September 7, 2001
Approval: 9/14/01

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 00/113

10:00 a.m., November 17, 2000

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Executive Board Attendance

S. Fischer, Acting Chairman
E. Aninat, Acting Chairman

Executive Directors	**Alternate Executive Directors**
	A.S. Alosaimi
	A.S. Al Azzaz, Temporary
A. Barro Chambrier	D. Ondo Mañe
	P. Charleton
	P.R. Fenton, Temporary
M.J. Callaghan	
R.F. Cippà	W. Szczuka
B. Esdar	R. von Kleist, Temporary
R. Faini	G. Schlitzer, Temporary
K.-T. Hetrakul	
V.L. Kelkar	R.A. Jayatissa
	J. Prader
O.-P. Lehmussaari	
K. Lissakers	
	G. Bauche
A. Mirakhor	M. Daïri
	A. Lushin
H. Oyarzábal	
	S.P. Collins
	B. Kelmanson, Temporary
M. Portugal	R. Junguito
C.D.R. Rustomjee	
	A.F. Al-Faris
	S.S. Farid, Temporary
Wei Benhua	Jin Qi
	Y.G. Yakusha
	E.J.P. Houtman, Temporary
	M. Yanase, Temporary
A.G. Zoccali	G.R. Le Fort
	M. Pérez dos Santos, Temporary

S.J. Anjaria, Secretary
A.S. Linde, Acting Secretary
Z.R. Ahmed, Assistant
S. Soromenho-Ramos, Assistant

Also Present

IBRD: E. Nelson and S. Samen, Africa Regional Office. African Department: G.E. Gondwe, Director; P.A. Acquah, Deputy Director; P. Beaugrand, L. Bouscharain, J.A.P. Clémént, M.M. Cuc, J.A. Gons, H. Hino, N. Mensah-Zekpa, W.A. Ossie, D. Sakho, I. Samake, A. Tahari, P.A. Youm. Asia and Pacific Department: V. Haksar, Q. Hussain. External Relations Department: T.C. Dawson, Director; M.W. Bell, M. Fouda, P.N. Lougani, J. Starrels. Legal Department: F.P. Gianviti, General Counsel; H. Elizalde, S.C. Ho, C.G. Ogada. Policy Development and Review Department: J.T. Boorman, Director; C. Brachet, S.B. Brown, J. Gold, N.L. Happe, C.J. Jarvis, S. Kashiwagi, S.P. Panth, T. van der Willigen, J. Wieczorek. Research Department: M.S. Kumar, P. Wickham. Secretary's Department: S. Bhatia, P. Cirillo, L. Hubloue, A. Mountford, J. Prust, T. Turner-Huggins. Treasurer's Department: E. Brau, Treasurer; M.G. Kuhn, Deputy Treasurer; B.S. Newman, Deputy Treasurer; C.P. Clarke, J.C. Corr, F.M. Latwijk, O. Roncesvalles, M.A. Wattleworth, B.C. Yuen. Western Hemisphere Department: C.M. Loser, Director; A.M. Jul, E.R.J. Kalter, E.C. Offerdal. Office of the Managing Director: D.A. Citrin, E.-A. Conrad, H.L. Mendis, S. Sheybani. Advisors to Executive Directors: J.M. Abbott, M.A. Ahmed, M. Beauregard, S. Çakir, B. Couillault, O.A. Hendrick, N. Jadhav, J. Jonáš, J.M. Jones, M. Kabedi-Mbuyi, Liu F., M. Lundsager, I. Mateos y Lago, M.F. Melhem, H. Mori, L. Palei, S. Rouai, K. Sakr, C.-P. Schollmeier. Assistants to Executive Directors: S. Bonomo, J.G. Borpujari, S. Boucher, P.A. Brukoff, N. Budina, V. Dhanpaul, T. Elkjaer, E. González-Sánchez, K. Harada, M.S. Hililan, A. Kapteijn, K. Kpetigo, T.-M. Kudiwu, Liu Z., R. Maino, R. Manivat, J.A.K. Munthali, E. Nyambal, K. Ongley, J. Sipko, T. Skurzewski, A. Sutt, D. Vogel, Vongthieres O., S. Vtyurina, M. Walsh, E.S. Weisman.

1. REPORT BY FIRST DEPUTY MANAGING DIRECTOR

The First Deputy Managing Director reported on his recent travel to Mexico.

2. REVIEW OF FUND FACILITIES—DECISIONS AND IMPLEMENTATION GUIDELINES

The Executive Directors considered a paper on the review of Fund facilities—proposed decisions and implementation guidelines (EBS/00/216, 11/3/00; and Cor. 1, 11/8/00).

The General Counsel made the following statement:

> The summing up by the Chairman at the end of EBM/00/96, September 15, 2000 (BUFF/00/153, September 18, 2000), on the review of Fund facilities contains the following statement:
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> "Directors considered that the surcharges adopted in the context of this discussion on the review of the Fund's facilities should not be changed for a period of at least four years. They also considered that the Fund's net income target should not be increased for the primary purpose of achieving an increase in the basic rate of charge."
>
> At the informal questions and answers meeting of November 9, 2000, several Executive Directors referred to that statement and asked why the staff had not incorporated in the paper "Review of Facilities—Proposed Decisions" (EBS/00/216, November 3, 2000) a draft decision giving effect to that statement. After a discussion, it was agreed that a short note explaining the staff's position would be circulated.
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> Between a chairman's summing up and a formal decision of the Executive Board there may be some overlap but there are also fundamental differences.
>
> A summing up may perform different functions. It may reflect views of individual Executive Directors or of groups of Executive Directors. It may also reflect a consensus or a majority view within the Executive Board on certain understandings. Depending on the circumstances, these understandings may or may not constitute a decision.
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> In order for an understanding in a summing up to constitute a decision, two types of conditions must be met. The first one is a willingness on the part of the Executive Board for the understanding to have legal effect without further Board action. For instance, an understanding on certain points, if made subject to agreement on other points, is not a decision as it has no legal effect. Similarly, a declaration of intention has no legal effect and is not a decision.

The second condition is that all the requirements for the validity of a decision be observed (e.g., majorities and, more generally, consistency with the Articles).

Understandings that meet those two types of conditions constitute decisions and need not be converted into formal decisions. Conversely, understandings that have no legal effect, or do not meet the conditions of the Articles, do not constitute decisions but may be converted into formal decisions once the conditions for a valid decision are met.

The statement in the Chairman's summing up referred to above constitutes an understanding among Executive Directors not to take certain decisions for a specified period of time. This understanding is not and cannot be binding on the Executive Board either because it is only a declaration of intention without legal effect or, if it purported to have a legal effect, because it would exceed the authority of the Executive Board. The Executive Board is vested with certain powers either directly by the Articles or pursuant to a delegation of authority by the Board of Governors. They include the power to determine the rate of charge. Having been established to exercise these powers, the Executive Board cannot divest itself of them, either by a delegation of authority to another organ or person or by undertaking not to exercise those powers, either permanently or for a period of time. Therefore, it is not possible for the Executive Board to undertake not to amend its decisions, e.g., on the rate of charge. Such an undertaking in the form of a "non-amendment" provision would exceed the authority of the Executive Board; it would be "ultra vires" and, as such, could not prevent the Executive Board from taking decisions contrary to that undertaking.

Since the understanding referred to above cannot be more than a declaration of intention or, if converted into an undertaking, would exceed the authority of the Executive Board, it was not incorporated as a draft decision in EBS/00/216. As a declaration of intention it is part of the record but does not constitute a decision.

Even if it were agreed by the Executive Board that this would be a "non-binding decision", it would have the appearance of a decision and mislead other persons (including future Executive Directors) into believing that this decision will have legal effects. As for those observers outside the Fund who are familiar with the law of the Fund, it would appear to them that the Executive Board has taken a decision ultra vires.

For all these reasons, it is concluded that the understanding referred to above should not be incorporated into a decision.

The type of understanding discussed above may be contrasted with "sunset" and "review" provisions that are often included in Fund decisions.

A "sunset" provision has a definite legal effect. At the end of the specified period, the decision that is subject to that provision will lapse automatically, unless another decision—taken by the same majority as the original decision—is adopted to continue its application.

A "review" provision also has a definite legal effect. It requires the Executive Board to review a specified decision by a certain date. In contrast with a "non-amendment" provision, which would purport to divest the Executive Board of its powers, it is an undertaking by the Executive Board to re-examine an issue for a possible exercise of its power to adopt a new decision.

The fact that both sunset and review provisions may subsequently be amended (as is the case for any other decision of the Fund) does not detract from their legal nature. They are legally binding undertakings rather than either declarations of intention or ultra vires undertakings not to exercise a specified power.

The staff representative made the following statement:

At the question and answer session on November 9, 2000, some Executive Directors raised concerns about two aspects of the proposed policy on time-based repurchase expectations: the criteria to be used in granting extension requests, and publication policy. This staff statement considers each of these issues in turn.

A. Criteria for the Operation of Repurchase Expectations

The staff has proposed that the granting of extensions of repurchase expectations be based on criteria relating to the *absolute* strength of the member's external position, and not to developments in the external position *relative* to what had been programmed.[1] The basis for this proposal is that Fund-supported programs may target a varying degree and pace of strengthening of the external position. As stated in the staff paper,[2] in the presence of the new policy on repurchase expectations, the minimum adjustment required in a Fund-supported program will continue to be guided

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[1] See "Review of Fund Facilities—Follow Up" (EBS/00/187, Box 2, and Supplement 1, paragraph 2) and "Review of Fund Facilities—Proposed Decisions and Implementation Guidelines" (EBS/00/216, paragraphs 22-23 and Box 3). The summing up of the last facilities discussion ("Summing Up by the Acting Chairman—Review of Fund Facilities, Supplementary Information, EBM/00/96, September 15, 2000," BUFF/00/153) states that "the Fund could extend [repurchase expectations] on request by the member, if the Board agreed that the member's external position had not improved sufficiently for repurchases to be made." (While the statement in the summing up is phrased in terms of improvement in the external position, the improvement is not relative to what had been programmed, but rather relative to the member's position when it was making drawings.)

[2] EBS/00/216, paragraph 23.

by the requirement that the member should be able to meet repurchase obligations; there is no need to program more or faster adjustment in order that the member be able to meet the repurchase expectations. However, especially in the context of the globalization of private capital markets, there will be members for which recovery from an external shock can be expected from the outset, and hence will be programmed, to take place quickly. If these projections are realized (or even, perhaps, if recovery is a little slower than originally projected), these are certainly members from which the Fund would expect early repayment. Conversely, in some other cases where the recovery was from the outset expected to be relatively slow, even a stronger than programmed external position may not be strong enough for the member to comfortably meet repurchase expectations.

Nevertheless, because Fund-supported programs will continue to be guided by the requirement that the member should be able to meet repurchase obligations, the meeting of repurchase expectations should be taken and presented as a good sign, rather than their extension taken and presented as a bad sign. The meeting of expectations signals that a member's external position is stronger, at a given point in time, than would have been needed for it to be in a position to meet repurchase obligations. Moreover, because Fund-supported programs will not generally target adjustment sufficiently rapid for members to meet repurchase expectations, in most cases the external position of members meeting expectations will be stronger than had been programmed, and this fact may be expected to exert an important influence on the connotations extensions of expectations will come to carry in public perception.

B. Publication Policy for Repurchase Expectations

Some Executive Directors have asked for additional information regarding the proposed policy on publication of requests of extensions of time-based repurchase expectations. The following paragraphs lay out in more detail the proposed procedures when members meet expectations, when members request extensions, and when members miss repurchase expectations. It should be noted that these procedures are expected to be first used in early 2003, when the first repurchase expectations in the credit tranches would fall due, and may need to be adapted in light of possible future changes to the Fund's publication policy.

Financial information provided on the Fund's external website

The background to the proposed decisions on publication in these cases is that complete information about the Fund's financial relations with individual members is already provided on the Fund's external website. The information currently provided includes the history of purchases made, the member's outstanding credit, repurchase obligations falling due, and repurchases completed. The schedule of repurchase expectations will also be posted on the website. The information is updated monthly. From this information, it will be possible for knowledgeable observers to derive whether a member has met repurchase expectations or not, and whether a member has been granted an extension or not.

Meeting repurchase expectations

When a member meets repurchase expectations, the staff proposes that recognition be given to the member by publicizing the event in the context of Article IV or post-program monitoring (PPM) discussions in the Public Information Notice (PIN). The statement would be limited to factual reporting that the member will be repaying ahead of the obligation schedule, as the specific circumstances of the member would be provided in the rest of the PIN. Further detail on the member's circumstances would be available in the Board documents, should the member choose to have them published.

Extensions of repurchase expectations

When a member requests and is granted an extension of repurchase expectations, the staff proposes that a brief factual statement to this effect be posted on the member's country-specific page on the Fund's website, and that the granting of the request be noted in the next weekly update of "Fund Financial Activities: Week at a Glance" on the website.[3] Directors expressed some concern that markets may misunderstand the meaning of extensions of repurchase expectations, and that any publicity that a member is not on the expectation schedule, no matter how low key, could raise concerns about the member's external position. There are several important reasons to publicize the Board's decision to extend early repurchase expectations:

- Lack of a notification by the Fund that the member is no longer adhering to the expectations schedule could undermine the credibility of the Fund's commitment to transparency.

- The absence of clear information on the status of members' repurchase expectations could suggest that the Fund itself views the extensions of early repurchase expectations in a negative light.

- There is a need to ensure that the Fund would not be engaged in misinformation. A member could be in a position to meet repurchase expectations on the date of an Article IV consultation or PPM discussion, which would be recognized in the PIN following this discussion. However, the same member could request an extension soon thereafter. This would lead to a situation where the Fund had publicized a member's meeting of repurchase expectations but was not

[3] See EBS/00/216, paragraphs 27-28.

able to notify the public of the change in that member's status until the occasion of the next Article IV or PPM discussion, which could be some way off.

At the same time, the staff would not propose that additional attention be drawn to extensions of repurchase expectations through the release of a PIN or a Chairman's statement. This course of action would be consistent with the position that the fact that a member is supposed to meet its repurchase obligations is not news.

The staff would propose that the statement posted on the website be along the following lines: "With respect to the arrangement for country x approved by the Fund on [mm, dd, yy], the Executive Board approved on [mm, dd, yy] country x's request to amend the repurchase expectation schedule and country x will accordingly adhere instead to the repurchase obligation schedule [for all repurchase expectations arising from [mm, dd, yy] to [mm, dd, yy]] / [for all remaining expectations under the arrangement]." A link would take the reader to a description of the Fund's policy as regards repurchase expectations and obligations, which would emphasize that Fund-supported programs are formulated in such a way as to allow the member to meet repurchase obligations, rather than repurchase expectations, and that an extension of repurchase expectations is granted if a member's external position does not turn out sufficiently strong to allow it to repay early.

The staff would not propose to make additional statements clarifying the events. If the member thinks that it is desirable to provide additional information, it could consent to the publication of the Board paper supporting the request for extension.

Missing repurchase expectations

When a member misses repurchase expectations without the Board's having granted an extension, the staff proposes publication after a period of six months. This would ensure that missed expectations are not made public earlier than arrears to the Fund. The Fund's arrears strategy, including its transparency aspects, will be reviewed in June 2001, and the policy on the publication of missed expectations could be reconsidered at that time. In any event, cases of missed expectations without the Board having granted an extension are likely to be very rare. A missed expectation would in the first instance lead to intensified contacts of staff and management with the member concerned. The Executive Board would be notified one month after the missed expectation, and the issue would be considered by the Board after three months. The process of consultation would give the member ample opportunity either to meet the expectation or, if its external position is not strong enough for it to do so, to request a postponement expeditiously. Publication of missed expectations would thus occur only in the very rare cases where the issue was not resolved within six months.

Mr. Cippà made the following statement:

I thank the staff for the proposals for the implementation of the review of Fund facilities. They are a good reflection of what we decided ahead of the Prague Meetings. Most of them are therefore quite straightforward. I welcome the proposal to publish this staff paper together with a PIN as has been done with previous papers on this issue. It will be necessary to do some careful work on this PIN, since it will not be easy to explain to the public all the intricacies of the proposed reform.

Contingent Credit Line

By and large I think the proposed amended summing up for the CCL reflects what we agreed upon.

Let me first comment on the size of the first tranche following the activation review. By creating a separate post-activation review to determine tranching and policy adjustment we sought to introduce some, but not too much, automaticity into drawings on Fund resources. Indeed, many of us felt uncomfortable with large amounts of resources flowing out with little control by the Fund. As it is now, the first drawing bears the most important risk to the Fund, being largely automatic. I therefore have sympathy with a fixed first drawing of 100 percent of quota following the activation review. On the other hand, I think the staff has a valid argument that some flexibility might be called for to take special circumstances into account. I would like to make clearer, however, that the first drawings should be within certain limits. Let me propose the following wording in the summing-up instead of the staff proposal: "...and would normally amount to no more than one third the total amount of resources committed under the arrangement..." In this way the Fund would still have the flexibility to allow smaller or more substantial first drawings according to circumstances. Yet there would be an expectation that under normal circumstances, the amount drawn will be smaller, rather than greater than one third of the total.

As to the sunset clause on the CCL, I agree with the staff that it makes sense to extend it to November 2002. Since the CCL will now be substantially changed, we will again need an adequate time frame to be able to assess how the facility works.

Emergency Assistance and CFF

I am prepared to follow the staff's arguments as far as emergency assistance and the CFF are concerned. While countries mostly recover quickly from natural disasters, conflicts are often followed by a prolonged time of balance of payments difficulties. Time-based repurchase expectations could therefore make some sense for natural disaster assistance, but would be difficult to justify for post-conflict assistance. Since emergency assistance both for natural disasters and post-conflict situations is rare and on a modest scale, I can follow the staff's proposal to forgo time-based repurchase expectations for both forms of assistance. To unfold the whole arsenal of time-based repurchase expectations would seem to be disproportionate. However, I am not happy with the implicit extension of access limits implied by the conversion of emergency assistance into a special policy. I see this as achieving a de facto increase in access limits through the back door and I would appreciate it if staff could continue to explore the legal possibilities of including emergency assistance under the regular access limits.

As to the CFF, there is clearly an argument for applying time-based repurchase expectations in that the resources under this facility are usually used for a short period only. It is therefore reasonable to apply the same policy as under other facilities. Indeed, as the staff points out, we also have to be concerned to get right incentives for the choice of the facility. In the same vein, I concur with the staff that outstanding credit under the CFF should be counted toward determining outstanding obligations for the sake of applying level-based surcharges.

Time-Based Repurchase Expectations

The staff took pains to keep the implementation of time-based repurchase expectations as simple as possible. This seems particularly wise as the complex interactions between the expectation and obligation schedules could become intractable if the current rule of free attribution of early repayments were retained. I therefore support the staff's proposal to attribute every early repurchase expectation to a particular repurchase obligation. There is of course the undesirable side effect that the extension of one or more repayment expectations can lead to a bunching of repayments. However, should such a bunching create problems, the member can always resort to an extension of further repayment expectations.

We agree with the staff that in case of the approval of a new arrangement there should be a presumption that the repurchase expectations under the previous arrangement(s) should be extended in a semi-automatic manner. We would propose to apply the same presumption to the repurchase expectations that fall due during the third year of an "active" (i.e., not precautionary) three-year Stand-By Arrangement.

The staff proposes that the granting of extension of repurchase expectations be based on criteria relating to the absolute strength of the members. I support that, as this will cover cases where quick recovery from an external shock are expected from the outset. At the same time, this will avoid the difficulty of comparing the actual situation with expectations formulated three years earlier as part of a program which meanwhile could have undergone substantial modification. It would be much easier if the expectation to repay would be based on an assessment stating that at present the country is in a strong enough position that enables it to repay. This should also cover situations in which a country is not strong enough for early repayment even if the program had been implemented in line with the targets. In such cases, an extension is necessary, and must be granted without any difficulty. Moreover, the Fund must ensure that such a request does not translate into a negative signal for the country.

This means that for cases where an extension is sought and received an appropriate policy must be followed. The low key proposals in the staff paper and the supplementary BUFF appear to be a good solution. There is no doubt that the Fund should immediately inform about a decision on an extension. A posting on the Fund's website in the form as suggested by staff is adequate. However, some teething problems until the public adapts to the new system cannot be ruled out. This is one more reason why we will have to carefully explain our new time-based repurchase policy. It will be particularly important to make clear that an extended repurchase expectation has nothing to do with missed obligations and arrears, and can reflect the normal implementation of a program in line with its original targets.

With reference to criteria presented in Box 3 of the staff paper I support the proposal made during the informal discussion that only the early repayments of other credits on the net basis should be seen as an indicator of the capacity to meet the repurchase expectations.

