point should be the completion of all the measures specified by the Executive Board.

Mr. Boitreaud made the following statement:

At this stage, I would like to express my appreciation to the staff for the very informative and candid report before us today and for their efforts to pursue dialogue with the authorities under particularly difficult circumstances.

At the previous discussion last October, we concurred with Mr. Bennett and with other Directors that there was no justification for postponing any further the application of our policy on remedial measures, and we supported the proposed decision. The information provided to us today, unfortunately, does not alter our judgment. I was, like others, struck by the absence of any signs of a strengthening of policy performance, particularly on the governance front, which is still sadly characterized by opaqueness and driven by vested interests. We can, therefore, only join again those Directors who support the staff's proposed decision.

Nevertheless, and as expressed by several previous speakers, we do hope that a window of opportunity can be seized in the future to turn around the process, and we stand ready to support reinstating Liberia's voting and related rights in the Fund, should Liberia improve its cooperation with the Fund. We strongly encourage staff and management to pursue their dialogue with the authorities, which is indispensable in assisting the authorities in their efforts to restore their relations with the donor community and will help alleviate the conditions of the people of Liberia who suffer the most from the dire situation of the country.

Mr. Faulend made the following statement:

It is indeed regrettable that the Liberian authorities have not improved their cooperation with the Fund, even after some additional time was granted. This leaves us today with little choice, and I have to join my colleagues who have supported the proposed decision. It is important for us today to also send a clear message to the authorities that the Fund's door will remain open, and that observance of the criteria articulated in the Managing Director's letter to

the authorities will remain the basis for our assessment of the appropriateness of the cooperation between the authorities and the Fund.

Mr. Zakharchenkov associated himself with the views expressed by Messrs. Bennett, Josz, Ralyea, Farelius, Fabig, and others, and supported the proposed decision.

Messrs. Ayala and Cho agreed with the thrust of the staff appraisal and supported the proposed decision.

Mr. Fabig, in response to a point that had been made by Mr. Daïri, said that there should be no attempt to link the current proposed decision to the issue of strengthening the voice of developing countries in the Fund. Doing so would send the wrong signal to other developing countries that were working hard to improve their economic performance.

Mr. Daïri replied that he had merely been referring to the need to have a large Board consensus on the proposed decision. As the staff had pointed out in the joint Technical Note for the Development Committee, there is a culture and tradition on consensus decision-making in the Bretton Woods Institutions.

The staff representative from the African Department (Mr. Shields), in response to Mr. Ondo Mañe's question, said that the authorities had provided potential international donors with an assessment of the projected costs of the presidential and legislative elections scheduled for October 2003, and that the international community appeared sympathetic to supporting the process under appropriate conditions. The main likely donor would be the European Union, which had held preliminary discussions with the authorities. The EU wanted to be sure that the right conditions existed in Liberia for the conduct of the elections.

The Acting Chair (Ms. Krueger) replied that the staff report for the 2002 Article IV consultation with Liberia and the review of Liberia's financial obligations to the Fund had been circulated before March 4, 2003. By agreeing that the Article IV consultation discussion be included on the day's agenda, Directors had implicitly agreed that the Managing Director's complaint would be considered on that date.

Mr. Daïri noted that the Board decision that had been adopted on October 4, 2002 had stipulated that the Board would reconsider the review of the Managing Director's complaint before March 4, 2003, or at the time of the Board's consideration of the next Article IV consultation with Liberia, whichever was earlier. However, the current Article IV consultation discussion was taking place on a date later than March 4, 2003.

The Acting Chair (Ms. Krueger) replied that the staff report for the 2002 Article IV consultation with Liberia and the review of Liberia's financial obligations to the Fund had been circulated before March 4, 2003. By agreeing that the Article IV consultation discussion be included on the day's agenda, Directors had implicitly agreed that the Managing Director's complaint would be considered that day.

Mr. Usman made the following concluding statement:

The discussion today, like previous ones, has been candid, combining a discussion of the Article IV consultation and a review of Liberia's overdue financial obligations to the Fund, and culminating in our decision to suspend Liberia's voting and related rights in the Fund. I would like to thank Directors for their comments. I shall, as usual, communicate them all to my authorities.