On the period for which extensions are granted, I agree with the proposal. Generally aiming for one year while retaining flexibility seems reasonable. The proposals on consequences of missed repurchase obligations seem to be quite straightforward and generally acceptable. I would like to note, however, that the possibility of lifting the suspension of access to the Fund resources after the failure to meet a repurchase expectations appears to be similar to an ex post review of a request for an extension. I wonder whether the staff has already envisaged any procedures and criteria which could be used by the Board when considering such a matter. I wonder also what should be the approach to a case when a country presents a well-justified request for an extension less than two months before the date of the expected repurchase. Should such a country with an obvious balance of payments need be denied access to Fund resources?

By end-2005 we will have sufficient experience to assess how the new time-based repurchase policy works so that it will be good to have a review at that time. We can of course review these policies earlier if unexpected issues warrant it.

Charges

The proposals on level-based surcharges and on charges in the CCL closely reflect our earlier decisions.

As to the new schedule for commitment fees, I would like to express my satisfaction that a reasonable solution could be found. I am relieved that the desire of the Board to lower the commitment fee for the CCL could be accommodated while avoiding the blatant inconsistency in the structure of charges of earlier proposals.

The proposed adapting of the refunding of commitment fees appears to be clear-cut again. Charges and refunds of commitment fees will be symmetric, so that, in the case of a yearly commitment exceeding 100 percent of quota, the higher percentage commitment fee will be refunded first.

Post-Program Monitoring

As to the guidelines proposed for PPM, I particularly welcome the constrained flexibility retained, in that PPM is not automatic while well defined presumptions exist. This will enable us to put staff resources to the most efficient use. As an example, staff resources will be applied elsewhere if a member has an excellent track record while still being above the 100 percent access threshold.

The argument to exempt members with arrangements under the PRGF from PPM strikes me as somewhat legalistic. To include them would simply be a matter of consistency. I see no compelling reason to exclude members using PRGF from PPM simply because they draw Fund resources from a different account. However, I can go along with considering the inclusion of members using PRGF in the PPM program at a later stage. The Board review of PPM in 18 months is a good occasion for such a discussion to be resumed.

On publication issues, I agree that the same publication policies should be used as in Article IV consultations and use of Fund resources. Consequently, a PIN and the staff report could be published with the consent of the member. Moreover, I would propose that the acting Chairman of the Board would issue a press release after the Board discussion, which would be consistent with UFR publication policies. This would take into account that PPM is distinct of pure surveillance since the motivation of PPM is the continuing use of Fund resources. A Chairman's statement would make sure that there will also be some public statement if the member does not wish to publish a PIN.

Mr. Portugal made the following statement:

I hope we can proceed expeditiously with the implementation of the set of measures we agreed last September concerning the review of Fund Facilities. This is important not only because of the significance of the issues themselves but, mostly, to maintain our mutual trust in the traditional form of operation of the Board, which often requires an intense process of negotiation and consensus building.

As the devil is always in the details and as we did not exhaust all the aspects of the topics covered in our agreement, it is inevitable that we have to examine some additional points not covered in the previous discussions, but which are essential to operationalize what we have agreed on. In doing so, I believe a reasonable way to proceed is to remain as close as possible to the letter and spirit of the understanding we reached and to adopt a minimalist approach, namely to avoid introducing new issues into the discussion and to deal only with those questions that are essential to operationalize the agreements we reached. In this process, it is important to clearly identify the issues that were encompassed by the agreements we reached and those that were not, but that are necessary to operationalize them. I, therefore, sympathize with the difficult task the staff had in hand and, I think, that they have, generally, done a good job. I have, however, several comments. I also think that there is one instance where the proposed decisions deviate, in a substantive way, from what we agreed. Contingent Credit Line

It is my firm recollection that, in order to give greater automaticity to the CCL, we agreed to drop from the activation review condition (iv) of the current construct of the CCL, which requires that during activation the Board examines if "the member is committed to adjusting policies to deal with any real economic impact that may follow from contagion". My understanding is that we agreed to give the member the strong benefit of the doubt and to transfer the discussion concerning the member's intentions to readjust policies to a post-activation review, which would follow the activation review with some lag. This personal recollection is backed up by the following passages of the summing up and concluding remarks of our previous discussions:

"There was broad agreement that the activation of the CCL should be more automatic with regard to the initial drawing, within a predetermined amount, with a few suggesting eliminating the activation review all together. The activation review should be limited to determining that a member has developed a balance of payment need as a result of contagion, that these difficulties are judged to be beyond the member's control, and that the member has being pursuing strong policies." (Concluding Remarks by the Chairman, Review of Fund Facilities-Further Considerations, BUFF/00/123, August 2, 2000, emphasis added)

"There was also agreement that there should be greater automaticity in the provision of resources for a country in crisis as a result of contagion. Under the present construct for the CCL, the Fund would complete the activation review, inter alia, only if it were satisfied that "the member is committed to adjusting policies to deal with any real economic impact from contagion." Under this construct, members might justifiably be concerned that activation would involve a lengthy negotiation of policy changes, akin to the negotiation of a new arrangement. The Board recognized that, for the CCL to play a useful role and in light of the demanding eligibility criteria for the CCL, members should be given greater assurance of the ready availability of the resources. Directors agreed that it was feasible to do so without exposing Fund resources to undue risk, given the high likelihood that qualifying members would react appropriately to changes in their circumstances. Thus, the Board agreed to divide the activation review into an "activation" and a "post-activation" review. The former would be completed expeditiously and would release a predetermined, large amount of resources, and the member would be given the strong benefit of the doubt as to any required policy adjustments." (Summing up by the Acting Chairman, Review of Fund Facilities-Supplementary Information, BUFF/00/153, September 18, 2000)

I was surprised, therefore, in reading the new proposed summing up for the CCL where on page 33, the staff crossed out simply the number (iv) and kept the corresponding text the same as before merely renumbering it to (iii), and tried to explain it with language not contained in any of our former summing ups or concluding remarks. I believe this is a major departure from our agreement. My suggestion is that we delete from the proposed new summing up for the CCL (page 33) the text: "and (iii) the member is committed to adjusting policies to deal with any real economic impact from contagion." and "With regard to condition (iii) for the activation review, ...(up to)...any real economic impact from contagion."

I agree with the staff proposal to fix at one third of the total commitment the amount to be made available at activation, which we left undefined in our earlier understanding within the interval of 100 percent of quota to one third of the arrangement. Staff proposes that, rather than being a rigid rule, this amount is simply a presumption, in order to retain some flexibility for unforeseen circumstances. I am not convinced of the merits of this reasoning. Of course, if that amount is reduced to below 100 percent of quota, the value of the CCL would be greatly limited, and could even disappear if there is a substantial reduction. On the other hand, I think it would be difficult to differentiate this amount significantly among CCL eligible countries, as this might run the risk of creating the impression of a first-class and a second-class CCL. Could staff explain what unforeseen circumstances they have in mind, how would they envisage using the flexibility they recommend, and which floor they envisage for that flexibility?

I agree with the staff proposal to extend the sunset clause of CCL until November 2002. We have not completed the review of the CCL in the required time and if we do not extend the sunset clause date, all the changes we are discussing would become meaningless.

In explaining condition (ii) for the activation of the CCL, which requires that the balance of payment difficulties experienced by the country are judged to be largely beyond the member's control and to result primarily from adverse developments in international capital markets, the staff explains that the Board would have to verify that the member's own policies had not been a cause of the pressures in the balance of payments (proposed summing up for the CCL, page 33). I wonder if we shouldn't say a major cause, in order to maintain in the explanation the sense contained in the words "largely" and "primarily" contained in the condition itself.

Emergency and post-conflict assistance

I agree with the staff's recommendation that resources committed under the emergency assistance for natural disasters and for post-conflict situations are converted into a special policy in order to remain outside the new policy of repurchase expectations and the credit to be subject to surcharges. This type of assistance typically involves small amounts. It is unlikely that countries that face these circumstances would experience an improvement in their external position sufficient to meet repurchase expectations.

Time-based repurchase expectations

I am in agreement with the staff proposals for implementing the agreed policy of repurchase expectations. Concerning the timing of requests for extensions of repurchase expectations, I accept the presumption of a two-month period suggested by staff.

I agree with the staff suggestion that extensions can be granted for one, several, or all the repurchase expectations at once, but that there is a presumption that they are granted for a one-year period. I also agree with the simple pairing of expectations and obligations proposed by the staff. This, however, could lead to the undesirable problems of bunching and gaps in payments as explained by the staff. I wonder if staff would have any proposals on how to deal with bunching.

One of the criteria for deciding on extending repurchase expectations suggested by staff in Box 3 is an early repayment of other credit, which staff suggests would be an indication of strength in the external position. That might be true for genuine repayments but not quite so, for instance, for debt exchanges. I would like to know how staff intends to deal with debt exchanges in this context.

I can agree that meeting of repurchase expectations and the extensions of expectations be publicized immediately following the Board decision in a brief and factual way, as proposed in the paper and clarified in BUFF/00/170.

Charges on the use of Fund credit

I agree with all staff recommendations with respect to the rate of charge decisions.

The General Counsel explained why in his view it is not possible to transform into a legal decision the undertaking we made of not changing the surcharges of facilities for a period of at least four years.

I agree that any decision stating that the surcharges are not going to be changed in a given future period cannot be binding on the Executive Board, because it could be changed, if the Board so wished, the next day. What we made is a moral, not a legal undertaking. Hence, it seems to me that there is no substantive difference as to whether this is expressed in a summing up, as it is now, or in a legal decision.

But I am still unconvinced that it would be illegal to express such commitment in a decision. Maybe, to keep with the spirit of our undertaking, we could have a provision that the Board would review the surcharge policy in four-years time. This does not seem to differ from a statement that requires the Board to review a specified decision by a certain date.

Post-program monitoring

I have a few questions concerning PPM. Our agreement on PPM is to have it more formal in certain cases, with a presumption that those would be the cases of members with credit outstanding exceeding 100 percent of quota. We also agreed that there would remain the possibility of requiring PPM for a member below this threshold, as already provided for in the consultation clauses in all Fund arrangements. My understanding of this agreement is that, in these latter cases, PPM would continue to be informal as it currently is, without the whistles and bells that are intended for the more formal cases. I would like to have the staff's comments on this point.

In addition to drawing on the summing ups and concluding remarks of our discussions, which is what reflects our agreements, the staff tells us that their proposals for PPM also draw on the papers prepared by staff and even contain issues that were not discussed in any earlier meetings. The staff suggests, for instance, the possibility of publishing the PPM staff reports.

Annex III says that a member recommended for PPM would be expected to present a quantified macroeconomic framework. It also suggests that staff could recommend PPM orally in a country matters session. These all are issues that were not part of our agreement and that do not seem essential to implement that agreement. My suggestion is that we leave them for discussion at a later date, possibly when we review the PPM experience in 18 months.

Mrs. Hetrakul and Mrs. Vongthieres made the following statement:

We would like to thank staff for preparing an excellent paper summarizing what has been agreed at the Board and what remains to be considered on this important topic so that all relevant decisions could be made at the same time, and the agreements reached thus far operationalized as soon as possible. We also appreciate written clarification by the General Counsel and staff statement in response to the questions raised during the question and answer session.

CCL

As with other Fund arrangements, we support staff recommendation in favor of flexibility regarding the size of CCL purchases. Therefore, a presumption rather than a rule is preferred. We can also go along with the proposed extension of the sunset clause so that the CCL would expire in November 2002.

However, we share the concern raised by Mr. Portugal in his preliminary statement regarding the revised Summing-up on CCL proposed by staff. Our interpretation of the Summing-up of September 18, 2000, is that the Board has already agreed to eliminate condition (iii) for the activation review in its entirety. We, therefore, support Mr. Portugal's suggested deletion.

Emergency Assistance and CFF

As regards emergency assistance and CFF, we are of the view that they should all be treated as a special policy. While staff has proposed the conversion of emergency assistance for natural disasters and for post-conflict situations from credit tranche into a special policy, which we totally agree, we are not convinced of staff rationale for the conversion of the CFF, which is currently a special facility, into a credit tranche policy for the purpose that purchases under CFF could be subject to repurchase expectations (REs) and level-based surcharges. To be eligible for CFF, a country has to experience commodity export earning shortfalls; the guidelines for calculation are clearly spelled out and verification rests with staff. We do not see how a member country can freely choose between a Stand-By Arrangement and a Compensatory Financing Facility.

Time-Based Repurchase Expectations (REs)

With respect to the timing of requests for an extension of REs, while we agree that a two-month advance notice is preferable in normal cases, we would like to see more flexibility in the event circumstances abruptly change, a situation not so uncommon in today's world, such that a member country cannot foresee what would happen two months down the road and plan accordingly. According to the Summing-up of September 18, 2000, the Board has earlier agreed to allow requests for an extension of REs to be made at any time. The phrase "in principle," as staff put it in Box 1, does not appear in the Summing-up.

We support the proposed presumption for an extension of REs falling due over one year, while maintaining flexibility regarding the length of period to be covered by an extension request and approval.

Staff has not mentioned the system of "free attribution" in cases where a country chooses to make early repurchases ahead of the expectation schedule or in an amount not matching either the subsequent expectation or obligation schedule. While the existing system is manageable as staff argued, the new policy introduces more complexity as we now have two schedules. One principle that should be observed is that a country should not be penalized, or made worse-off, for making voluntary early repurchases. In other words, it should still have the freedom to make early repurchases as it deems appropriate and affordable, and should not be pressured to bring forward the RE schedule. Relating to this issue, we appreciate the emphasis noted in paragraph 23 that the design of the Fund-supported program would be based on the assumption that a borrowing country is able to meet repurchase obligations, and not REs. We are also pleased to note in paragraph 24 that the approval of a new non-precautionary arrangement would imply that a member country's external position is such that a request for an extension would be granted.

So far, we have yet to consider how this RE policy will affect repayments to other official bilateral creditors from which disbursements have been made in parallel with Fund purchases. If it is assumed that they would have to be repaid proportionately in accordance with the RE schedule, due consideration should also be given to the total repayment amount in the financing package when deliberating on the granting of the request for extension.

Publication is a difficult issue. On the one hand, if an extension is granted, it may send a strong signal that the country's external position is indeed deteriorating. This may undesirably turn what market perceives as uncertainty into certainty, thus exacerbating the fragile condition where market sentiment is already negative. On the other hand, should the request for an extension not be granted, publication may be counterproductive as the relatively calm markets may question and start searching for possible reasons why the authorities have to request for an extension in the first place. We would thus caution against the use of stand-alone press release following Board decision on the request for an extension of REs. We would not favor a proposal that the granting or not granting of extensions of expectations is publicized by the Fund.

There is another important point in the staff's paper that we consider very unreasonable and inconsistent with the spirit of REs. This relates to the treatment of the cases in which an RE has been missed and extension has not been granted, where staff has proposed to use the procedures similar to arrears cases. As agreed at the Board and reflected in the Summing-up, REs are meant to encourage a member with stronger-than-expected external position to repay early, which would signal a positive development. It could not be overstressed that the member's inability to meet REs should by no means signal a failure to achieve the targeted improvement. The staff's proposal, on the other hand, goes back on what has been agreed upon by the Board by punishing the member for its performance in line with the program in a way that is more serious than those members actually experiencing arrears.

In paragraph 11 of the staff’s statement, staff has now proposed to delay a release of information on cases of missed expectation without Board’s approval until six months after as in the case of arrears. This, to us, seems to suggest a more favorable treatment for these cases than the cases in which extension of REs has been granted (where information would be released immediately). It would also be inconsistent with the staff’s argument in paragraph 7 of the statement, especially as regards Fund credibility and misinformation (the first and second bullets).

One final note on REs--it is our understanding that the calculation of accumulative access limit to which REs will be applicable covers only resources under the GRA. Our previous discussions on the rate of charge and REs have made no reference to purchases under non-GRA arrangements. In this light, we do not see why suspension of drawings due to missed RE without Board approval of extension should also apply to PRGF arrangements, as suggested by staff in paragraph 25.

Charges

As agreed at the last Board discussion, we can go along with the proposed decisions on the charges and surcharges, although we would prefer to see a provision that the surcharges would not be changed for a period of at least four years explicitly included in the decisions. Footnote 18 of the staff paper describes that such inclusion is not “necessary,” while the legal note implies that such inclusion is in fact "illegal." We see a need for the Board and staff to reach a common understanding on this point.

PPM

Provided that CFF purchases are not included as credit tranche purchases, we can support the proposed modalities for PPM, including the use of the 100 percent of quota threshold as a sole criterion for PPM and the exercise of discretion by the Managing Director. We also support staff proposal not to apply PPM to PRGF resources, as the Board earlier agreed to cover only purchases under the GRA.

We would not favor the publication of PPM staff reports, or a presumption that they will be published. As with Article IV consultation staff reports, publication should be voluntary; a country should not be expected to give consent or provide explanation as to why it does not want to have the report published.

The staff representative from the Policy Development and Review Department noted that a number of questions had been raised so far in the area of repurchase expectations. With regard to the statement in the paper that a member should request an extension of repurchase expectations two months in advance of the repurchase expectation date, the staff was not suggesting that that should be an absolute rule. As the Board had agreed, the member could request an extension of repurchase expectations at any time. However, if the repurchase expectation date passed without the Board having granted an extension, the member would begin to be subject to the relevant consequences. To avoid that, the staff was suggesting that the member make its request two months before the repurchase expectation date, to allow the staff sufficient time to look at the member's request, prepare a paper, and schedule a Board discussion.

On Mrs. Hetrakul's and Mrs. Vongthieres's question on the attribution of voluntary advance repurchases, the staff was not proposing any change in that respect, the staff representative observed. The member would continue to be able to attribute voluntary advance repurchases to any obligation it wished; which would, of course, extinguish the associated repurchase expectation as well.

On Mr. Portugal's question on whether the staff had in mind any solutions to deal with the problem of bunching, it should be noted that bunching arose mainly when repurchase expectations were extended one year at a time, as the expectations from the initial year would get stacked on top of expectations or obligations in the following year, at least in some cases, the staff representative said. Therefore, there were two possible solutions: If it was clear that the member was not going to be able to repurchase those stacked amounts in the later years, an extension could be granted over a longer period; but if the member was expected to experience a quick recovery, it might be appropriate to grant a one-year extension, and then look again one year later whether the member was in a position to meet those bunched repurchases—and if it was not, then a further extension could be granted at that time. As noted by Mr. Cippà in his statement, successive extensions were possible if bunching became a problem.

On Mr. Portugal's and Mr. Cippà's question about the criteria for granting extensions of expectations relating to debt exchanges, a member's engaging in a debt exchange for debt management purposes would not count as an early repayment, the staff representative noted.

Finally, on repurchase expectations, Mrs. Hetrakul and Mrs. Vongthieres had asked why the staff was proposing the suspension of drawings under the PRGF for missed expectations under stand-by or extended arrangements, the staff representative recalled. That would only apply to cases where a member had credit outstanding in the general resources account, and at the same time, a PRGF arrangement. In previous papers, the suspension of drawings under Fund arrangements had been proposed without being explicit as to which kinds of arrangements would be affected. However, it was currently the case that all suspensions for missed expectations affected both the general resources account and the PRGF. There was already a provision that PRGF arrangements would be interrupted for missed expectations under the CFF, expectations of repurchase for non-complying purchases, and whatever was left over of operations under the debt and debt-service reduction policy. For parallelism, it seemed sensible to respond to missed repurchase expectations under stand-by or extended arrangements in the same way.

Turning to post-program monitoring, Mr. Portugal had asked about the nature of post-program monitoring above and below the threshold, and its relation to the consultation clauses, the staff representative remarked. In that regard, it was necessary to clarify that the consultation clauses in all Fund arrangements were the bedrock on which post-program monitoring was built, and the reason why it was possible to apply post-program monitoring to members with outstanding Fund resources. Those clauses represented a commitment by the country, when it entered into the arrangement, to consult with the Fund. Therefore, the procedures for post-program monitoring were grounded in the consultation clause. What the staff envisaged was that there would be a presumption that post-program monitoring would be triggered if member's total outstanding resources—counting all outstanding resources under Stand-By Arrangements, EFFs, emergency assistance, CFFs, SRFs, or a CCL—were above 100 percent of quota. However, the Board and management would retain the leeway to trigger the same process of post-program monitoring for members below that threshold.

Finally, on Mr. Portugal's question on the quantified framework that the staff referred to in the paper and the guidance note, the staff considered that some kind of quantified framework would be necessary to effectively discuss policies with members as part of post-program monitoring. However, that framework would certainly not be as detailed as for a program. Instead, it might look more like that for an Article IV consultation report, which involved quantification in a forward-looking way.

The Director of the Policy Development and Review Department reiterated that the statement in the paper that a member should request an extension of repurchase expectations two months in advance of the repurchase expectation date was merely a suggestion. If a member made such a request later, the staff would do its best to process it expeditiously.

However, it would be useful to have at least two months to carry out all the necessary associated work.

It should also be noted that a missed repurchase expectation—i.e., one for which an extension had not been granted—was not legally the same as a missed repurchase obligation, the Director observed. A missed repurchase expectation would not trigger the application of arrears policies, but rather that of the measures described in footnote 15 of the paper, which included informing management, communication with the member, and eventually informing the Board.

As to the kind of information that would be made public in the event a country missed a repurchase expectation and the Board had not approved an extension, it might be preferable to discuss that issue at the time of the upcoming review of the Fund's arrears policy, which was expected in June 2001, the Director remarked. The arrears policy had been developed before transparency was an issue, and thus current publication practices for arrears cases more generally needed to reviewed.

On the CCL, Mr. Portugal had questioned the need for condition (iii) of the CCL summing up, the Director observed. That issue was key to enhancing the automaticity of the CCL, and it would be useful to hear Directors' views on that. Mr. Portugal had also suggested that, in the explanation of condition (ii)—requiring that the balance of payments difficulties experienced by the country be judged to be largely beyond the member's control and to result primarily from adverse developments in international capital markets—it should be specified that the Board would verify that the member's own policies had not been a "major" cause of the pressures in its balance of payments. The staff had some sympathy for that suggestion because it better reflected the language of the summings up for previous discussions.

Mr. Faini considered that it would be preferable to say "significant cause," rather than "major cause," because "major" implied a higher threshold than "significant."

Mr. Portugal agreed with Mr. Faini.

The Acting Chairman confirmed that Directors supported that change.

The Director of the Policy Development and Review Department noted that Mr. Portugal had also suggested that, rather than having only a presumption that the amount to be made available upon activation of the CCL would normally be one-third of the amount committed under the arrangement, there should be a hard rule to that effect. However, such a rigid rule could become constraining in unexpected circumstances. It would be useful to retain some flexibility.

Mr. Cippà agreed that there should be some flexibility. However, he suggested that the CCL summing up should say that only "up to one third" of the total amount of resources committed under the arrangement would normally be made available upon completion of the activation review.

Mr. Portugal, supported by Ms. Lissakers and Mr. Faini, stated that, if there were to be flexibility, it should be in both directions. Alternatively, if a ceiling were to be set at one-third, there should also be a floor—at 100 percent of quota, for instance.

Mr. Cippà, supported by Messrs. Esdar, Kapteijn, and Prader, said that, while the amount provided upon activation could be increased beyond one-third of the total amount of resources committed under the CCL under really exceptional circumstances, it should be made clear that it should not exceed that threshold under normal circumstances.

Ms. Lissakers observed that the language proposed by the staff seemed to be a reasonable compromise for all sides, and she would be happy to leave it as it was.

The Acting Chairman asked whether the Board could accept to retain the language proposed by the staff, at least for the moment, in the interest of moving the discussion forward. The Board could return to the issue later if some Directors were still not satisfied.

Mr. Cippà agreed to that proposal.

Mr. Mirakhor made the following statement:

> We had several difficult Board sessions on Fund facilities, which, thanks partly to your much appreciated efforts, culminated in a compromise agreement. The staff has now produced a document which, I am sure, was not an easy paper to write. Nonetheless, the staff have succeeded in capturing the major features of our agreement, and I thank them for their hard work. It is hoped that today's discussion will complete the review of Fund facilities by bringing into full concordance the decisions with the spirit of our agreement.
>
> I concur with much of what is contained in the staff paper. I have some comments regarding the CCL, the treatment of the CFF, some issues regarding repurchase expectations, and the issue of the firewall.
>
> On CCL, since Mr. Portugal has dealt comprehensively and clearly with the major issues of concern to us, I will not repeat his argument, but indicate that I support his position on the issues raised in his statement. With respect to earlier discussions, I have a question and shall take the opportunity to raise it here: It seems that in cases where the post-activation review is combined with the activation review, the limit of one-third should become less binding and the first drawing could, in fact, exceed this limit.
>
> On CFF, Mrs. Hetrakul and Mrs. Vongthieres have covered in their statement some issues that I share. Let me say that I, too, am not convinced by the rationale behind the proposal to extend repurchase expectations and surcharges to the CFF. I cannot see how the risk of prolonged use of Fund resources finds relevance or justification in case of the CFF. The purpose of this facility is to ease the burden on member countries facing unexpected

deterioration in their trade balance beyond their control. Moreover, the argument that excluding the CFF from repurchase expectations and graduation of charges would involve moral hazard is not convincing. As Mrs. Hetrakul and Mrs. Vongthieres indicate in their statement: "we do not see how a member country can freely choose between stand-by arrangement and CFF." Indeed, why should one assume a priori that members would choose to negotiate a CFF instead of a regular Fund arrangement? Not only the size of access under the CFF is limited, but, more importantly, the member has to show that the excess imports, or shortfall in exports, is beyond its control.

With respect to the treatment of repurchase expectations in the staff paper and the related proposed decision, I have several comments:

First, while paragraph 11 of the Chairman's summing-up clearly indicates that the member's ability to meet repurchase expectations would be intended to signal a stronger-than-expected improvement in its external position, which is a positive signal, the draft decision indicates that the Fund may amend the schedule of repurchase expectations if, in its judgment, the member's actual position is not sufficiently strong for repurchases to be made in accordance with repurchase expectations, which is a negative signal. Moreover, what was agreed in the Board was that there should be indication that the member's position has actually strengthened more than expected and not that it is projected to strengthen more than expected. Overall, what in our discussion was meant to create a positive incentive for early repurchase has turned into a punitive structure. As it stands, the draft decision may lead the Board to base its assessment not on actual developments, but on mere projections with which the member may disagree. I am concerned that this would create a disincentive for over performance by members, or worse, risk a loss of trust between the Fund and the member.

Second, the sentence in Box III that, "In particular, the Board should agree with the member that the member's external position was not sufficiently strong to permit early repurchases," does not reflect the outcome of our discussion. In fact, the criteria included in Box III seem to be more consistent with the initial staff's view on repurchase exceptions than with the Board's view during the discussion.

It seems to me that the burden of proof has now shifted from the member to the Fund. It is now left to the Fund to demonstrate that the member's position has strengthened beyond expectations if the extension is to be denied.

Moreover, I have concerns regarding the proposal that early repayment to other creditors should be one indicator of strengthening external position. I appreciate today's staff comment, but how are we going to determine exactly how this result had been obtained. What kind of early repayments will be monitored? How should we consider the size or the relevance of the payments made to other creditors, and what would be considered a threshold? How are we going to assess the circumstances that may have led to repayment to other creditors? And, how does one differentiate between repayments by the sovereign or by a private or public entity? These are questions I wish the staff would consider for possible response.

Third, we have some concerns regarding the proposal to publicize either the repurchase expectations or their extension. It is likely that repurchase expectations would be extended frequently since the adjustment program and the medium-term outlook will be established in accordance with the original repurchase schedule. I cannot see any justification for the Fund to publicize the fact that the member is not over performing. The Fund should not be involved in the business of unduly harming the reputation of member countries.

Fourth, and still on repurchase expectations, I agree with Mrs. Hetrakul's and Mrs. Vongthieres's comments on the issue of remedial measures in cases where members do not meet repurchase expectations. Noncompliance with repurchase expectations, especially when the member does not agree that its external situation has strengthened more than expected, should not be treated the same as noncompliance with original repurchase obligations. Therefore, we cannot support the language of paragraph 1(c) of Decision No. 5703-(78/39).

Finally, while I thank the General Counsel for his statement, the issue of firewall was an essential and crucial element of the compromise agreement, and must be accommodated within the decision framework.

Mrs. Farid made the following statement:

I would like to start by echoing Mr. Portugal's exhortation that in rendering operational the agreement reached last September, we should adhere to the letter and spirit of the understanding and avoid introducing new issues into the discussion. As Directors will recall, coming to an agreement on the host of issues involved in the Review of Fund Facilities was not an easy task. It involved the acceptance of compromises by all of directors and at the end, a package was agreed to. It follows that as we translate this agreement into specific decisions we need to be extremely careful not to undermine the integrity of this package either by introducing changes to what was agreed to or by introducing new elements which had not been included in the discussion.

Mr. Chairman, I will follow the staff paper's order in stating this chair's position on the proposed decisions.

On the CCL, thanks to Mr. Portugal's excellent preliminary statement, I can be brief, we can associate ourselves with all the points made by Mr. Portugal on the CCL, particularly with regard to the elimination of condition (iii) for the activation review.

On the conversion of emergency and post-conflict assistance to a special policy, we find staff's proposal to be consistent with the agreement reached in September, which only covered Stand-By Arrangements and EFFs. As noted in the staff paper, the Board has already agreed that the resources made available under the guidelines on emergency assistance for natural disasters and for post-conflict situations should not be counted toward outstanding obligations that give rise to surcharges . We agree that it is consistent to also exclude these resources from the application of early repurchase expectations. Converting emergency and post-conflict assistance into a special policy achieves these objectives and we therefore support the staff's proposal.

On the CFF, which was not included in the September agreement, our preference is to leave it as is, as a special facility. Here we would like to associate ourselves with the comments made by Mr. Mirakhor and Mrs. Hetrakul and Mrs. Vongthieres. We find the argument of possible bias in favor of the use of the CFF as opposed to Stand-By Arrangments not convincing, since members are not free to choose which facility they would like to use. We would stress that there are clear guidelines for eligibility for the CFF and verification clearly rests with the staff.

On the mechanics involved in the extension of repurchase expectations, we can agree to the staff proposals, which we find simple and easy to understand. We agree with Mr. Mirakhor that we should not make the requests for extensions a burdensome process for members and can support his position on the duration of extensions. On the timing of the submission of a request for extension, we can agree to two months notice as a general guideline, while at the same time retaining the right of members to request extensions at any time if they feel they will not be able to meet a repurchase expectation.

Turning to the conditions for granting extensions to repurchase expectations, in our view, the decision as proposed, does not adequately capture the understanding reached in the Board in September. I would also add that we were puzzled by the staff statement issued yesterday which appears to contradicts the September understanding which was supported by the vast majority of directors. This understanding is clearly stated in paragraph 23, which says:

"Because programs will not generally target adjustment sufficiently rapid for members to meet repurchase expectations, members will generally be in a position to meet these expectations only if their external position is stronger than programmed." It also follows from staff's repeated statements in the different papers that a member's ability to meet expectations would be intended to signal a stronger than expected improvement in its external position. (EBS/00/187, para. 2) We therefore do not understand the purpose behind the staff's latest assertion that "the granting of extensions of repurchase expectations be based on criteria relating to the absolute strength of the member's external position, and not to developments in the external position relative to what had been programmed." Does staff's statement mean that even if a member's external position is not stronger than programmed, the Fund could refuse the request for an extension? Adding to the confusion, in footnote 1 of their statement issued yesterday, staff introduce another interpretation of what improvement in the external position means. Referring to the summing up of September 15, staff say "While the statement in the summing up is phrased in terms of improvement in the external position, the improvement is not relative to what has been programmed, but rather relative to the member's position when it was making drawings." This is the first time we hear this interpretation and we cannot accept it.

Still on the conditions for granting extensions, we are interested in hearing staff's clarifications on the issues raised by Mr. Mirakhor on the use of early repayments of other credits as an indicator of strength in the external position.

As for the proposed sanctions or remedies if a country fails to meet repurchase expectations, we are opposed to staff's proposal. In our view, an early repurchase expectation remains just that—an expectation—and it should not be treated as an obligation, with remedial measures imposed if it is not met. We are not ready to agree to the imposition of any sanctions. As Mr. Mirakhor alluded in his thoughtful statement, this exercise should not be conceived as a punitive exercise. The Fund's image is already suffering from the punitive attributes of many aspects of Fund policies. Let us not aggravate this situation.

As for the proposals on the provision of information to the public on extensions of expectations, we feel very uncomfortable with the proposals presented by staff. We believe that more thought needs to be given to this issue. In any case, as the staff note, these proposed procedures would not be expected to be used before early 2003. We would therefore prefer to deliberate more carefully on this issue before coming to a conclusion. If we do have to take a position today, like Mrs. Hetrakul and Mr. Mirakhor, we do not see any benefit to publicizing the granting or not granting of extensions.

We do have a more specific suggestion, however, on the term that is being used to describe repurchase expectations. The paper speaks of "time-based repurchase expectations," while in fact what is meant is "early repurchase expectations" which is the term we used early on when we began these discussions. We believe the latter term, or perhaps "advance repurchase expectations" conveys more accurately what we are talking about and has a more positive connotation.

On the decisions on the level based surcharge, our Chair was one of those who had raised the question why the staff had not incorporated a draft decision giving effect to the statement in the summing up that surcharges adopted in the context of this review would not be changed for a period of at least four years. We thank the General Counsel for his explanatory statement, however, a number of questions still remain unanswered.

First, Footnote 18 in the paper, states that "the desire of the Executive Board not to change the level-based surcharge for a period of at least four years is recorded in the summing up and no specific language in the decision is necessary." Our question to the General Counsel is what was meant by this footnote? "no specific language in the decision is necessary" for what? To make it binding? Or is it not necessary because it does not have legal effect anyway?

Our second question is "Why can't we take a decision to set the surcharge at a certain level for a period of four years?" This decision would remain in effect as long as the Board does not take a subsequent decision that would supercede it. Is that not the case with all Board decisions?

Mr. Chairman, I would have to say here that Mr. Shaalan asked me to express in no uncertain terms that he attaches very high importance to this matter. This decision forms an integral part of our agreement in September. Like other parts of the agreement, it should form part of the Board's decisions.

Finally, we can agree to the relevant decisions on the surcharge to the CCL, and the commitment fee and post program monitoring. However, on publication, we do not agree that there be a presumption of publication of PPM staff reports. As we noted in previous discussions, as with Article IV staff reports, it should be left to the country to decide whether to publish or not.

Mr. Chairman, before ending, and as an aside but not for discussion today, we have serious reservations about the role summing ups play in formulating Fund policies. We have strong reservations about the system as it stands and feel that this issue needs to be addressed on an urgent basis.

The Director of the Policy Development and Review Department noted that the staff had had difficulty in formulating language that captured adequately the Board's agreement on whether the ability of a country to meet repurchase expectations would signal an absolute rather than a relative improvement in its balance of payments position. The staff generally designed programs around the expectation that the balance of payments position would improve at least just enough for the country to meet the repurchase obligations schedule, since the program had to demonstrate that the country would eventually have the capacity to repay the Fund. In that context, any time a country's performance was stronger *relative* to what had been expected, there could be a case for early repurchase. However, frequently, the staff did expect the balance of payments to improve faster than what was necessary to simply meet the obligations schedule and the minimum standard capacity to repay, and, in fact, fast enough so that the country would be able to meet the repurchase expectations schedule. In such cases, therefore, the issue was not really whether the balance of payments situation would improve faster than originally expected—a *relative* measure—but rather whether the overall improvement—in *absolute* terms—might warrant an early repurchase. Even if the balance of payments position had not improved as much as expected, it might still have improved much more than what was needed to simply meet the obligation schedule. It was difficult to find language that covered all of those possibilities.

Mr. Mirakhor asked why the staff was not satisfied with the following language, which was from the summing up: "Fund-supported programs would normally continue to be formulated on the assumption that the member would meet the repurchase obligations rather than the expectations, and the member's ability to meet repurchase expectations would be intended to signal a stronger than expected improvement in its external position rather than a failure to achieve the targeted improvement."

The Director of the Policy Development and Review Department reiterated that there would be cases that would not be captured by that language—those where the balance of payments position did not improve as much as expected relative to the program, but still enough relative to what would be necessary to simply meet the obligation schedule.

Mr. Mirakhor observed that such cases would be exceptions, and thus that they should not be used to formulate the general rule.

Mr. Esdar remarked that the rule should be very simple: If the country was in a position to repay, whether in absolute or relative terms, then it should do so. The precise way in which that concept was expressed in staff papers and summings up was really just semantics.

The Acting Chairman noted that it was also possible for a country's balance of payments position to be stronger than programmed, but still not strong enough—in absolute terms—to permit repayment, because of shocks in the world economy, for instance. Therefore, one had to be careful of language that emphasized a measurement relative to the program, as that might limit the Board's discretion to consider special circumstances in both directions.

Ms. Lissakers agreed with Mr. Esdar that a country's capacity to meet the repurchase expectations for a particular program should be determined in an objective way, on the basis of facts and economic conditions, at the time the request for a waiver came—and not simply on whether a country's balance of payments position had improved in absolute or relative terms.

Mr. Faini observed that the staff's projections were often surrounded by great margins of uncertainty. Therefore, he agreed with Mr. Esdar and Ms. Lissakers that it would be preferable to determine a country's capacity to repay based on objective criteria. Moreover, the staff's projections would become extremely politicized if they were to be used as benchmarks to determine a country's capacity to repay.

Mr. Cippà said that he shared Mr. Esdar's views on that issue.

Mr. Lushin remarked that he had some doubts about the possibility of identifying objective criteria on which the staff, the Board, and the authorities would all agree. Each might have different views on the appropriate measure against which to determine whether the country could, or could not, repay without adverse consequences.

Ms. Lissakers, supported by Mr. Esdar, observed that anytime a country—Russia, for example—came to the Fund for financing, a determination was made about its balance of payments need, and presumably that determination was based on objective criteria.

Mr. Faini noted that the staff's projections were also open to substantive judgment. Thus, evaluating the situation only when a request for a waiver was presented would be a less subjective exercise.

Mr. Prader remarked that there were a number of cases in his constituency where the staff had been against early repurchases, and he could sympathize with Mr. Lushin's concern that making an objective decision was not always easy.

Mr. Zoccali referred to Mr. Lushin's point and asked for clarification from the staff on the meaning of the clause in parenthesis in footnote 1 of BUFF/00/170, which said that "while the statement in the summing up is phrased in terms of improvement in the external position, the improvement is not relative to what had been programmed, but rather relative to the member's position when it was making drawings." One had to assume that when the member was making the drawings, the situation was at the most critical level; in that context, Mr. Zocalli asked, what was the answer to Mr. Lushin's point?

Mr. Collins remarked that the Board should be the ultimate arbiter of whether a country had the capacity to repay or not. He could understand the desire to ensure objectivity, but relying only on a mechanical rule that would require the country to repay if its balance of payments position had improved relative to the original projections was not reliable, because much could have changed in its situation in the interim.

Ms. Lissakers said that she strongly advised against reopening the language of the decisions on that issue. The staff had reconciled the various elements of the agreement that had been reached in September in the specifics of the decisions. If one started fiddling with that language, there would be a danger that the whole tenor of the agreement that had been reached in the Board and endorsed by the ministers would begin to unravel, she stated.

Mr. Kapteijn suggested that the language of the last summing up, with which everyone had agreed, could be inserted in the decision.

The Acting Chairman asked Directors whether they would be willing to repeat the language of the last summing in the new summing up for that day's meeting, which could be seen as an interpretive document on the decision, so that it would state that: "Fund-supported programs would continue to be guided by the requirement that the member should be able to meet repurchase obligations, rather than expectations, and the meeting of expectations will signal that the member's external position is stronger than would have been dictated by this minimum requirement. Moreover, since Fund-supported programs will not generally target adjustment sufficiently rapid for members to meet repurchase expectations, in most cases members will be considered to be in a position to meet repurchase expectations only if their external position is stronger than had been projected at the time of approval of the arrangement."

Ms. Lissakers expressed concern that the proposed language suggested that it would be inconceivable for the Fund to project in a program, or in program revisions, that the country would be meeting the repurchase expectations. If there was a dramatic improvement in the balance of payments situation of a particular country after the first year of a program, the Fund should be able to revise the program to recognize the new reality, and in the assumptions for the revised program, to expect the country to meet the repurchase expectations.

The Acting Chairman remarked that Ms. Lissakers's example would effectively convert the repurchase expectations into obligations through a midstream adjustment to the program; and that would not be consistent with the consensus reached at the Board during previous discussions.

Ms. Lissakers explained that introducing an element of relativity with regard to the original program projections, rather than relying on an objective judgment of the balance of payments condition at the time of the repurchase expectation dates—which was what had been agreed in September—was problematic because it could become an excuse for not asking a country to repurchase even in cases where reserves were substantial. The purpose of introducing repurchase expectations was to ensure that countries would repay the Fund as soon as their situation permitted it; and many chairs had accepted that proposal instead of a stronger pricing incentive. If repurchase expectations were made meaningless, then the whole agreement on the Review of Fund Facilities was being gutted of meaning. Therefore, she would suggest again that the current language be left as it was.