I know that a decision to suspend a member's voting and other rights in the Fund is not an easy one to make, and this has been amply demonstrated in the discussion today. My Liberian authorities clearly understand the issue of credibility of both the Fund, as an institution, and of themselves, as a government. The Liberian situation, as we all know, is one with an elected government, but with continuing conflict. Political and security instability and a dormant productive sector have combined with other factors, such international isolation, withheld donor aid, near zero private investment, and a severe lack of capacity, to make policy implementation almost impossible. I noted Directors' recognition of some of these challenges and constraints, and for this I am appreciative. My authorities agree that they have made some mistakes along the way and that they have missed opportunities in the process. They are prepared to make amends, and as I have stated in my statement, they reiterate their renewed commitment and continued readiness to make the necessary policy reforms and stay constructively engaged with the Fund. This is clearly demonstrated by the latest communication to the staff to the effect that the government of Liberia has decided to increase its monthly payments to the Fund by as much as 50 percent of the current agreed minimum, from US$50,000 to US$75,000, effective from the start of the next fiscal year beginning in July. They have also provided the staff with a copy of the report of the completed financial audit of the Liberian Petroleum Refining Corporation for the financial years 2000 and 2001 that was conducted by the international accounting firm of Pannel Kerr Foster, Inc. The audit for the year 2002 is expected to be available within the next six weeks. The independent audit of the two other institutions—the Bureau of Maritime Affairs and the Forestry Development Authority—as we have seen, is currently being discussed with the EU for possible funding. Under the prevailing scarcity of resources, the EU's positive indication and signal would be a significant factor. I urge the Fund and the European representatives in the Fund to facilitate the mobilization of the necessary additional resources to finance the audits.

Given the extreme poverty in Liberia, the implementation of the goods and services tax has to be undertaken with utmost caution so that it does not unduly increase the suffering of the average Liberian. That notwithstanding, however, the authorities have gone ahead to end the tax derogations and have made the GST apply to both domestically produced and imported cement.

As I have stated in my statement, with the dismal short to medium-term economic outlook, projections into the future are near impossible, given all uncertainties, constraints, and the formidable challenges. With the decision today, I am not sure if we are making it easier or more difficult for the authorities. Nevertheless, they will continue to count on the support and understanding of the international community.

I would like at this stage to thank the staff for their report and for their responses to questions from Directors.

The Acting Chair made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They noted with great concern the continued deterioration in the Liberian economy during 2002: GDP growth had slowed further; inflation had been high and volatile; and the exchange rate had depreciated substantially. Moreover, poverty remained widespread, only rudimentary social services were being provided, and arrears in government wages and salaries could not be reduced.

Directors observed that the deepening domestic conflict had displaced large numbers of the rural poor in 2002, had reduced economic activity, notably in rice production and manufacturing, and had dampened timber and rubber exports. Together with persistent weaknesses in governance, transparency, and the rule of law, the conflict had further eroded international confidence, causing foreign direct investment virtually to dry up and leading to a cessation of donor assistance to the government. UN sanctions remain in place.

Directors expressed concern about the dire prospects facing the economy. Without progress on the security situation, substantial progress in macroeconomic stabilization and structural reforms, and improvements in governance, growth prospects would be entirely dependent on the output of the timber sector in regions unaffected by the conflict. At the same time, timber production might need to be restrained in order to ensure environmental viability and the long-term sustainability of the sector. Also, rubber production will be constrained by the failure to rejuvenate plantations in recent years. For 2003, GDP growth is expected to decline, with little prospect of improvement in subsequent years, and GDP per capita will remain amongst the lowest in the world. The country's widespread poverty and social needs are thus not likely to be addressed.

Directors acknowledged that the authorities had taken some positive steps notwithstanding the deteriorating security situation in the country, including structural measures regarding the corporate and shipping registries, financial auditing of the petroleum company, the ending of the concession against the goods and services tax for domestically-produced cement, and the

confirmation of liberalization of trading in the rice market. Directors nevertheless expressed disappointment that several other long-overdue reforms—identified again at the last Article IV consultation—had not been taken. They stressed the importance of increasing revenue and improving fiscal transparency. Full financial audits of maritime, timber and petroleum operations should be undertaken; petroleum product taxation increased; and the cash balances of all government agencies should be transferred to the central bank. Exemptions and allowances against taxes and duties should be reduced, and the accuracy of valuations improved, particularly in respect of the logging industry. Consideration should be given to increasing tax rates on discretionary consumer goods and services, such as cellular telephone usage.