The Acting Chairman observed that an interpretation based on improvement "relative" to the program projections was not necessarily in the interest of borrowing countries, as it opened up a variety of unnecessary problem, including the need to repay even if the "stronger-than-programmed" position was, in fact, not sufficiently strong, because external circumstances might have changed, for example. Moreover, the additional language that he was suggesting to insert in the summing up referred to what would be done in "most cases." Therefore, it did nothing more than describe objectively what was going to happen for the majority of countries, while leaving open the possibility that there would be exceptions which would be treated differently.

Mr. Mirakhor suggested that the language ultimately agreed upon by the Board be included in the guidance note on programming, as well as repurchase expectations.

The staff representative from the Policy Development and Review Department confirmed that the guidance note would be amended to reflect the language agreed for the summing up.

Mr. Portugal stated that he would be prepared to go along with the consensus on that particular issue, but would like to find a way to bridge the differences among Directors, through a solution similar to the one proposed by Mr. Kapteijn. From his own point of view, there were two main questions to consider: first, on what basis should extensions of repurchase expectations be granted; and second, how should they be communicated to the public. On the first question, he agreed with Ms. Lissakers that if a country was in a position to repay, it should do so regardless of whether its situation had improved relative to the original program projections or not. On the second question, however, if an extension was granted, it should be made clear to the public that the Fund had granted it because the country could not repay, even though it had performed as expected relative to the program projections. Performance relative to program projections should actually be used not to decide whether or not to grant the extension, but to communicate in a positive way to the public the rationale for granting the extension.

Mr. Cippà said that he could agree to the language proposed by the Acting Chairman. He also agreed with Mr. Portugal that, in cases where a country could not meet the repurchase expectations despite having performed in accordance with the projections of the program, and was thus granted an extension, special consideration should be given to conveying that information to the public in a way that would not be interpreted as a negative signal.

The Acting Chairman noted, in connection with Mr. Portugal's comment, that there could be cases where a country was doing worse than projected but was still granted an extension on its repurchase expectations. In those cases, the public statement would have to be phrased differently. He sensed that in this regard Directors could agree to the language he had read into the summing up as a clarification of the decision, which would remain unchanged.

Mr. Esdar said that he agreed to the Chairman's proposal; and also that it was important to find the right wording to communicate to the public the reasons for extending repurchase expectations.

Mr. Collins asked whether it would be clear from the summing up that the additional language referred only to programs supported by facilities other than the SRF, as the SRF program was intrinsically based on the assumption that the country would meet the repurchase expectations.

The Acting Chairman confirmed that the language would be clear in the summing up.

Mr. Zoccali asked the staff to clarify the status of paragraph 2 in BUFF/00/170 and, in particular, footnote 1, in light of the discussion that had just taken place.

The Director of the Policy Development and Review Department stated that footnote 1 had been an attempt to clarify the issue, but in the light of the discussion, it should now be disregarded.

Mr. Faini recalled that, with regard to the automaticity of the activation review under the CCL, Mr. Portugal had taken issue with the language on page 33 of the staff report, where it was stated that, “with respect to the condition (iii) for the activation review, the Fund would give the member the strong benefit of the doubt; in particular, the Fund would proceed expeditiously, without comprehensively examining the member's policy intentions, unless it had clear evidence that the member planned not to adjust policies to deal with any real economic impact from contagion." While he shared some of Mr. Portugal’s concern that that statement detracted from the automaticity of the activation review, he felt that Mr. Portugal’s proposal to delete condition (iii) altogether went too far. Instead, he would suggest to revise the sentence so that it would read, “with regard to condition (iii) for the activation review, the Fund would give the member the strong benefit of the doubt. Therefore, the Fund would proceed expeditiously unless it has clear evidence that the member plans not to adjust policies." That would essentially strike out the phrase "without comprehensively examining the member's policy intention", which opened up the way to contentious discussion between the member and the staff and left considerable uncertainty as to whether the CCL resources were indeed available from the point of view of the market. Mr. Faini asked whether the suggestion would be acceptable to Mr. Portugal.

On the CFF, the Board had discussed some time ago the purpose and nature of that facility, and in that context many Directors had raised questions about the difficulty of distinguishing between temporary and permanent shocks, Mr. Faini noted. Still, the Board had decided to retain the CFF. He was now surprised that many of his colleagues who endorsed the continuation of the facility—because shocks tended to be temporary, and there was no facility to allow members to deal with temporary shocks—also considered that the early repurchase expectation system should not be adopted in the case of the CFF. If those Directors really believed that shocks tended to be temporary, there was a very strong case for extending the system of early repurchase expectations to the CFF.

As to how to communicate to the public regarding extensions of repurchase expectations, the staff’s proposal that the member be allowed flexibility in deciding whether to publish the paper on its request for an extension of repurchase expectations was a good idea, Mr. Faini remarked.

Mr. Portugal said that he appreciated Mr. Faini's suggestion regarding condition (iii) of the activation review, but preferred his own solution. Mr. Faini had himself stated, in July 2000, that the fact that the Fund reserved the right to take a further look at the member's policies and ask for additional measures at the time of activation was bound to weaken the strength of the signal that eligibility to the CCL should convey to markets, as the credibility of that claim would be undermined if it appeared that the Fund itself was not fully confident about the thrust of the country's policies.

He had understood, from previous Board meetings, that the Board had already agreed to eliminate condition (iii)—former condition (iv) in the original CCL summing up—in the context of the general desire to make the activation review more automatic, Mr. Portugal said. The original CCL summing up said that the activation review should be limited to determining that a member had developed a balance of payments need as a result of contagion, which was condition (i); that the difficulties were judged to be beyond the member's control, which was condition (ii); and that the member had been pursuing strong policies, which was the former condition (iii). Those conditions were mentioned in the summing up of September 18, paragraph 7, but condition (iv) was not, which suggested that the Board had already agreed to eliminate it at that time.

Mr. Esdar considered that there were three conditions that the Fund had to confirm when a member requested the activation of the CCL: that the member, indeed, had a balance of payments need; that it had not caused its own difficulties; and that it intended to bring the situation back on track. The first two had to be confirmed at the time of the activation review. As to the third, it should be presumed that the country would adjust its policies if necessary, and it should be clear that the needed policy adjustment would be discussed in detail at the post activation review.

Mr. Portugal observed that that presumption would already be there, because it was part of the conditions for the country to be eligible to the CCL, which required, among other things, that the country should stand ready to adjust policies as needed. That should only be mentioned again in the context of the post-activation review.

Mr. Faini remarked that market confidence would depend in great part on whether there was confidence that a CCL country would adjust its policies as needed if contagion struck. While it should be clearly stated that, given the presumed strong policies of CCL countries, the member would be given the benefit of the doubt as to its commitment to adjust its policies, removing any reference to the presumption that the member would do so might weaken the signal that would be conveyed to the market.

The Acting Chairman observed that Directors' views on that issue were actually very close together. Mr. Portugal was also suggesting that it should be assumed that the country remained committed to adjusting its policies, since, after all, that was how it would become eligible for the CCL in the first place. Therefore, there was no need for an explicit mention of the commitment in the context of the activation review. There was a question, however, of whether one could imagine any circumstance where it might be desirable to retain that language. One example would be a country where the government changed, and there no longer was any assurance that it had the same policy objectives as the preceding government, which were those that the Fund had endorsed. If contagion struck faster than the Board could move to declare the country no longer eligible for the CCL, then the activation review might provide the last means of avoiding having to release resources to that country.

Mr. Portugal replied that the same kind of situation presented itself in normal Fund programs, where it sometimes happened that the Fund disbursed one tranche of resources, and then the government changed and negated the whole program. In such a situation, the only recourse was to refuse disbursal of the following tranche. In the context of the CCL, the Fund’s recourse would be to refuse the release of resources linked to the post-activation review. In any case, however, he did not think that the rules should be made based on the exceptions, but rather on the expected normal cases.

Ms. Lissakers agreed with the Acting Chairman that there did not appear to be any disagreement on the substance. The idea should be to ensure that the country had not “lost its mind,” so to speak, and that it remained a country that was responsible and committed to good policies. Since the language in the CCL summing up was that the Board would verify that the member “is committed to adjusting policies” rather than “has committed,” there was no implication that a specific policy pledge would be required in conjunction with the activation review, and no conditionality threshold was being introduced. There should simply be a finding the government had not suddenly veered off track in terms of its commitment to a sensible response to economic conditions.

Mr. Collins said that the CCL was very different from a normal Fund program. When a country entered into a CCL arrangement, the Fund knew that, if the CCL was ever drawn upon, it would be under unknown circumstances, probably very different from what they were at the time the facility was approved. That was quite different from having a normal program going off track after the first disbursement. In the context of contagion, it would be imperative for the government to adapt its economic policies somehow. Nevertheless, he wondered, like Ms. Lissakers, whether Mr. Portugal's difficulty was not just over the practicalities of how the government could signal its commitment. What did the staff expect to happen in that regard at the time of the activation review? Was it just a question of a government saying that it would be sitting down with the Fund staff to work out a new program, and that while no details could be given at that time, the policies would be looked more closely at the post activation review? If it was no more than that, he could not see Mr. Portugal's difficulty.

The Acting Chairman said that Mr. Portugal's difficulty was the obvious concern which had been discussed by Mr. Faini, which was that the insurance policy embodied in the CCL might be taken away precisely at the moment when it was most needed. That concern certainly needed to be addressed. However, while it was true that rules should be aimed at dealing with normal circumstances, the abnormal circumstances should also be anticipated. The Fund should try to avoid establishing a mechanism whereby it would find itself in a position where it was bound by a previous decision to take a step that did not make sense under the circumstances.

Ms. Lissakers suggested that the language could be revised slightly to say, instead of "the member is committed", that "the member remains committed to adjusting policies to deal with changes in economic conditions, including the impact that may follow from contagion."

Mr. Cippà stated that the CCL was indeed an insurance policy, but its conditions were already very weak. The Fund had to retain some discretion in evaluation whether the member would make good use of the substantial resources to be made available upon activation. Therefore, he would be reluctant to weaken the conditions even further. The language in the staff paper represented a fine compromise that took care of the concerns of those who did not like such a degree of automaticity.

Mr. Zoccali said that he assumed that the Fund's discussion of the pre-qualification of a particular country for the CCL would take due notice of the quality of a member's policy mix and the type of framework that it had in place, and would be forward looking. If there were to be a change in government, that should be taken into account, but it would not necessarily negate the fact that the country might still need to activate the facility in case of contagion. If the process of pre-qualification appropriately included a forward-looking analysis, however, the danger should be minimized significantly. The problem with Mr. Faini's proposal was that it assumed that the member would have to deal with *any* real economic impact from contagion, and it was not clear that it would have to deal with any real economic impact if some of the effects were judged to be temporary. While he agreed that, in substance, the member should adapt to changing circumstances, insisting too strongly on specific language to that effect in that particular section of the CCL summing up might make meaningless the reference to giving the member the benefit of the doubt.

Mr. Esdar wondered whether a slightly different presentation might help Mr. Portugal. For instance, to avoid the impression that conditions (i) and (ii) had the same weight as condition (iii), perhaps the substance of condition (iii) could be conveyed in a separate sentence, without being numbered. Thus, the paragraph would list conditions (i) and (ii), and then a separate sentence would say that, "the member remains committed to adjust policies…"

The Acting Chairman expressed concern that the meaning would not be quite clear if condition (iii) was converted into a separate sentence. He would suggest instead to say in condition (iii) that, "the member remains committed to adjusting policies to deal with any real economic impact that may follow from contagion" and then leave out the explanatory sentence that began with "with regard to condition (iii)" and ended with the words "from contagion."

Mr. Faini considered that that explanatory sentence should be retained, because it was not clear how the Board would verify that the member, indeed, remained committed to adjusting policies. However, perhaps it could be slightly modified so say only that "the Fund would give the member the strong benefit of the doubt, unless it had clear evidence that the member planned not to adjust policies."

Mr. Portugal reiterated that his impression had been that the Board had already accepted to delete condition (iii)—the former condition (iv)—at the time of the July discussion, since the summing up of that discussion already limited the activation review to just the former first three conditions. Moreover, the September summing up seemed to reaffirm that understanding by stating that the member would be given the strong benefit of the doubt as to any required policy adjustment. It was not very straightforward to try to reintroduce condition (iii) now by introducing the ambiguous language on giving a country the benefit of the doubt in the CCL summing up.

Mr. Oyarzábal stated that he agreed with Mr. Portugal on the issues that had been brought forward on the automaticity of the CCL. He considered that the sentence giving the country the benefit of the doubt as to its commitment to adjust policies should be retained, but condition (iii) should be eliminated.

Mr. Collins remarked that his recollection of the July meeting was that the Board had agreed to eliminate the old condition (iii), but to keep the old condition (iv), because there would need to be a judgment as to what was involved in the old condition (iii), which would be looked at the time of the post-activation review. He also reiterated his question to the staff as to how the authorities commitment to adjust policies would have to be manifested. His impression was that this would be in the form of a public statement by the authorities, reflecting their discussions with the staff of any needed policy changes at the time of the post-activation review.

The Director of the Policy Development and Review Department said that Mr. Portugal was right in pointing out that the summing up of the July 24 discussion on the Review of Fund Facilities said that the activation review under the CCL would be limited to evaluating certain conditions. However, the issue now before the Board was the desirability of reaffirming the original commitment of the authorities under the CCL to adjust policies in the event of changes in the member's circumstances. As Mr. Collins had said, the staff did not intend to call for an exhaustive review. In fact, the purpose of the explanatory sentence on condition (iii) was to convey the sense that the Board wanted the burden of proof to fall on the Fund, by saying that the Fund would give the member the strong benefit of the doubt "unless it had clear evidence that the member planned not to adjust policies." There had been general agreement at previous discussion that a detailed discussion of the authorities' intentions should be left to the post-activation review. What the staff would be seeking at the time of the activation review, therefore, was simply confirmation that the original commitment of the authorities, as agreed when the CCL was first approved, remained. In that context, he agreed that Ms. Lissakers's proposed language—to say that the member "remains committed"—was preferable.

The Acting Chairman, after some further discussion, suggested that the Board consider some slightly modified language, as proposed by Mr. Portugal, based on Mr. Esdar's earlier comments. Condition (iii) and its associated explanatory sentence would be eliminated, but at the end of the paragraph the following sentence would be added: "Activation would be completed on the presumption that the member remains committed to adjusting policies to deal with any real economic impact that may follow from contagion, with the member being given the strong benefit of the doubt in this respect."

Mr. Kelkar made the following statement:

We are grateful to the staff for providing us with a useful set of papers on an important subject to which the Board has devoted considerable attention. Given the extensive and complex nature of the discussions on the subject, the staff has done a fairly good job in taking the process further. Nevertheless, it is somewhat unfortunate that the letter and spirit of our earlier discussions does not seem to fully be reflected in the proposals in this paper.

Given the extensive comments of Mr. Portugal, Mrs. Hetrakul, Mr. Mirakhor and Mrs. Farid, I will be very brief in my comments.

On CCL, we agree with the general consensus that seems to have emerged here. However, since there is now broad agreement to allow a meaningful period of experimentation with this amended CCL, we feel that the existence of a sunset clause will unnecessarily erode the efficacy of the CCL. Perhaps a better approach would be to make a provision only for a periodic review. I would appreciate staff's comments on this issue.

On the CFF, we are somewhat uncomfortable with the incorporation in the paper of some technical aspects which were not covered in the earlier discussions. In this regard, like Mrs. Hetrakul, Mr. Mirakhor, and Mr. Faini, we are not convinced by the staff rationale for the conversion of the CFF, which is currently a special facility, into a credit tranche facility so that purchases under the CFF could be subject to repurchase expectations and level-based surcharges.

As regards the repurchase expectations more generally, we feel that they should be based on positive incentives. Therefore, failure to meet them, especially for reasons beyond the member's control, should not warrant punishment. In the staff proposals, the consequences of missed repurchase expectations, in our view, are unduly harsh. For example, the member's rights to make further drawings, including under ongoing arrangements, would be automatically suspended if the member did not adhere to a repurchase expectation schedule and an extension was not granted (paragraph 25, page 15). In our view, that would blur the distinction between repurchase expectations and repurchase obligation , which is undesirable.

Like other Directors, we also are quite concerned that markets will misunderstand the meaning of an extension of repurchase expectations. Any publicity in this regard could unnecessarily cause anxiety regarding the member's external position and we feel that this needs careful consideration.

> Finally, the understanding of the Board at the last round of discussions not to change the surcharge for four years has been recorded in the summing up, but not incorporated in the decision. Notwithstanding the statement of our General Counsel, we would suggest that our agreement in this regard should be appropriately reflected in the formal decision.

Mr. Mirakhor considered that Mr. Kelkar had raised a useful point with regard to the sunset clause for the CCL, and he looked forward to the staff's comment on whether periodic reviews might not be preferable.

Mr. Prader made the following statement:

> The staff has done a very good job of translating the agreement, reached just before the Annual Meetings in Prague, on reforming the Fund's facilities. I will confine myself to seeking clarifications and taking positions on issues not yet solved, and will follow their order in the paper before us.
>
> The Contingent Credit Lines
>
> On the CCL, I support the staff's recommendation that the amount made available on activation should be one-third of the total rather than an amount equivalent to 100 percent of quota, but I would not agree to an amount greater than one-third, as suggested in paragraph 6. The Board should never agree to make more than one -third of the total available at activation unless the authorities and staff have agreed on a clear program to adjust policies in response to the crisis. There must be a firm limit on how much can be disbursed at activation without agreement between Fund and member on a specific adjustment program, and up to one-third of the total—to use Mr. Cippà's phrase—should be quite sufficient.
>
> The CCL's "sunset clause" should indeed be extended to November 2002 so that we can obtain more experience (paragraph 7). On the controversy surrounding Condition (iii) of the activation review, I share Mr. Portugal's recollection of the Board's discussion in September. Mr. Faini and others have legitimate second thoughts about the issue of strengthening the presumption for adjustment policies. We are grateful that Mr. Portugal's learning process has opened the way for a compromise that we can support.
>
> Emergency Assistance and the Compensatory Financing Facility
>
> Not only should credit provided as emergency assistance for natural disasters and post-conflict situations continue to be exempted from surcharges, as agreed in September; it should also be exempted from time-based repurchase expectations, as proposed by the staff. Post-conflict countries will rarely be able to meet repurchase expectations, and emergency assistance for natural disasters is rare enough that it does not justify the

complexity of differentiating the rules for early repayment from those that applied to post-conflict countries. The balance-of-payments difficulties related to armed conflict and natural disasters are different in kind from the great majority of balance-of-payments problems. Most balance-of-payments problems are policy related: they originate in weak policy performance or are caused by terms-of-trade shocks requiring policy adjustment. Emergency assistance should indeed be dealt with by a special policy, and should clearly be placed outside the credit tranches, as proposed by staff.

The differences in the nature of and solutions for the balance-of-payments problems addressed by the CFF and other Fund facilities belonging to the credit tranches are slight. It is therefore appropriate to subject CFF purchases to repurchase expectations and to count them toward the level at which a country's outstanding obligations trigger a surcharge.

Time-Based Repurchase Expectations

I agree with all the staff's proposals but one, namely the suggestion that a statement be published whenever the Board agrees that a member should be moved from the "expected repurchase" category to the "mandatory repurchase" category (paragraph 27). Like Mr. Mirakhor I fear that such publication would needlessly stigmatize a country's external position, when all the Board has done is to acknowledge that the country's balance of payments is not exceeding program expectations. The member's financial data, including the repurchases scheduled and the repurchases made, are already available on the Fund's web site, and there is no need to go beyond that.

For the record, I note the clarification received from the staff at last week's question and answer session, to the effect that early repayment of other credit will be considered on a net basis as a criterion for extending repurchase expectations (p.15, Box 3, second paragraph). Our early repurchase expectation policy should not penalize members for improving the profile of their external debt by repaying expensive credits with cheaper ones.

On the question whether decisions to grant extensions of repurchase expectations should be based on the absolute strength of a member's external position relative to the program's assumptions. The discussion has now become totally obscure. We believe that such decisions should not only take account of a country's ability to repay, but should also look at what had been programmed and compare the case with cases involving other countries. At any rate, we can accept the chairman's proposed compromise language.

Charges on the Use of Fund Credit ("Firewall Issue")

The standstill of at least four years on surcharges on the use of Fund credit is a fundamental element of the agreement reached before the Annual

Meetings. It is very clearly recorded in the summing up of September 15, 2000, and this chair will be vigilant in ensuring that it is respected. I can understand the borrowing countries' worry that this undertaking might not last the full four years if some creditor countries should forget their commitment. Legally speaking, of course, the Board can do as it sees fit at any time, but I agree with the staff that if, during the next four years, it should decide to raise the basic rate of charge, even as a response to unforeseen circumstances, such a decision would violate the spirit of the agreement recorded in the summing up. I does not seem wise now to introduce the idea of a review in four years' time because this is not what we agreed to last time. Given the propensity of some countries to be absent-minded—as they were about the Hong Kong understanding on quotas and representation—nothing can safeguard our understanding on the four-year standstill but the probity of the Board and Management.

Post-Program Monitoring

Even though the PRGF was not included in the review of Fund facilities now being completed, Post-Program Monitoring should be applied to countries using PRGF resources (paragraph 45). We should be equally vigilant, whether we are monitoring the risks of a large use of General Resources after a program expires, or monitoring a large use of the PRGF resources for whose management we have accepted responsibility.

Decisions and Guidance Notes

As to modifications of the decisions or guidance notes, I would ask:

Deletion of the word "normally" in the CCL Summing Up, and insertion of the word "up" between "amount" and "to one-third" (p.33, first paragraph last line).

Modification Paragraph 7 of the Guidance Note on the Implementation of Post-Program Monitoring to include outstanding credit under the PRGF (p.39).

Of course, I may have overlooked other implications which I trust the Legal Counsel will find if my suggestions gather sufficient support to be adopted.

Mr. Zoccali made the following statement:

At this stage, I will be brief and focus on the issues of most relevance to us.

We are grateful to staff for the extraordinary effort that they have made to advance the implementation of our understandings. We consider it important to proceed rapidly while preserving the spirit of consensus, and we support the overall approach that has been put forward.

On the CCL, we attach the greatest importance to ensuring that it becomes an effective instrument to prevent the outbreak of future crises. The agreement that we have reached on the simplification of the activation review and on having the condition of adherence to a meaningful program subsumed into the condition that the crisis must have been triggered by contagion is critical if the CCL is to serve its intended purpose in the event that a pre-qualified country is stricken by contagion. On this point, I would associate myself fully with Mr. Portugal's preliminary statements and the subsequent agreement that has in fact taken place.

On the size of the purchase under the CCL to be released upon the completion of the activation review, we see more merit in a rule than in a presumption, and therefore we would favor establishing a floor of 100 percent of quota and the idea of the interval also suggested by Mr. Portugal would seem appropriate to us.

On the issue of the sunset clause, we certainly agree with the need to extend it and, at the outset, would see some benefit in the suggestion made by Mr. Kelkar for a periodic review. If the CCL is to be an instrument that members should have a clear incentive of aspiring to secure, we need to make sure that this instrument will be available during a longer period of time, and certainly November 2002 might not be sufficient to give the new instrument an even chance to prove its worth.

On emergency assistance, we agree with the staff proposal to exempt emergency assistance for natural disasters and in post-conflict situations from surcharges and time-based repurchase expectations, and to convert such assistance into a special policy outside the credit tranches. We consider the proposed treatment to be realistic and appropriate given the extreme circumstances that such members are likely to face, and the importance of giving these members a strong signal that the financing of sound macro policies and institution building will not be compromised in any way by an initial improvement in these countries' external positions.

On purchases under the CFF, our position is similar to that of Mrs. Hetrakul and Mrs. Vongthieres, and Mr. Mirakhor. As these purchases are triggered by exogenous temporary factors reflected in an export shortfall or a spike in the cost of cereal imports and are subject to clear guidelines for calculations and subsequent verification from staff, we will nevertheless go along with the consensus view on this issue.

On time-based repurchase expectations, the successful implementation of the decision in this regard for the credit tranches and the EFF should be based on positive incentives. Paragraph 23 of the staff report puts this in the proper perspective by stating that Fund-supported programs will continue to be guided by the requirement that the member should be able to meet the repurchase obligations, and that members will generally be in a position to meet the repurchase expectations only if their external position is stronger than anticipated.

In this regard, we are agreeable with the conclusion that has been reached. However, given the indications that the extension of repurchase expectations covering a certain period could give rise to undesirable bunching, we would strongly urge the recognition of the desirability of avoiding this circumstance by building in sufficient flexibility to grant extensions covering all expectations, either at once or sequentially. Countries should not be placed in a position of having to request successive extensions, which would in and of itself trigger negative expectations. A sense of realism would be most desirable.

On the decision of whether or not to grant an extension, we are agreeable to the consensus reached that countries should repay the Fund if they are in a position to do so, but we should not give confusing signals to the markets. The granting of an extension for a member whose program is on track in all respects could signal emerging difficulties, and that would certainly not contribute to strengthening the country's external accounts. In this regard, the text proposed by staff for publication when a member requests and is granted an extension, in paragraph 9 of BUFF/00/170, still suggests a much weaker than expected outcome in all cases. Therefore, a specific reference associating the formulation of the program to the schedule of obligations, rather than the proposed link that would take the reader to a description of the Fund's general policy regarding repurchase expectations and obligations, would seem necessary. In sum, we agree that the granting of extensions on repurchase expectation be publicized in a brief and factual way that avoids ambiguity regarding the member's standing or its policy performance under the program. However, we still do not see this to be the case in the language proposed in BUFF/00/170.

On the criteria for extending repurchase expectations, described in Box 3 of the staff report, we remain concerned with the second criterion—that early payment of other credit would be one indicator of strength in the external position. The Fund should be careful about discouraging countries from making prudent public debt management operations that might include early repayments to other creditors, or public debt exchanges in early repayments to improve the debt service profile. Therefore, in considering an extension of repurchase expectations, a country should not be penalized for an efficient management of its external debt.

> On the issue of charges on the use of Fund credit, we can go along with staff on the proposed changes as summarized in Box 4. On the issue of the firewall, the statement by the General Counsel on the non-amendment provisions in decisions of the Executive Board makes it clear that the Board's understanding expressed in paragraph 15 of the summing up of September 18—namely, that the surcharges should not be changed for a period of at least four years and that the Fund's net income target should not be increased for the primary purpose of achieving an increase in the basic rate of charge—is only a declaration of intent which is part of the record but does not constitute a decision. Given that reviews covering many aspects of the reform of Fund facilities are envisaged, we would find the inclusion of a provision on the review of the surcharge policy in four years' time in draft decision seven consistent with the intention of the Board.
>
> On post program monitoring, we are agreeable to the formalization of the presumption that the member would engage in PPM by the Fund after expiration of its arrangement when its credit outstanding exceeds 100 percent of the member's quota, or when significant vulnerabilities remain, such as in the banking system, and that these should stem from a recommendation of the Managing Director, or in the manner provided for in the consultation clauses in all Fund arrangements. The guidance note on implementation of PPM contains, however, a number of additional requirements that include the presentation of a quantified macroeconomic framework, and I welcome the clarifications given in this regard. However, on PPM modalities, it is envisaged that they could be activated by staff orally in a Country Matters session, and there are also publication presumptions that should be spelled out in more detail before they are adopted. Finally, we remain of the view that publication of any staff papers for PPM discussion should not be induced but, rather, remain strictly voluntary.

The Acting Chairman proposed that the Board proceed by discussing the various issues that needed to be resolved one by one, now that a general sense of the Board’s concerns had been established, rather than continuing to follow the speakers’ list. If that was agreeable to Directors, perhaps the Board could now attempt to close before lunch the issue of the sunset clause for the CCL.

The Director of the Policy Development and Review Department noted that the experience with the CCL would have to be reviewed at some interval—by November 2002, for instance—regardless of whether there was a sunset clause or not. The issue was whether the Board preferred to have the CCL automatically expire at a particular point unless a positive decision were taken to extend it (which was a sunset clause), or to create a permanent facility now, which would continue indefinitely unless there was a decision to formally eliminate if at some point in the future it was no longer wanted.

Mr. Mirakhor observed that the sunset clause might convey the wrong perception to the public. It was contradictory for the Fund to suggest that, after many years, it had finally come up with an operative facility for crisis prevention, while at the same time saying that it would expire after only two years unless a decision was taken at that time to extend it.

Messrs. Collins and Portugal agreed with Mr. Mirakhor that the sunset clause might send an odd signal to the public.

Mr. Esdar noted that the sunset clause had been an important element of the difficult compromise that had been reached on the CCL when that facility had been established, and it might not be very productive to reopen the issue.

Mr. Cippà agreed with Esdar, noting that he was not prepared to decide that day whether the sunset clause could be eliminated or not.

Ms. Lissakers also recalled that the sunset clause had been an important part of the agreement on the CCL. Moreover, she considered that there should be sunset clauses for all new facilities, because that was a simple way of weeding out those that turned out not to be useful. Nevertheless, Mr. Mirakhor had expressed a valid concern with regard to the need to avoid creating an impression that a facility that had not even been used yet might expire in the very near future. One solution could be to push the sunset date further out.

Mr. Kapteijn remarked that his authorities, like those of Messrs. Cippà and Esdar, saw the sunset clause as an integral part of the agreement on the CCL. Therefore, he had no flexibility to agree to its elimination. On the issue of moving the sunset date to a later time, he would have to consult with his authorities, as they had explicitly agreed to the date proposed by staff, which already went beyond what had originally been envisaged.

Mr. Cippà said that he could agree to an extension of the sunset date, but not to abolishing the sunset clause altogether.

Mr. Prader noted that his position was similar to that of Messrs. Kapteijn and Cippà.

Mr. Lehmussaari said that he was in the same situation as Mr. Kapteijn. He did not have a mandate from his authorities to agree to either the abolition or the extension of the sunset clause.

Messrs. Collins and Bauche said that they could agree to an extension of the sunset clause.

Mr. Yanase noted that he would prefer to extend the sunset clause rather than abolishing it in favor of periodic reviews. However, even the extension of the sunset clause might cause some problems, and he could not take a final decision in that regard on that day.

The Acting Chairman asked Directors to consider whether they could support the following: a review in two years, in November 2002, and a sunset date in four years, in November 2004.

Messrs. Rustomjee and Fenton stated that they could support that proposal if it garnered consensus.

After adjourning at 1:00 p.m., the meeting reconvened at 2:38 p.m.

Mr. Esdar stated that he could support the Acting Chairman's proposal with regard to the sunset clause date, but only if the date was in 2003 rather than 2004.

Ms. Lissakers said that she could go along with Mr. Esdar's proposal for a sunset date in 2003.

Mr. Mirakhor considered that it did not make much sense to have a review in 2002 and a sunset date so soon thereafter. If the sunset clause date was to be in 2003, it would be preferable to push the review back to 2003 as well.

Mr. Rustomjee suggested that the date for the review could be December 1, 2002, and for the sunset clause, July 1, 2004.

Mr. Cippà observed that reviewing the CCL sometime before the sunset date would help the Board to decide whether to keep it or not, or whether it might be worth changing some features and experimenting further. He supported the proposal to have the sunset clause date be in 2003. However, since he could not commit to that date before consulting his authorities, he would propose to submit the decision to the Board on a lapse of time basis.

Messrs. Collins and Bauche agreed with Mr. Cippà, and supported a sunset clause date in 2003.

The Acting Chairman said that, while he understood Mr. Mirakhor's strong objections, it appeared that having the sunset clause date in 2003 might be a good compromise. Could he agree to that change?

Mr. Mirakhor indicated that he could accept that compromise.

The Acting Chairman noted that the final text of the decisions, as agreed that day, would be circulated for a decision on a lapse of time basis, once all modifications were incorporated. Turning to the next issue, could the General Counsel to comment on Mr. Zoccali's proposal to incorporate in draft decision seven a provision on the review of the surcharges in four years' time?

The General Counsel said that Mr. Zoccali's proposal could be accommodated by introducing in draft decision seven the following sentence: "This decision shall be reviewed after November 30, 2004."

Ms. Lissakers observed that there were regular reviews of programs and facility charges, and the proposed sentence for the decision would not supercede those reviews.

The General Counsel noted that the call to have a review after November 2004 would not preclude other reviews beforehand.

The Acting Chairman said that, given the concerns expressed by many chairs, it was important to record somewhere the agreement that had been reached. Even if the sentence was not perfect, it was hoped that the institutional memory would be long enough to recall the reasons why that particular sentence had been included in the decision. Something could also be said in the summing up, but it seemed redundant to do so as the agreement not to attempt to change the surcharges for four years was already clearly set out in the previous summing up.

Mr. Kapteijn suggested that the sentence be modified to say “no later than November 30, 2005,” rather than “after November 30, 2004,” as the latter did not convey any real obligation to have the review—it could very well be delayed until 2010, for example, since, technically, that was “after” November 2004.

Mr. Portugal noted that, in that case, it would be preferable to bind the review in both directions by saying “no earlier than… and no later than…” Otherwise, the review could also be tomorrow.

The General Counsel said that the usual text used in Fund experimental decisions was “shall be reviewed not later than...” but other formulations had been used indicating a periodicity. The proposed decision could provide for a review after a certain date.

The Acting Chairman confirmed that Directors could accept that suggestion. Turning to the issue of the amount of resources to be made available upon activation of the CCL, did Directors have any remaining objections to the tentative agreement reached that morning?

Mr. Lehmussaari stated that his chair would still prefer that a formulation which made clear that the amount should not exceed one hundred percent of quota.

Mr. Portugal said that he could not accept having a ceiling at one hundred percent of quota. As he had stated earlier, if specific parameters were needed, there should be both a ceiling and a floor. In that context he could accept setting a ceiling at one third of the total amount committed under the arrangement, and a floor 100 percent of quota, for instance. However, he would still prefer to retain the flexibility allowed by the staff’s formulation.

Mr. Wei said that he fully supported Mr. Portugal’s position on that issue.

Messrs. Lushin and Callaghan noted their support for retaining the staff’s formulation.

Ms. Lissakers observed that it seemed to her that an overwhelming majority of the Board supported the staff’s formulation, and so the issue should be dropped.

Mr. Cippà said that he agreed with Mr. Lehmussaari, as did other chairs, and so one could not say that there was an overwhelming majority for the staff's formulation.

The Acting Chairman asked whether any other Directors—besides Messrs. Cippà, Lehmussaari, and Prader—objected to the staff's formulation, which said that, "the amount to be released upon completion of the activation review would…normally amount to one-third of the total amount of resources committed under the arrangement."

Mr. Esdar stated that, while his preference would be to cap the maximum amount to be released at one hundred percent of quota, he could be flexible in that regard. A more important issue would be to ensure that total access under the arrangement would not exceed 300 to 500 percent of quota.

The Acting Chairman confirmed that, despite the difference of view from the Directors he had named, most of the Board found it acceptable to retain the staff's formulation.

Returning to the key paragraph of the CCL summing up that had been discussed extensively that morning, were there any remaining concerns with the revised text that Mr. Portugal had proposed, the Acting Chairman asked. Mr. Zoccali had raised a concern regarding the meaning of verifying that the member should be committed to adjust policies to deal with *any* real economic impact that may follow from contagion. In that regard, perhaps it would be clearer if the sentence referred instead to "any *significant* economic impact." He confirmed that the Board agreed to that change.

The next issue was whether or not emergency assistance should be counted toward the regular access limits, the Acting Chairman said. In that regard, he would suggest that the Board postpone a decision on that issue until the time of the fundamental review of access policy, which was planned for the first half of 2001. The staff had found that there had only been one case in the recent past for which access limits would have been breached had emergency assistance been counted toward them—Turkey in 1999—and it could identify no cases coming up or likely to come up which would be affected by including emergency assistance in the access limits.

Mr. Mirakhor observed that there were significant droughts taking place in many parts of the world, and some countries might require assistance. However, perhaps that would not happen in the next six months.

The Acting Chairman agreed that there were some countries affected by droughts that might, in fact, require assistance. However, they were PRGF countries that were not close to their access limits.

On post-program monitoring, two issues needed to be addressed, the Acting Chairman continued. The first was whether resources outstanding under PRGF arrangements should be counted toward the 100 percent of quota threshold above which there would be a presumption of post-program monitoring. In that regard, since the process of review of the

Fund facilities had not really looked at the PRGF, the staff proposed that PRGF resources not be counted toward the threshold for the moment, and that the issue be revisited when the Board reviewed the experience with post-program monitoring, or at the next discussion of the PRGF. Both of those discussions were expected within 18 months.

Ms. Lissakers noted that the PRGF had not been omitted from the review of Fund facilities. The Board had agreed early on that there was no reason to change the pricing and the repurchase timing of PRGF resources, so that facility had not been looked at further during subsequent discussions. However, she did not see the logic of excluding PRGF resources from counting toward the threshold for post-program monitoring. There was a compelling argument for including them: as for other resources, when PRGF resources were outstanding, it was in the Fund's fiduciary interest to encourage a country and maintain some sort of effective surveillance over its performance so long as it had Fund resources outstanding.

Mr. Rustomjee said that he had difficulty in accepting Ms. Lissakers's position. The review of Fund facilities had focused on core facilities, and there had been no consideration of the PRGF. It would be reasonable to wait for the experience with post-program monitoring to be reviewed within 18 months, before making a decision on whether to apply it to countries with PRGF resources outstanding as well.

Mr. Barro Chambrier stated that, as Mr. Rustomjee, he also had the same recollection of events. It was important to gain more experience with both post-program monitoring and the PRGF itself—which after all was a new framework in the fight against poverty—before making a decision, and 18 months was not a very long time to wait.

Mr. Collins remarked that it was puzzling to hear Messrs. Rustomjee and Barro Chambrier argue against post-program monitoring, given that they usually underscored the importance of continued Fund involvement in the countries they represented. Post-program monitoring should not be seen as a constraint, but rather as a way of ensuring that the Fund would remain in close contact with a country even after a program ended. That would certainly help in the management of the economy and in identifying if there were any technical assistance needs, for example.

Mr. Esdar said that he agreed with the point made by Mr. Collins.

Mr. Prader noted that he had already argued in his submitted statement for the inclusion of PRGF resources in the calculation of the threshold for post-program monitoring, and he agreed with the points made by Mr. Collins and by Ms. Lissakers. In effect, excluding PRGF countries from post-program monitoring might send a signal that the Fund did not care about those countries.

Mr. Portugal said that he agreed with the concerns expressed by Messrs. Rustomjee and Barro Chambrier. The issue was not whether the Fund cared or not about PRGF countries. It was that the Board had come to an agreement on post-program monitoring for the core facilities, and had not really discussed the implications of applying it to the PRGF as well. While it was inevitable that in trying to implement the agreement that had been reached some new issues would come up, those issues only needed to be dealt with immediately if they were essential to implementing the agreement. If they were not, they should be dealt with on another occasion, after sufficient consideration. That seemed to be the case for the question of whether to count outstanding PRGF resources toward the threshold for post-program monitoring.

He had raised other issues with respect to post-program monitoring in his earlier statement which he felt were more urgent, including whether the staff's intention to orally propose post-program monitoring in country matters sessions was consistent with the desire for a more formal approach to post-program monitoring; whether PPM staff reports should be published; and whether the changes proposed with regard to post-program monitoring could be applied to existing arrangements through their consultation clauses, despite the fact that, when the programs had been agreed to, the consultation clause entailed different procedures.

The General Counsel said that Mr. Portugal was correct in pointing out that the legal basis for post-program monitoring already existed in all arrangements, through their consultation clauses. The new post-program monitoring approach, therefore, would not constitute a fundamental change. Rather, it would entail a more systematic approach to the implementation of those clauses, including under existing arrangements.

Mr. Rustomjee confirmed that he had been a strong and consistent proponent of long-term, continuous Fund involvement in PRGF countries. His difficulty was that the issue of including outstanding PRGF resources in the calculation of the threshold for post-program monitoring had been raised arbitrarily, without giving Directors time to reflect on its implications.

Mr. Barro Chambrier remarked that he did not disagree that there was a need to think further about how post-program monitoring for PRGF countries should be conducted. In effect, there were already instruments that would allow for such monitoring. His chair had always advocated, for example, that PRGF countries should become eligible for and upgrade to other facilities. However, that was a broad discussion with implications beyond the immediate question before the Board for the time being, which was how to ensure that the Fund recovered credit outstanding resources in the GRA. More focused discussions on the experience with the PRGF, and on post-program monitoring, would be desirable before coming to a conclusion.

Mr. Bauche stated that he agreed with Ms. Lissakers, Mr. Collins, and Mr. Prader that PRGF countries would benefit from post-program monitoring, and that they should not see it as a penalty. However, he also understood the procedural difficulty that Messrs. Rustomjee, Barro Chambrier, and Portugal had raised. Therefore, while he could agree to leaving the issue aside for now, he hoped that it would be raised again before 18 months, particularly as there seemed to be agreement that, in terms of substance, the staff's proposal was a good one.

Mr. Cippà noted that his position was very similar to that expressed by Mr. Bauche.

Mr. Borpujari said that he agreed with those Directors who considered that counting PRGF resources toward the threshold for applying post-program monitoring was a new issue that was not integral to the agreement that had been reached after very difficult compromises. All such new issues, whatever their merit, should be left aside for now.

The Acting Chairman asked whether Directors could accept Mr. Borpujari's plea. It was clear that post-program monitoring would be useful to PRGF countries and should not be regarded as a burden, but there would be other opportunities to consider that issue.