Directors expressed serious concern about the composition of public spending and the inadequate level of monitoring, transparency, and control. About half of budgeted expenditure for the current fiscal year is allocated to capital spending, and most appears to be related to security outlays. The granting of tax offsets to private companies for work they performed on capital and other projects should be discontinued, as it undermines the tender process and effective project costing, and is open to abuse. The expenditure of the off-budget agencies, including particularly the Forestry Development Authority, the Bureau of Maritime Affairs, and the Liberian Petroleum Refining Corporation, should be brought urgently into the budget authorization process to strengthen accountability and discourage the misappropriation of funds.

Directors observed the close association in the last two years between increases in reserve money, the depreciation of the Liberian dollar, and surges in the domestic price level, which pointed to the need to improve monetary policy execution. Directors emphasized the need to ensure that decisions of the central bank concerning financial instruments, foreign exchange sales, and regulations on commercial banks are based on sound economic principles, and are free of conflicts of interest. The central bank's decision in 2002 to issue certificates of deposit with above-market repayment terms to selected private creditors should not be repeated; these certificates were expensive to the central bank and gave rise to a multiple currency practice.

Directors welcomed the government's public statement that rice importation is free of restrictions, but stressed the need to remove quickly the import monopolies for petroleum and cement, which have provided monopoly rents to private individuals and led to high prices to consumers.

Directors again drew attention to weaknesses in the collection, compilation and dissemination of statistics, including errors in the monetary data, the use of outdated weights in the consumer price index, incomplete production and balance of payments data, and unreliable reporting to the Fund.

Directors reviewed Liberia's overdue financial obligations to the Fund, and regretted that Liberia's cooperation with the Fund had not improved since the last review. Accordingly, the Executive Board decided to suspend Liberia's voting and related rights in the Fund, with immediate effect. Directors urged the authorities to take necessary steps to strengthen Liberia's cooperation with the Fund, including through policy action and increased monthly payments to the Fund. They noted in this regard the authorities' intention to increase payments to the Fund starting in July 2003. Directors emphasized that they stood ready to reinstate Liberia's voting and related rights once there was evidence that its cooperation with the Fund had improved significantly. The decision on suspension will be reviewed in six months' time.

It is expected that the next Article IV consultation with Liberia will be held on the standard 12-month cycle.

The Executive Board took the following decision, with three objections from Messrs. Daïri (MD), Ondo Mañe (AF), and Usman (AE); and five abstentions from Messrs. Al-Turki (SA), Reddy (IN), Shaalan (MI), Wei (CC) and Ms. Indrawati (ST):

1. On April 8, 2002, the Managing Director submitted a complaint to the Executive Board pursuant to Article XXVI, Section 2(b), setting out the facts, on the basis of which it appeared to him that Liberia had persisted in its failure to fulfill its obligations under the Articles of Agreement of the Fund after the expiration of a reasonable time period following the declaration of ineligibility under Article XXVI, Section 2(a) on January 24, 1986 (EBS/02/63, 4/8/02). The complaint was communicated to the authorities of Liberia on April 18, 2002.

2. Having considered the complaint of the Managing Director and the views of Liberia, the Fund finds that Liberia has persisted in its failure to fulfill its obligations under the Articles of Agreement after the expiration of a reasonable time period following the declaration of ineligibility under Article XXVI, Section 2(a).

3. The Fund regrets the continuing nonobservance by Liberia of its financial obligations to the Fund, urges Liberia to resume their observances as a matter of the highest priority, and decides that, pursuant to Article XXVI, Section 2(b) and Schedule L of the Articles of Agreement, the voting and related rights of Liberia in the Fund are suspended effective March 5, 2003.

4. The Fund shall review this decision within six months of March 5, 2003. (EBS/03/20, 2/20/03)

Decision No. 12955-(03/19), adopted
March 5, 2003

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/03/18 (3/3/03) and EBM/03/19 (3/5/03).

4. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 02/119 are approved.

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Director as set forth in EBAM/03/21 (2/28/03) is approved.

APPROVAL: June 11, 2003

SHAILENDRA J. ANJARIA
Secretary