Mr. Prader said that he could join the consensus to leave that issue aside for now. However, as his chair had systematically raised the question of the desirability of applying post-program monitoring to PRGF countries, he was happy to note that there was an increasing understanding on the substance of that issue.

The Director of the Policy Development and Review Department noted that a progress report on the PRGF would be submitted to the Board before the spring meeting of the IMFC, but the staff did not intend to address the issue of post-program monitoring in that report unless the Board requested it. A more natural occasion to discuss that issue would be at the time of the broader review of the PRGF that was planned for later in 2001. Given that most PRGF countries, if they did not currently have a PRGF-supported program, had a staff-monitored program to help them to work toward a formal program or to bring it back on track, there was no urgency to take a decision on post-program monitoring.

The Acting Chairman confirmed that Directors agreed to come back to that issue at the time of the broad review of the PRGF toward the end of 2001.

The Director of the Policy Development and Review Department said that, with regard to Mr. Portugal's question on the publication of PPM staff reports, the staff had extrapolated from the recent transparency discussion, and from the conclusions of the pilot project on the publication of Article IV staff reports, that it had now been agreed that all use of Fund resources staff reports should be subject to the same policy; namely, that they could be published by the member concerned on a voluntary basis. PPM documents could be considered, in a sense, to be use of Fund resources documents, and the staff was trying to maintain consistency in the transparency policies. Therefore, countries could decide to publish PPM reports on a voluntary basis.

Mr. Cippà suggested that a chairman's statement should also be issued after PPM discussions. That would be consistent with the current policies for use of Fund resources discussions, and would underscore the fact that post-program monitoring was not a pure surveillance exercise. It would also take care of the fact that some members did not wish to publish a PIN for PPM discussions.

The Director of the Policy Development and Review Department noted that a chairman's statement was indeed released following use of Fund resources discussions, but it should be noted that its publication was presumed, rather than voluntary. The staff proposal, which was that there be a paper and a PIN for PPM discussions along the lines of the policy for Article IV consultations, would allow the member to opt for publication of the paper and PIN on a voluntary basis.

Mr. Portugal said that he would prefer for publication to remain on a voluntary basis, as for other types of discussions.

Mr. Cippà remarked that his proposal would bring the policy for PPM discussions closer to that for use of Fund resources discussions.

Ms. Lissakers, noting that Mr. Cippà had raised a good point, asked the staff to explain whether they saw post-program monitoring as strictly a surveillance exercise, or as something else.

The Director of the Policy Development and Review Department said that post-program monitoring was somewhere in between surveillance and use of Fund resources. While post-program monitoring obviously would arise in the context of a member who was using Fund resources, the monitoring framework that had been suggested was close to that for annual surveillance, which involved a discussion with the authorities in between Article IV consultations, and possibly a report that might or might not be discussed by the Board, depending on how the situation evolved. What the Board needed to decide was whether or not the publication of both the paper itself, and the result of the Board discussion, would be voluntary, or whether a chairman's statement should be released after all PPM discussions.

Mr. Schlitzer said that, while the procedure for PPM might be similar to that for annual surveillance, the ultimate aim was to safeguard the Fund resources. Therefore, he supported Mr. Cippà's proposal.

Mr. Esdar recalled that chairman's statements had been introduced for program countries because of the need to transmit certain messages to the public more cautiously than could be done in a summing up, so as not to undermine the intentions of the program. That problem would not arise in the case of post-monitoring programs. Therefore, he tended to agree with Mr. Portugal, and supported staying with the staff proposal.

Messrs. Mirakhor, Lushin, Callaghan, and Yanase noted their agreement with Messrs. Portugal and Esdar, and support for leaving the staff proposal unchanged.

The Acting Chairman said that the consensus view seemed to be to retain the staff proposal, which was that the publication of the staff paper and of a PIN on PPM discussions would be voluntary.

The Director of the Policy Development and Review Department remarked, with regard to Mr. Portugal's question on discussion of post-program monitoring recommendations in country matters sessions, that the consultation clauses in Fund arrangements made it the Managing Director's responsibility and prerogative to request that a member engage in post-program monitoring. In some cases, however, the Managing Director might want to gauge the sentiment of the Board at a country matters session before making such a request. Moreover, formal occasions to raise the issue would likely arise only once a year, in the context of the Article IV consultation. There might be a temptation to ask for post-program monitoring in all cases when a program ended if there would not be another opportunity to ask for it for a long time. Therefore, it would be useful to have interim opportunities to do so, in the more informal context of a country matters session. That possibility had been discussed in the September paper, and though it had not been reflected in the associated summing up, the staff did not see it as a departure from previous discussions.

The Acting Chairman remarked that allowing the Managing Director to informally sound out the views of the Board in the context of country matters sessions would also reduce the necessity for formal staff papers, and alleviate the staff's workload.

Ms. Lissakers suggested that the staff sound out the views of the Board in country matters sessions, and then go to a more formal procedure if the Board needed more information.

Mr. Esdar agreed with Ms. Lissakers and the Acting Chairman that it would be reasonable to communicate with the Board informally at the beginning, and move to a more formal approach if the situation became controversial.

Mr. Portugal asked whether the Executive Director concerned would be informed of the staff's intention to propose post-program monitoring at a country matters session, and be given all the reasons why the staff was proposing such monitoring, in advance of the meeting. He still saw some discrepancy between the desire for a more formal framework for post-program monitoring and the informal approach that was proposed for deciding when to require it, though he could go along with it.

The Acting Chairman replied that such communication with the Executive Director was part of the normal way that the staff usually proceeded, and thanked Mr. Portugal for accepting the approach proposed.

Returning to the issue of how to publicize extensions of repurchase expectations, a number of Directors, including Mr. Mirakhor, Mrs. Hetrakul, Mrs. Farid, and Mr. Portugal, had expressed concern that publicity could have negative implications for the member by raising questions about its external position, the Acting Chairman noted. In that regard, would the very simple sample statement in paragraph 9 of the staff statement, BUFF/00/170, be problematic for any Director? If so, were there suggestions as to how it could be modified?

Mr. Callaghan agreed that the sample statement in BUFF/00/170 was straightforward. The concern, however, was how to explain the Fund's policy clearly, to avoid sending negative signals. Providing a link to the exact wording for the summing up that had been discussed that morning, which explained the Fund's policy on repurchase expectations, might be a solution.

Mr. Prader said that he agreed with Mr. Portugal that it was necessary to avoid unintentionally drawing the attention of the world to the country's plight.

Mr. Borpujari stated that he wanted to associate himself with the comments made by Mr. Mirakhor, Mrs. Hetrakul and others regarding the issue of repurchase expectations. He had difficulties with the proposed publication of a statement on extensions of repurchase expectations and the proposed consequences of missed repurchase expectations when an extension has not been granted. As other speakers had pointed out, it was essential to emphasize that the Board was discussing repurchase expectations and not obligations. Thus, there should be positive reinforcement for meeting the expectation schedule, and no negative consequences for paying on the obligation schedule. It was also important to make it clear that members would generally be in a position to meet repurchase expectations only if their external position was stronger than the reference point projections, through some reference to the language for the summing up that had been discussed that morning.

Mr. Kapteijn observed that there was some asymmetry in how various cases would be handled. According to the staff proposal, if an extension of repurchase expectations was granted, a statement would immediately be posted on the website. However, if the repurchase expectation was met and the payment was made as scheduled, nothing would be published until the next time there was a public statement on the country, such as a PIN for an Article IV consultation, for example. Moreover, if a repurchase expectation was missed and the Board had not granted an extension, nothing would be published until six months later, in line with the arrears policy. A more symmetrical and logical treatment, particularly of the first two cases, would make more sense.

The Director of the Policy Development and Review Department noted that the third case, where a country missed a repurchase expectation without having secured an extension from the Board, was the one that he had referred to that morning. The policy for dealing with that type of case was parallel to that for arrears cases. Therefore, the staff had suggested that it be reviewed together with the review of the arrears policy, including its transparency aspects, which was to be conducted in June 2001. As to the other two cases, the need to issue a statement when a repurchase expectation had been extended was driven to a certain extent by the fact that, because of the transparency of the Treasurer's Department publications, statements about the country's financial position with the Fund, including disbursements to the country, obligations coming due, and repurchase expectations, would already be in the public domain. Therefore, if a country was seen not to have met a repurchase expectation, an explanation should be provided to avoid conveying a negative signal. That explanation should indicate that the Board had looked at the situation and agreed that an extension was warranted, and thus that the country remained in good standing.

Mr. Collins agreed that a careful reader of the financial information available on the website would be able to infer that a repurchase expectation had been missed, by virtue of the fact that the country still had the money outstanding and that there had been no announcement that the expectation had been extended to an obligation. Therefore, some information should be provided. He also agreed with Mr. Kapteijn, however, that it seemed strange not to similarly publicize the actual meeting of repurchase expectations. Most countries would have to wait until their next Article IV consultation before attention was drawn to their having met those expectations, and that could take six months or more. It was true that drawing attention to the good performers could make those that had missed repurchases look worse, but a balance should be struck in some way.

Mr. Esdar suggested that, instead of issuing a statement on the website in the usual manner, it might be sufficient to insert some explanatory information within the financial information published by the Treasurer's Department, perhaps through a footnote in the text, which could then include the text suggested by the staff in paragraph 9 of BUFF/00/170.

Ms. Lissakers expressed concern, and noted that footnotes were easily missed. The purpose of the transparency policy was to be clear about what the Fund was doing, and what its policies were. The best way to counter the fear that an extension of repurchase expectations might be blown out of proportion by the markets was to provide clear information about what such an extension meant. Providing a link to the text that had been agreed to that morning for the summing up, along with an explanation along the lines of what the staff had proposed in paragraph 9 of BUFF/00/170, should serve that purpose—but it should not be buried in a footnote.

Mr. Kapteijn asked whether something similar could be done when repurchase expectations were actually met.

The Deputy Treasurer replied that countries should meet their repurchase expectations, in the normal course of events. Such repurchases would be falling due, quite frequently. Rather than note repeatedly countries' normal repurchases, it would seem more appropriate to do so once a year, for example, in the context of a PIN for an Article IV consultation.

The granting of an extension for a repurchase expectation, on the other hand, was a discrete event. The Executive Board decision would change the schedule of obligations falling due, which would be reflected in the financial data on the external web site, the Deputy Treasurer continued. What the staff had in mind in that regard was quite similar to what Mr. Esdar was proposing. An explanation on the extension would be provided on the country's page, in particular on the repurchase schedule, as well as in the weekly update of financial statistics. That would include a link to the agreed language. It would therefore be quite clear that a particular repurchase expectation schedule had been extended for a particular period of time.

Mr. Lushin said that he supported the wording of paragraph 9 of BUFF/00/170. However, he would suggest that that message not be posted directly on the country's page on the website. It should be presented as a technicality, only where the reader would find the financial statements.

The Director of the Policy Development and Review Department stated that that was what was being proposed.

Mr. Lehmussaari considered that, if the Fund wanted to be open and informative on those issues, and reach the public at large, it should, at a minimum, include statements on whether or not repurchase expectations were being met on the country page, and not just in the financial statements.

Mr. Esdar said that his understanding was that the country page included information on the repurchase schedule anyway, and thus if there was a change, it would be necessary to reflect it there as well, together with an appropriate explanation.

Ms. Lissakers said that the rationale for putting the explanation in a visible place on the country's page was that traders might hit the sell button before they could figure out that the information that explained the difference they could see in the payment pattern was something that had been approved by the Board rather than a problem of arrears or missed payments. Moreover, not doing so would be contrary to the Fund's general policy of trying to be informative, rather than burying and withholding information; and it was illogical for the countries themselves not to explain why they were deviating from the previous payment pattern, which was what would be visible on the website.

The Deputy Treasurer explained that the country page was essentially a portal that pointed through hyperlinks to more detailed information available on the website, including the repurchase schedule and other financial data for each country.

Mr. Mirakhor asked how missed or extended repurchase expectations would be reflected in the publication entitled "IMF Financial Transactions Plan—Quarterly Report." Could the staff include a column on repurchase expectations as well, and note whether or not they were met?

The Deputy Treasurer replied that it would be possible to have a quarterly listing of all countries that were currently making repurchases and to note whether they were being made on the expectation schedule or on the obligation schedule.

The Director of the Policy Development and Review Department said that he would attempt to summarize the state of discussion on that issue. First, as he had stated previously, because the policy for those cases where a country missed a repurchase expectation without having requested or received an extension was comparable to that followed for arrears cases, he would suggest that the Board come back to the issue of how to publicize such occurrences in the context of the review of the arrears policy in June 2001. That delay would have no operational relevance because no repurchase expectations would fall due before that time.

Second, for cases where an extension of a repurchase expectation was requested and granted, an explanation of that extension would be provided directly on the web pages where the repurchase schedule and other financial transactions were listed, in such a way that any reader would immediately have an indication that the extension had been approved by the Board, the Director continued.

Finally, for cases where countries were meeting their repurchase expectations, those countries should be congratulated for doing so in the context of PINs for Article IV consultations or other public statements for use of Fund resources, the Directors said. If that did not suffice, a statement could also be included on the country web page saying something to the effect that the repurchase expectations established under the arrangement for that country continued to be met. That statement could stay there for as long as that was the case, and then be replaced by the statement in paragraph 9 of BUFF/00/10 if an extension had been granted.

Mr. Collins remarked that there was yet another case, namely, where a country asked for an extension of repurchase expectations but was denied by the Board. He presumed that in such cases nothing would be said publicly, as that was a private matter within the Board, and the expectation schedule would just remain on the website.

As regarded countries that met their expected repurchases on time, it was likely that those countries would publicize that fact themselves, even if the Fund did not, in the same way as countries which repurchased SRF resources early, Mr. Collins observed.

The Acting Chairman said that the next unresolved issue was whether purchases under the CFF should be subject to repurchase expectations and be counted toward outstanding obligations that gave rise to the level-based surcharge.

Ms. Lissakers stated that her strong preference would be to have all facilities—including emergency and post-conflict assistance—covered by those policy modifications. She had been persuaded by the staff arguments that emergency assistance was rare, and that post-conflict countries were usually facing such difficulties that they would likely be unable to meet early repurchase expectations anyway, and thus that such assistance should be converted into a special policy outside the credit tranches; but, like the staff, she could not see any rationale for excluding the CFF.

Mr. Bauche said that he supported the staff proposals on emergency assistance for natural disasters and post-conflict situations. On the CFF, he agreed with Mrs. Hetrakul and others that, because the CFF was subject to its own set of access rules, applying a surcharge to CFF resources would under-compensate the shocks that the CFF was supposed to compensate. In that regard, the dividing line between internal adjustment and external compensation coming from the Fund should be repositioned. Moreover, the rules adopted regarding the CFF were sufficient to prevent the risk of arbitrage between the CFF and stand-by arrangements or EFFs. If the effectiveness of those rules was in doubt, the solution should be to strengthen them, rather than to modify the status of the CFF from a special facility into a credit tranche facility.

Mr. Esdar noted that his preference would have been to abolish the CFF altogether, but that was not for discussion that day. On whether to convert the CFF into a credit tranche facility, he agree with the points made by Ms. Lissakers. Moreover, the repurchase procedures under the CFF were very cumbersome. It was difficult to follow up on them, and it necessitated a lot of staff resources.

Messrs. Yanase, Lehmussaari, Cippà, Callaghan, and Fenton said that they agreed with the staff proposals on emergency assistance and the CFF, for the reasons explained by Ms. Lissakers and Mr. Esdar.

Messrs. Wei and Borpujari expressed their support for the views of Mrs. Hetrakul and others on that point.

Mr. Portugal also noted his support for the views put forth by Mrs. Hetrakul and others, noting that countries suffering from shocks that they had not contributed to, such as from natural disasters, should not be penalized.

Mr. Collins said that he supported the staff position, and the points made by Ms. Lissakers and Mr. Esdar. In answer to Mr. Portugal, he wanted to note that the surcharges that were imposed for the CCL also "punished" a country for a shock that was not of its own making. The aim was to safeguard Fund resources and encourage their most efficient use. Measures to achieve that objective should apply to all Fund resources, though exceptions could be made in exceptional circumstances, such as for emergency and post-conflict assistance. The CFF, however, addresses more common situations.

Mr. Mirakhor remarked that there was such a thing as over-protecting the Fund's resources. The CFF had its own system of protecting Fund resources, which was strong enough and effective.

Mr. Lushin considered that the arguments in favor of leaving the CFF as it was were stronger than those in favor of changing it. Moreover, he did not recall any discussion of that particular issue in previous discussions on Fund facilities. If it were appropriate to exclude the PRGF from post-program monitoring on the basis that the issue had not been discussed previously, couldn't the same logic be extended to the application of repurchase expectations and level based-surcharges to the CFF?

Mr. Bauche said that, while he could perhaps be convinced by the staff argument that rapid improvement in a member's external position could occur following a CFF purchase, just like following a credit tranche purchase, and thus that CFF resources should be subject to repurchase expectations, he found it difficult to understand why that same rationale justified counting purchases under the CFF toward outstanding obligations that would give rise to a level-based surcharge. The purpose of streamlining the Fund facilities was to avoid unduly large access to, or unduly long use of, Fund resources. The CFF, however, was intended to compensate the effect of shocks beyond the control of the authorities, and applying a surcharge would defeat that purpose. If the consensus was to apply early repurchase expectations to the CFF, he could go along with that. However, he could not go along with counting purchases under the CFF toward outstanding obligations that would give rise to a level-based surcharge.

Ms. Lissakers noted that the CCL had an even higher surcharge despite the fact that it was also intended to help a country respond to external events that were not, by definition, under its control.

Mr. Yanase remarked that Mr. Bauche's point made sense if one was considering a country that already had a lot of resources from the Fund in the form of a Stand-By Arrangement or an EFF, and then fell into a position where it needed to apply for the CFF. However, if a country already had resources under a CFF, and it came to the Fund for a Stand-By Arrangement or an EFF as a precaution, the surcharge would be an incentive for the country to reduce the amount it requested.

The Acting Chairman said that, as there did not appear to be any way to achieve consensus on that issue, it would have to be settled through a vote. The decision to apply level-based surcharge to the CFF required a 70 percent majority of the total Fund voting power. That majority had not been reached. The decision to make CFF purchases subject to repurchase expectations required a 50 percent majority of the votes cast, which had been reached. Therefore, the CFF would become subject to repurchase expectations, but not to the level-based surcharge.

The staff representative from the Policy Development and Review Department, turning to the concerns raised by Mrs. Farid on the proposed remedial measures for missed repurchase expectations, stated that what the staff was proposing was what had been discussed previously, namely that the missing of a repurchase expectation without an extension having been granted would lead to the suspension of drawings under ongoing arrangements, both in the GRA and under the PRGF. Moreover, that the Managing Director would not recommend, and the Board would not approve, new arrangements or outright purchases until the member redressed the situation.

Ms. Lissakers considered that Mrs. Farid's statement was in direct contradiction to the assertions that Mr. Shaalan had made very forcefully at previous discussions that repurchase expectations would be very effective, and would provide a much greater incentive for repurchase than the pricing escalator that others supported.

Mrs. Farid said that she did not know what Ms. Lissakers was referring to. Mr. Shaalan had not spoken about the staff's proposed remedies before, and he would agree that peer pressure would be a stronger incentive on members than punitive measures.

Mr. Mirakhor said that he had already made his position clear in his statement; he was in general agreement with Mmes. Farid, Hetrakul, and Vongthieres on that point.

Messrs. Esdar and Yanase noted their support for the staff proposal.

Mr. Portugal noted that he agreed with Ms. Lissakers, but understood Ms. Farid's concern that missed repurchase expectations should not be treated exactly like arrears.

The Acting Chairman noted that, as there was a clear majority of the votes cast in favor of the staff position, the approach detailed in the paper regarding the remedies that would apply if a member did not adhere to the repurchase expectation schedule and an extension had not been granted was approved.

The Acting Chairman made the following summing up on the Review of Fund Facilities—Proposed Decisions and Implementation Guidelines:

> The Board has now concluded its discussion of the Review of Fund Facilities, bringing to a close the process begun at the beginning of this year, and taking major steps to adapt the Fund's facilities to a changing global economic environment. The Board began by eliminating a number of little-used and obsolete facilities, and then continued with a discussion of fundamental issues: Were the Fund's facilities doing enough to support its members' efforts to prevent crises? Were they being used in ways consistent with the revolving character of Fund resources, especially now that increasing numbers of members have access to international private capital markets? And was the Fund staying in close enough touch with members that, while not still drawing on Fund resources under arrangements, had large obligations to the Fund still outstanding?
>
> As regards all these questions, the Board in September reached agreement on an important package of measures. Directors agreed to enhance the Contingent Credit Lines (CCL), in the hope that this facility will become an important tool of crisis prevention, and to introduce new mechanisms, and sharpen existing ones, to ensure that countries do not rely on Fund resources for excessively long periods or in excessively large amounts. Directors also agreed to strengthen the monitoring of members with substantial Fund resources outstanding to help ensure that they make continued progress toward external viability.
>
> The Board has now moved very close to taking a number of decisions that will give effect to the agreed changes. This summing up briefly explains some of the changes, and also covers material that will not be included in the formal decisions. It also includes a new revised summing up on the CCL that sets out the Board's understanding as to how the various elements of the CCL will now operate.
>
> **Time-Based Repurchase Expectations**
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> The Board agreed in September to introduce time-based repurchase expectations for purchases in the credit tranches and under the Extended Fund Facility (EFF). We have agreed on the elements of the decisions to be adopted to put this agreement into effect. For purchases in the credit tranches, members will be expected to begin repurchases 2 ¼ years after each purchase and complete repurchases after 4 years. Under the EFF, members will be

expected to meet repurchase expectations starting from 4 ½ years and ending 7 years after each purchase. Time-based repurchase expectations will not apply to any purchases made to date, but will apply to purchases made after these decisions are adopted.

The member would be expected to meet repurchase expectations, but the Fund could extend them on request by the member, if the Board agreed that the member's external position was not sufficiently strong for it to repay early without undue hardship or risk. Elements that will be taken into account in assessing the external position are the level of international reserves, the outlook for the balance of payments, and access to international capital markets, and the Board will consider the member's overall external position, including any relevant special factors, in arriving at a judgment. Fund-supported programs will continue to be guided by the requirement that the member should be able to meet repurchase obligations (rather than expectations), and the meeting of expectations will signal that the member's external position is stronger than would have been dictated by this requirement. Moreover, since Fund-supported programs will not as a general rule target adjustment sufficiently rapidly for members to meet repurchase expectations, it will follow that in most cases members will be considered to be in a position to meet repurchase expectations only if their external position is stronger than had been projected at the time of approval of the arrangement.

Members may make a request for an extension of repurchase expectations at any time, although as a practical matter the Board encouraged members to make such requests at least two months before an expectation falls due, in order to avoid the expectation date passing without the Board having considered the request. The Board could agree to extend one, several, or all repurchase expectations at once, but there will be a presumption that extensions would cover repurchase expectations falling due over a period of a year. If necessary, additional extensions of expected repurchases can be requested and granted at a later date. When expected repurchases are extended, the repurchases will become due on the date of the corresponding obligations.

Should a member fail to meet a repurchase expectation that has not been extended by the Board, its right to make further drawings, including under ongoing arrangements, would be automatically suspended. The Managing Director would not recommend, and the Board would not approve, new arrangements or outright purchases in these circumstances. The following steps would also be taken when a repurchase expectation is missed, i.e., neither met on schedule nor extended: The Managing Director would be informed immediately; a communication from the Managing Director would be sent to the member after two weeks; the Executive Board would be informed of the incident after one month; and there would be a substantive consideration by the Executive Board of the situation after three months.

Directors agreed that recognition will be given to members' meeting repurchase expectations by mentioning this fact in summings up and, if they are published, Public Information Notices (PINs) following Article IV or post-program monitoring discussions, and by reporting on the member's country-specific page on the web site. Extensions of expectations will be made public in the form of a factual statement posted on the IMF web site on the member's country-specific page, and in the next weekly update of "Fund Financial Activities: Week at a Glance." With regard to the publicity to be given to repurchase expectations that are missed without being extended, Directors agreed that the Board would return to this question in parallel with a review of the transparency aspects of overdue obligations next year.

Directors agreed that the Board should review the operation of early repurchase expectations by November 2005, by which time some experience with repurchase expectations under both the credit tranches and the EFF will have been gained.

Charges on the Use of Fund Resources.

The Board agreed in September to introduce surcharges on purchases in the credit tranches and the EFF, which would apply to the amount outstanding above a threshold level, in order to discourage unduly large use of Fund resources. The use of credit above 200 percent of a member's quota will carry a surcharge of 100 basis points above the regular rate of charge, and the surcharge will rise to 200 basis points for use of credit above 300 percent of quota. Purchases outstanding as of the date of the decision putting this policy into effect will not be subject to the surcharge, nor will they be taken into account for the purpose of calculating any surcharges applicable to future purchases. Directors considered that the surcharges adopted in the context of this discussion on the review of the Fund's facilities should not be changed for a period of at least four years. They also considered that the Fund's net income target should not be increased for the primary purpose of achieving an increase in the basic rate of charge.

We have an understanding on the proposed reduction in the surcharge on the use of credit under the CCL. The surcharge over the regular rate of charge will now be 150 basis points initially, and will rise by 50 basis points one year from the date of the first purchase under the facility and every six months thereafter, until it reaches a maximum of 350 basis points. The surcharge will thus be, at all times, 150 basis points lower than the surcharge that would be applicable under the Supplemental Reserve Facility (SRF).

In addition, as envisaged in September, the decisions to be proposed for adoption will include a reduction in the commitment fee on all Fund arrangements charged on the amounts that can be purchased over any 12-month period, from a uniform 25 basis points to 25 basis points on amounts of up to 100 percent of quota and 10 basis points on amounts exceeding 100 percent of quota. This reduction will be especially helpful to users of the CCL, as arrangements with CCL resources are expected to be large and are unlikely to be drawn upon.

Emergency Assistance

Directors confirmed that resources made available under emergency assistance for natural disasters and post-conflict situations would not be subject to the level-based surcharge, nor be taken into account for the purpose of calculating the surcharge applicable to other resources. They further agreed that resources available under both types of emergency assistance should not feature time-based repurchase expectations. Directors considered that it would be rare for post-conflict cases to develop a sufficiently strong external position to meet expectations, and that there were important benefits in terms of simplicity in having the same conditions apply to emergency assistance for both natural disasters and post-conflict cases. Directors agreed that emergency assistance should be converted into a special policy outside the credit tranches, so that neither surcharges nor repurchase expectations would apply to it. A further implication of converting emergency assistance into a special policy is that access under emergency assistance will not count toward the limits on access under the credit tranches and the EFF. It was agreed that this issue should be considered further in the context of the forthcoming review of access policy.

Compensatory Financing Facility

Directors agreed that purchases under the Compensatory Financing Facility (CFF)—which was reviewed and streamlined earlier this year—should be subject to repurchase expectations, but would not be subject to the level-based surcharge, nor counted toward outstanding obligations that give rise to the surcharge.

Extended Fund Facility

As regards the EFF, the Board confirmed that it saw a need to ensure that arrangements under the EFF be granted only in cases that met fully the terms and spirit of the EFF Decision. These would be cases where there is a reasonable expectation that the member's balance of payments difficulties will be relatively long-term, including because it has limited access to private capital, and where there is an appropriately strong structural reform program to deal with the embedded institutional or economic weaknesses. The Board agreed that extended arrangements should generally not be formulated on a precautionary basis, as circumstances where potential balance of payments difficulties were likely to turn out to be longer-term are probably very rare. It was also noted that members with meaningful access to capital markets were not likely to suffer from the problems described in the EFF Decision, and hence that such members would not normally be expected to seek extended arrangements. It is understood that the EFF could be especially appropriate for graduating-PRGF and some transition countries that do not have, or do not have enough, access to capital markets. At the same time, the EFF remains available to all members, and there will be circumstances where it will be the most appropriate instrument to meet a member's needs.

Post-program monitoring

The Board agreed in September that, when a member's credit outstanding exceeded a threshold of 100 percent of quota, there should be a presumption that the member would engage in Post-Program Monitoring (PPM) by the Fund of economic developments and policies after the expiration of its arrangement. The threshold covers all credit outstanding to the Fund in the General Resources Account (GRA). Directors agreed that the threshold should not cover use of Fund resources outside the GRA—namely, through the Poverty Reduction and Growth Facility (PRGF). There will be a review of the PRGF next year and a redefinition of the threshold to include the PRGF will be considered at that time.

Directors agreed that PPM would normally be instituted at the conclusion of the last review under an arrangement when it was expected that the member's credit outstanding at the end of the arrangement would exceed the threshold, and would normally cease when the member's outstanding credit fell below the threshold. However, PPM could also be initiated or terminated at other times, on the recommendation of the Managing Director. Directors also reiterated that, in accordance with the existing consultation clause in Fund arrangements, PPM could be required of members that did not meet the threshold of 100 percent of quota on credit outstanding, if the Managing Director and the Board considered it important.

PPM will involve members engaging in more frequent consultation with the Fund, with a particular focus on macroeconomic and structural policies that have a bearing on external viability. To this end, the member will engage in discussions with the staff on its policies, including a quantified macroeconomic framework, much as it does in an Article IV consultation. The staff will then report formally to the Board on the member's policies, the consistency of the proposed policies with the objective of medium-term viability, and the implications for the member's capacity to repay the Fund. There will normally be two Board discussions a year. One of these might coincide with the Article IV consultation, and the other could be based on a short staff report covering recent economic developments and the policy discussions with the authorities. It would be possible—as it is with Article IV consultations—for the Board to conclude a PPM discussion on a lapse-of-time basis, if no major issues had arisen. The Board's discussions of PPM papers would be reflected in a PIN, publication of which would follow the normal

PIN procedures, including the requirement for the member's consent. Directors also agreed that staff reports for PPM discussions should be published on a voluntary basis.

Contingent Credit Lines (CCL)

The Board elaborated further the changes to the CCL agreed in September to allow the CCL to play an effective role in helping members prevent and deal with crises. In addition, the Board agreed that there should be a presumption that the amount of resources scheduled to become available at the time of the activation review should normally be equal to one-third of the total commitment of resources under the member's arrangement. In order to allow for a meaningful period of experimentation with the revised facility, the Board extended the sunset clause on the CCL until November 2003. The Board will review the CCL in November 2002. These and other operational aspects of the agreed changes to the CCL will be reflected in the amendments to the CCL decision, and in the following revised summing up on the CCL.

The Acting Chairman made the following summing up on the Contingent Credit Lines:

Directors have given extensive consideration to a role for the Fund in providing members with contingent credit lines (CCLs), both when the CCL was established in April of last year and on the occasion of the review of the CCL this year. The CCL is conceived essentially as an important instrument of crisis prevention, creating further incentives for the adoption of strong policies and adherence to internationally accepted standards, encouraging the constructive involvement of the private sector, and thereby reducing the risks of contagion. There are a number of elements in the CCL decision, as revised in November 2000, which require some elaboration in order to express the Board's understanding as to how they will operate.

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

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

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

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

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

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

The final criterion requires that a member should submit for the Board's approval "a satisfactory economic and financial program, including a quantified framework, which the member stands ready to adjust as needed". As is customary in support of a request for access to Fund resources, the member would present to the Board a description of its planned economic policies for the period for which access to CCL resources is approved, including a quarterly quantified framework that will guide its macroeconomic policies, and the structural policies it intends to implement. There would be a strong presumption that this statement of policies would be released to the public. Such policies would be expected to be of sufficient quality and strength that they would meet the standards required of drawings in the upper credit tranches. The quantified framework should be specified in such a way that the staff and the Board would be able to form a rapid assessment of the member's compliance with it and thereby facilitate the rapid release of resources upon the request for activation of the CCL. There would not, however, be a need for performance criteria or quantitative benchmarks, nor for a Technical Memorandum of Understanding or similarly detailed definitions of program targets, as long as the basis on which the authorities compiled and reported data was well understood. And while the initial consideration of the member's eligibility would assess its structural program and the progress expected under that program during the period of commitment of CCL resources, it would also not be necessary for the structural program of a member that has pre-qualified for the CCL to be specified to the degree of detail that would be entailed by structural benchmarks. Monitoring of the program would involve regular and timely provision of relevant data to the staff and continuous monitoring by the staff of the country's economic situation.

I turn now to the subject of access. While there is no general access limit, it is accepted that, unless warranted by exceptional circumstances and while paying due regard to the liquidity position of the Fund, commitments under the CCL would be expected to be in a range of 300-500 percent of quota.

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

CCL resources would be committed under a stand-by arrangement.[4] In accordance with the principles on access under arrangements, upon Board approval of an arrangement establishing a contingent credit line, a small purchase of credit tranche resources (typically 5 percent of quota) would be immediately available. Beyond this, activation of the credit line will require a Board review. This approach would also be applied if CCL resources are committed in the context of an existing arrangement (namely an arrangement that the member treats as precautionary).

A member for which a CCL has been approved may, at any time, request access to CCL resources, which would require a special "activation" review by the Board. The Board would expeditiously complete this review, and make available the associated purchase, if it were satisfied that: (i) the member is experiencing exceptional balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves, and (ii) these difficulties are judged to be largely beyond the member's control and to be primarily from adverse developments in international capital markets consequent upon developments in one or several other countries. In determining whether condition (ii) for the activation review had been met, the Board would verify that the member's own policies had not been a significant cause of the pressures in its balance of payments. Activation would be completed on the presumption that the member remains committed to adjusting policies to deal with any significant economic impact that may follow from contagion, with the member being given the strong benefit of the doubt in this respect. The monitoring arrangements already in place would allow the activation review to be completed rapidly. The amount to be released upon completion of the activation review would be determined and specified at the time of commitment of CCL resources, and would normally amount to one-third of the total amount of resources committed under the arrangement.

The amount of the arrangement that is not made available at the activation review will be subject to such phasing and conditionality as the Fund shall determine at the time of a post-activation review. At that time, the Fund and the member would reach understandings on policies to be pursued from that point onward. In light of the nature of the crisis, conditionality for access to the remaining resources would not generally be expected to involve changes in structural policies, although it could involve continuation of those structural measures that had been agreed upon at the time of the initial consideration of the commitment of CCL resources. The post-activation review would normally follow the activation review with some lag, albeit short in most cases; but the member could request simultaneous completion of

[4]However, CCL resources could also be committed under an extended arrangement in effect on June 30, 1999.

the activation and post-activation reviews if it so desired, and the Board could agree to such a request if it were satisfied that the member's situation and the Board's familiarity with and assessment of its policies warranted it.

Upon approval of the arrangement committing CCL resources, the Board will schedule a mid-term review to be completed by a specified date if the activation review is not completed before this date. After this date has passed, the mid-term review will need to be completed before a purchase associated with the activation review can be released. At the mid-term review, the Board would satisfy itself that the member was successfully implementing the economic program earlier presented to the Board and had adjusted that program appropriately in response to any changes in circumstances. In appropriate cases, it would be possible to complete the mid-term review on a lapse-of-time basis. Between occasions of formal consideration by the Board, the staff and management would be expected to remain in close consultation with the member, particularly should any untoward developments occur, and would bring the member's situation to the attention of the Board should there be concerns that slippages in the member's policies make it vulnerable to crisis. Such close consultation would help provide a signal to the member if developments affected the likelihood that the Fund would be able to complete the activation review if the relevant circumstances arose.

The CCL is an important initiative for the Fund. It involves several aspects that are new or still under development, and we will need to continue to approach it experimentally, with a view to learning and, if necessary, adapting it. The guidelines formulated in this summing up replace those set out in BUFF/99/56, dated April 24, 1999.

The Acting Chairman noted that the revised decisions would be circulated to the Board for approval on a lapse-of-time basis after three working days. The summings up he had just read, together with the decisions and all the previous summings up for the review of Fund facilities discussions, would be included in the Selected Legal Decisions.

The Director of the Policy Development and Review Department stated that a package of documents on the review of Fund facilities, including the summings up and decisions, as well as a cover explanation of what the decisions entailed, would be prepared for public dissemination. Guidance notes would also be prepared, or in some cases revised, and circulated to the staff.

The Acting Chairman thanked the staff, and in particular Ms. van der Willigen, for the remarkable work that it had done in bringing the review of the Fund's facilities to a successful outcome. He also thanked the Board for its cooperation in coming to agreement on one of the most complicated set of decisions that it had ever taken.

3. REPUBLIC OF CONGO—2000 ARTICLE IV CONSULTATION; AND PURCHASE TRANSACTION—EMERGENCY POST-CONFLICT ASSISTANCE

The Executive Directors considered the staff report for the 2000 Article IV consultation with the Republic of Congo and its request for emergency post-conflict assistance (EBS/00/220, 11/7/00, and Sup. 1, 11/17/00). They also had before them a statistical appendix (SM/00/253, 11/13/00).

The staff representative from the African Department submitted the following statement:

> Since the staff report (EBS/00/220) was circulated to the Executive Board on November 7, 2000, the following information has become available.
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> Partial fiscal data through September indicate that oil revenue and non-oil revenue have been in line with projections. However, actual expenditure has exceeded projections by about one percent of GDP. The authorities attribute most (0.7 percent of GDP) of the slippage to unforeseen outlays related to an influx of refugees from the neighboring Democratic Republic of the Congo in the third quarter of 2000, and disaster relief for the northern part of the country that suffered from heavy flooding in August/September. However, the remaining slippage is due to slower than expected improvements in budget control and monitoring procedures. The decree on government accounting was signed on August 10 and its users need time to familiarize themselves with its detailed provisions. The authorities have indicated that they have stepped up the training of the users of this decree. In addition to this, the authorities decided to reduce budget allocations for "goods and services" and "common charges" by 25 percent for the fourth quarter thereby bringing year-end expenditure levels in line with program projections (adjusted for the unforeseen factors referred to above).
>
> The authorities have informed the staff that the Congo has started to make debt service payments to multilateral institutions, including the World Bank and the African Development Bank, on current maturities and outstanding arrears. Payments to Paris Club creditors on post-cutoff-date debt have also resumed.

Mr. Barro Chambrier submitted the following statement:

> Introduction
>
> At the outset, my Congolese authorities would like to convey their appreciation for the candid staff assessment of the Congo's economic and financial performance in 1999 and 2000. They are also thankful for the

continued assistance received from Fund management and for the understanding shown by the donor community during a particularly difficult period.

The Congo's economy was seriously affected by two armed conflicts during 1997-99. The wars resulted in a displacement of some 800,000 people, about one third of the population. The peace accord signed between the government and the armed groups at end-1999 has facilitated the progressive resettlement of the population, and the resumption of economic activities. Under particularly difficult conditions, the government proceeded to remobilize the civil service, and stepped up reconstruction efforts geared at improving the population's access to basic social services. The country has also started the regularization of relations with external creditors, partly reflecting windfall revenue from the oil sector. In addition, important reforms have been initiated in the fiscal area, the banking sector, and in the civil service. My Congolese authorities would like to reiterate their commitment to implement structural reforms and sound macroeconomic policies, which they believe are necessary conditions for sustained growth, the creation of employment opportunities, and poverty alleviation.

They have therefore put together a program aimed at establishing macroeconomic stability, improving governance and transparency, strengthening the implementation of structural reforms, and consolidating peace. My authorities hope that this program will be supported by the international community, including the Fund under its emergency post-conflict assistance policy, and intend to move as soon as possible to a program supported by the Poverty Reduction and Growth Facility (PRGF). They hope that negotiations on a PRGF-supported program could be initiated soon.

Given the heavy burden of external debt and the widespread poverty in the Congo, which has been exacerbated by the recent armed conflicts, my authorities consider a PRGF-supported program to be a crucial step towards eligibility to assistance under the HIPC Initiative.

Recent economic and social developments

The Congo's economic developments in recent years were dominated by armed conflicts that have jeopardized the authorities' adjustment efforts. The ESAF-supported program approved by the Board in June 1996 was short-lived, as it was interrupted by a civil war in June 1997. After the hostilities, the authorities had hoped that the program of macroeconomic stabilization and reconstruction, also supported by the Fund under its emergency post-conflict assistance policy, approved in July 1998, would be converted into an ESAF-supported program at end-1998. Unfortunately, preparations for this program were disrupted by the second civil war that erupted in late 1998.

In addition to the great human suffering, the two civil wars disrupted the economic and social fabric, and disorganized public administration. The 1997-98 civil wars resulted in the displacement of 800,000 people, and the destruction of property and basic infrastructure, particularly the telecommunications and the railway systems. Damages are estimated at some CFA 1,600 billion. During the same period, there was an influx of refugees from the war-torn region of the Great Lakes. The bulk of the humanitarian assistance was borne by the Congo, as the country received little external assistance.

The civil wars deteriorated an already weak economic and financial situation, and shifted policy priorities from development to security and emergency humanitarian assistance. As a result, non-oil GDP declined by some 19 percent between 1996 and 1999, thereby dangerously increasing the country's dependency upon the oil sector. Reflecting mainly higher security and humanitarian needs, as well as weakened budget management and control, the fiscal deficit soared by 11 percentage points to 20 percent of GDP in 1998 before narrowing to some 6 percent in 1999. These deficits were largely financed through the accumulation of domestic and external payments arrears, including to multilateral institutions.

The accumulation of domestic payments arrears together with the worsening of the economic environment led to a further deterioration of the financial situation of the domestic banking sector, which faced a liquidity crisis, paralyzing the payments system and limiting financial intermediation. With the assistance of the World Bank, the authorities and the regional banking supervision agency (COBAC) launched an energetic program for the restructuring and privatization of the sector.

The hostilities ended in October 1999, and a peace accord was signed between the government and the armed groups late in 1999. In order to sustain peace, a special committee comprising all the parties involved in the conflict was put in place to follow up on the implementation of the peace agreement, including the resettlement of the population, the disarmament and social reintegration of militias. These reforms are being supported by the international community, as evidenced by the donors' meeting held in Paris during October 5-6, 2000. A constitutional referendum, and presidential and parliamentary elections are scheduled for mid-2001. Following the signature of the peace agreement, the economic and social situation has improved considerably. Basic infrastructure, including the railway system, has been repaired, and the main port of Pointe Noire has been dredged, which has boosted economic activity, particularly in the tertiary sector. In addition, following the completion of the organizational charts (organigrammes) for most of the ministries, the administrative capacity has strengthened markedly; and transparency in government operations has improved. This favorable environment has improved the prospects for implementation of sound macroeconomic and structural policies, which are the basis for a credible reconstruction program.

The program for 2000-01

The program for 2000-01 is set in a medium term framework that aims at reducing the economic dependence on the oil sector, through the diversification of the production and export base, notably by developing agriculture, forestry, trade, and transportation. The development of the non-oil sector is essential, particularly given the projected decline in oil production and export prices in the medium term. The authorities' objective is to stabilize the macroeconomic situation and establish an appropriate framework for the development of a dynamic private sector. Real GDP growth is projected at 3.8 percent in 2000 and 4.2 percent in 2001, reflecting the consolidation of peace and a strong resumption of economic activities in the non-oil sector. Inflation is to stabilize at 3 percent, as a result of the improvement in the supply of basic commodities, as well as appropriate financial policies. The current account deficit is expected to narrow from about 18 percent of GDP in 1999 to some 6-7 percent of GDP in 2000-01. Policy priorities include the improvement in financial policies and the implementation of key structural reforms.

To carry out the planned reforms, my Congolese authorities have initiated strong actions to strengthen administrative capacity, with donor assistance, including from the Fund. In particular, technical assistance will be needed to strengthen tax and customs administration, expenditure management and control, and the upgrading of the statistical apparatus.

On the fiscal front, the authorities aim at using the current favorable oil prices to cover humanitarian and reconstruction needs, while generating primary budget surpluses, the use of which will contribute to the normalization of relations with external creditors. Policy measures will focus on improving transparency and efficiency in the revenue collection, while strengthening budget management and control. The authorities will continue to ensure that oil revenues are entirely channeled into the government budget; a strengthened monitoring mechanism will be put in place. The program provides for a sterilization mechanism for oil windfall revenue (above budget projections), and its use will be determined in consultation with the staff, mainly to settle payments arrears to multilateral institutions. In addition, a government convention with SNPC, the national oil company, prepared with World Bank assistance, clearly defines the legal and financial relations between the SNPC and the government, and calls for regular inspections of the SNPC's trading activities. In 2001, budgetary revenue from non-oil activities is expected to increase by some 1(percentage point to 9.2 percent of GDP, mainly reflecting improvement in tax and customs administrations. Collections from the oil sector, however, are projected to decline by some

1 percentage point of GDP, in line with the anticipated export price developments.

On the expenditure side, efforts will be geared at the continued strengthening of budget management and control. In particular, budgetary procedures will be computerized and the control of the wage bill will be strengthened, notably through the census of civil servants to be completed by end-2000. Therefore, despite substantial increases in security and investment outlays as well as the provisions for the elections, total spending is projected to stabilize at some 27 percent of GDP in 2001. As a result, the overall fiscal balance is projected to turn into surplus in 2000 and to decline slightly to 3.3 percent in 2001. The primary budget surplus is projected to increase considerably from 5.6 percent of GDP in 1999 to 11.8 percent and 10.2 percent of GDP in 2000 and 2001, respectively. This performance has allowed the government, beginning in 2000, to start settling audited domestic payments arrears and to clear part of payments arrears to multilateral institutions. The Congo is also expected to remain current on most non-reschedulable external debt from October 2000 onwards. However, there will remain large financing gaps, particularly in 2001, which will necessitate additional external assistance.

On the structural front, several ambitious reforms are planned with a view to facilitating fiscal consolidation and to strengthening external competitiveness, notably through a reduction of domestic costs. My authorities are aware of the importance of a sound banking system for a sustained recovery of economic activities and thus plan to complete the restructuring/privatization of three domestic banks by end-2000. In addition, a comprehensive civil service reform is envisaged, with assistance from the World Bank. Finally, the authorities have agreed with the World Bank on an ambitious privatization program, covering large enterprises in the key sectors of water and electricity, telecommunications, transport and downstream petroleum activities.

Since the Congo meets the conditions for eligibility for emergency post-conflict assistance, as detailed in Appendix I of EBS/00/220, I request Board’s approval of the proposed decision. My Congolese authorities are committed to economic reforms and are determined to shift rapidly to a medium-term program that could be supported by PRGF resources. They are also hopeful that the track record under the post-conflict program will be used for the eligibility for assistance under the enhanced HIPC Initiative. To this end, they plan to carry out a poverty reduction strategy in the context of a full participatory framework.

Ms. Lissakers and Mr. Weisman submitted the following statement:

The report before us makes a strong and well-balanced case for an Emergency Post-Conflict program for the Republic of Congo. After years of civil conflict that have left the country in extreme difficulties, the cease-fire agreement appears increasingly promising, while the authorities and staff have put together a sound program. The focus of the program appears appropriate, concentrating on improving administrative capacity, financing emergency and humanitarian expenditures, normalizing relations with external creditors, reforming the public banking sector and large enterprises, and enhancing the transparency of the oil sector.

Having said this, we want to be clear that this program should run the full 12 months before staff and management consider bringing forward a PRGF. After a prolonged conflict and several years of very limited surveillance by the IFIs, we need more than a 6-month record of performance to justify moving to a PRGF. At least 12 months will be needed to make significant and measurable progress on the main goals of the program as well as on other post-conflict efforts, including i) consolidation of the tenuous peace that exists between opposing factions, ii) efforts to rehabilitate war-torn infrastructure, iii) implementation of a large-scale demobilization, disarmament, and reintegration program, as well as iv) facilitating much-needed improvement in data collection capabilities that will be crucial to formulating and implementing a PRGF. With elections anticipated in mid-2001, the authorities will also have the opportunity to demonstrate to us and the donor community their commitment to the program, and especially to prudent fiscal management.

Staff and the authorities have outlined a number of measures that are to be taken to improve the fiscal stance of the economy. Given the acute humanitarian and reconstruction needs of Congo, we believe this report places the appropriate emphasis on the immediate needs of public investment and non-interest current expenditure. We are concerned, however, about the heavy reliance upon oil revenues to fund these costs. Although oil windfalls in 2000 allowed the government to increase non-interest, non-wage current expenditures by 50 percent, we urge the authorities to examine avenues to diversify the economic base, taking into account a likely decline in oil prices and a possible decline in proven oil reserves. Congo faces daunting needs over the next few years as it continues to recover from the conflict, and the heavy reliance on oil revenues could hamper the growth prospects if foreign exchange earnings and fiscal revenues were to dramatically decline. In this light, we hope the government will redirect spending on priority sectors to help restart the economy.

The authorities have made notable progress in the area of transparency, but much work remains. Given the dominant position of oil in the economy, combined with an almost-total absence of transparency in the use of funds derived from the petroleum sector over the years, reform of this sector is absolutely paramount. Defining SNPC's role vis-à-vis the government is a good start, but is only a first step towards promoting transparency in this sector. We would urge regular audits of the oil sector and greater transparency with regard to the use of oil windfalls. We also encourage the government to strengthen accounting procedures and administrative capacity to better account for oil receipts from private-sector partners.

Also in the area of governance, staff and the authorities note improvements to expenditure control and monitoring with the development of consolidated cash-management procedures, though we note that these systems have yet to be tested. Prior to moving ahead with a PRGF, we will look for the full implementation of the performance indicators related to governance and will expect to see an operational system to generate expenditure data on a functional and commitment basis.

In this regard, we see that, with the exception of SNPC, the program does not account for the routine and detailed audits of government expenditures. Full budgetary transparency is essential for any meaningful monitoring of government expenditure priorities by the parliament, the public, and the donor community. It will be very difficult to justify the provision of external assistance in the absence of such transparency, and we therefore strongly urge that full budget transparency be a prior condition for the consideration of a PRGF. We would welcome staff's comment on procedures that are in place to audit government expenditures and those measures that might be considered in the near future.

We welcome the prior actions taken by the authorities to rebuild the banking sector. We look forward to the government adhering to its timetable in the privatization of the banks, as well as to efforts to begin paying and settling claims to domestic suppliers and creditors as outlined in the staff report and the Memorandum of Financial and Economic Policies.

The establishment of a special account in the BEAC to hold any oil revenue windfalls is a sensible measure, and we support the authorities' stance to consult with Fund staff before using these receipts. In addition, we agree that excess oil revenues, to the extent possible, should be used to reduce external arrears and that the operation of this account should be clearly documented.

In the area of poverty alleviation, the authorities have made some initial attempts to address elements of the deep-seated poverty problems that exist in Congo. We urge the government to strengthen this effort by developing a poverty reduction program, engaging civil society in a consultative process to establish priorities for poverty reduction activities. With the possibility of Congo transitioning from a post-conflict program to a full-fledged PRGF in the next year, we hope these consultations will help form the basis for program negotiations.

Mr. Kelkar and Mr. Jayatissa submitted the following statement:

We commend the Congolese authorities for their effort toward normalization of political process, reduce poverty and regenerate sufficient growth in an economy seriously affected by the recent wars. It is encouraging to note that the peace process, which is mainly home-grown, has made significant progress with broad support. We hope that the authorities will take all possible precautions to ensure that the new constitution and the planned elections provide a sound basis for political stability and lasting peace so that economic recovery programs could be successfully implemented.

The staff report is comprehensive. This together with Mr. Barro Chambrier's preliminary statement has clearly highlighted the current state of the economy, the formidable challenges that the authorities are facing and the responsibilities of the government and the role of the donor community in the reconstruction and rehabilitation of Post-Conflict Congo. We thank them for their elucidation of the facts and policy recommendations.

The case for Fund support under the Emergency Post-Conflict Assistance for the Republic of Congo is well established. As the Staff has rightly pointed out, the Memorandum of Economic Policies has presented an economic program with a reasonable balance between emerging needs and reconstruction and reducing domestic and external macroeconomic imbalances. In an economy with an unemployment rate of more than 50 percent and widespread poverty, with other complications including the influx of refugees, the authorities' task of rebuilding the damaged infrastructure and developing the necessary institutional and administrative arrangements while creating an environment for non-inflationary growth is no doubt challenging. This requires both technical and financial support externally, in addition to a firm commitment by the authorities to maintain macroeconomic stability. In this context, we are pleased to hear that the consultative meeting in October 2000 was successful in mobilizing donor support for the economic recovery program.

The authorities' privatization program is ambitious and we commend them for their commitment to promote economic progress through private sector participation. It would be helpful if the Staff could explain whether the restructuring/privatization of the commercial banks can be completed by end 2000 as indicated in the Staff Report?

We welcome the authorities' plan to use excess oil revenues to reduce arrears and normalize relationship with donors. In order to support increased private sector participation in the economy it would be necessary to have sufficient resources left for private sector use. In this connection, taxation of the petroleum sector will have to be carefully reviewed. It is hoped that the resources released in the form of clearance of arrears will come into productive investment in Congo.

The consistency of medium-term projections for GDP growth deflator and money needs to be re-assessed. Is the monetary program unduly expansionary in the medium-term given that the projected deflator is negative or stagnant and the real GDP growth is around 2.5 percent after 2002?

We commend the progress made in strengthening transparency and we welcome their willingness to publish the Letter of Intent, the Memorandum of Economic and Financial Policies and the staff report. As the authorities are planning for a successor program, we share the staff's concerns about the need to improve fiscal data.

Overall, we support the proposed decision to provide Fund support under the proposed program and join the staff in urging the international community to provide additional support in the rebuilding of the Congolese economy.

With these comments, we wish the Congolese authorities every success in their efforts.

Mr. Mirakhor submitted the following statement:

We join Mr. Barro Chambrier in expressing our appreciation to staff for a clear and candid assessment of Congo's economic and financial performance and the challenges that lie ahead. The cease-fire agreements signed in late 1999 have indeed strengthened the prospect of peace and economic recovery to the Congo. We commend the authorities for seizing the opportunity to implement measures conducive to political normalization and economic recovery and are impressed by the preparedness of the Congolese to assume full ownership of their post-conflict program. However, staff note that despite important strides to consolidate and deepen the peace process, the social situation "remains precarious" given the parlous state of the economy, the extraordinarily high level of unemployment and the strains imposed by the presence of a sizeable number of refugees. Clearly, the authorities face daunting challenges as they seek to meet the pressing needs of the population, rebuild shattered institutions and infrastructure, and establish the conditions for economic growth and rising living standards in the context of their post-conflict program.

The authorities' program appropriately focuses on establishing stable macroeconomic conditions, improving governance and transparency, implementing key structural reforms and consolidating peace. It is fully deserving of the support of the international community including the Fund under its emergency post-conflict assistance policy. We are pleased to note that the authorities view this program as a stepping stone to a more comprehensive medium-term PRGF arrangement that will also pave the way for eligibility under the HIPC Initiative.

The fiscal program appears to be well-attuned to balancing the requirements of emergency needs and reconstruction, and reducing macroeconomic imbalances. We support the agreement on excess oil revenues being predominantly used to clear arrears to multilateral agencies, and endorse the strong measures being taken to improve tax and customs administration and collection so as to bolster non-oil revenue. It will be critically important to meet the goal of doubling the primary fiscal surplus in 2000 so as to contribute meaningfully to the normalization of relations with external creditors. Effective budget execution will also depend on the efficacy of mechanisms for expenditure control and monitoring, an area in which the government has made important strides but additional improvements are required. We commend the authorities for their commitment to good governance and transparency, in the context of the new financial relationship between the state and the national petroleum company (SNPC), and also more generally.

The authorities' structural reform program seems overly ambitious and risks straining their capacity to deliver in a timely and effective fashion. It will be important to guard against generating unreasonable expectations and strive for only that which is realistically feasible. The restructuring and privatization of the country's three public commercial banks have encountered unforeseen problems in the past but now appear to be on track. Reforms of the civil service and an ambitious privatization schedule for the largest public enterprises drawn up in consultation with the World Bank, while highly desirable, could also overwhelm the country's implementation capacity. While extensive technical assistance has been planned, experience tells us that the process of skill-development can be an arduous one. We are pleased to note that all privatization proceeds will be placed in a special account and used to cover the social costs of privatization and welcome the authorities plan to start technical preparations and a consultative process that could become the basis of an interim PSRP.

In sum, the Congolese authorities deserve to be commended for having got off to a good start. While their commitment to peace and economic reconstruction is unquestionable, the program is not without its risks. Nevertheless, on balance we believe that the authorities deserve our fullest support and we join staff in inviting other members of the international community to support Congo in its efforts to "relieve human suffering and rebuild its economy."

Mrs. Hetrakul and Ms. Manivat submitted the following statement:

I would like to thank staff for the concise and informative paper. The post-conflict program would indeed be an important—and necessary—first step for the Congo to consolidate the peace process and stabilize economic conditions. Full implementation of the program should provide a firm basis for a more comprehensive medium-term program, the PRGF, to strengthen economic growth and intensify the reform efforts.

We commend the authorities for the prompt implementation of necessary measures to provide emergency assistance to the people, to improve macroeconomic framework, and to strengthen the country's administrative capacity. All these efforts led to significant improvements in the political and security situation. looking ahead, however, we find that while the program addresses the necessary areas which require immediate course of action, many challenges remain, both in the short and medium term. We would like to point out a few areas of concern.

Although the Congo has benefited from the recent sharp increase in world oil prices, in the medium term oil output is projected to decline somewhat, and so is the fiscal oil revenue. Performance of the non-oil sector will therefore become more important in the period ahead. The program specifies measures to improve tax and customs administration and management to increase the non-oil revenue, and it is encouraging to note that the problem of low production capacity of the non-oil sector is appropriately addressed.

The diversification of the production and export base should have a meaningful role in supporting the country's sustainable growth in the medium term. Relating with this, it is most essential that the authorities adhere to the fiscal targets, even during this understandably difficult period. As the elections are approaching, extreme caution needs to be exercised, and arrears reduction implemented as soon as possible in order to bolster investor confidence.

The program also calls for the restructuring and privatization of 3 commercial banks and large public enterprises, the latter encompassing all the major basic infrastructure: water, electricity, telecommunications, transport, and petroleum. Although we would like to see that the restoration of the banking system remains on schedule so as to allow the resumption of economic activity and payment system, the plan appears to be rather ambitious. Furthermore, such all-out privatization can prove very costly to the economy if not carried out carefully and properly. Even with assistance from the World Bank, the program is built upon a very optimistic assumption of a smooth transition to new ownership.

Finally, we are very pleased to note that the authorities attach high priority to improving governance and transparency, particularly through expenditure control and management of the country's oil proceeds. Overall, the program deserves international support, and we concur with staff that inaction will be detrimental to the Congo. In this regard, we would like to emphasize that the program should be under close monitoring by the Fund as the situation is still prone to risks, and many areas of macroeconomic data are poor in quality. Thus we welcome staff recommendation for the technical assistance to upgrade the country's administrative and institutional capacity.

With these remarks, we support the proposed decision and wish the authorities every success in their endeavor.

Mr. Rustomjee made the following statement:

I thank the staff for well-written and candid documents on the Republic of the Congo as well as Mr. Barro Chambrier for a very useful and informative preliminary statement.

The Congo has been plagued by civil wars over the last decade which has sadly caused loss in human life, the displacement of almost 800 000 people, the destruction of vital infrastructure and the crippling of the economy. The success with the implementation of the peace agreements in the Congo is encouraging, as it is vital for restoring stability in the aftermath of prolonged civil hostilities. I welcome the planned constitutional referendum, to be followed by presidential and legislative elections to be held in 2001, hoping that this will contribute to lasting peace.

The country's productive capacity has suffered because of the loss of human capacity and the destruction of key infrastructure. The prolonged civil strife has left the economy extremely fragile with an unemployment rate estimated at 50 percent, and the large number refugees from the region of the Great Lakes place an additional burden on the already scarce resources in the country. In an effort to alleviate the plight of the poor and destitute, the authorities have focused their spending priorities towards humanitarian assistance and the implementation of the peace process. I am in broad agreement with staff that the provision of healthcare, food and basic infrastructure is a prerequisite to the process of rebuilding the economy. I commend the authorities for their efforts to ensure that emergency assistance reaches those whom it is intended for. To this end the restoration of the Brazzaville-Pointe Noire railway and the completed dredging of the Pointe Noire channel have contributed to achieving a speedier distribution of emergency assistance.

As a result of the internal strife, budgetary procedures in the Congo have by and large been abandoned, while annual budget deficits and the non-payment of debt service costs have resulted in the accumulation of debt and arrears. The relative peace that currently prevails has allowed the authorities to shift their focus towards improving the countries' fiscal position. In the Letter of Intent and the accompanying Memorandum on economic and Financial Policies for 2000-01 (MEFP) the authorities have elaborated on the fiscal targets that have to be met. We are pleased to note that the post-conflict program for 2000-01 described in the MEFP, strikes an appropriate balance between the requirements of emergency needs and reconstruction on the one hand, and the crucial objective of reducing internal and external macroeconomic imbalances on the other.

While fiscal policy will remain focused on post-conflict humanitarian assistance and reconstruction, I support the authorities intention to increase the primary fiscal balance in order to enhance the normalization of relations with international creditors and development partners, as this will be important in attaining future technical and financial assistance. To this end I welcome the oil adjustment mechanism clause included in the monitoring mechanism for 2000-01 and concur with staff that the revenue windfall as a result of the higher world oil prices should be utilized for reducing accumulated arrears. The restoration of the cash management system in the Treasury and the agreement reached between the government and the State Oil Company to increase the transfers of oil receipts to the Treasury, are also welcomed. This will strengthen the authorities' commitment to achieve a primary surplus.

Congo's outstanding debt (both internal and external) is high due to the accumulation of debt and the non-compliance with external debt service obligations. However, the authorities have demonstrated their resolve over the last year to establish and maintain stability and to rebuild their economy. This approach has been supported by the international community including the Fund, with post-conflict assistance. The authorities have expressed their intention to move quickly to a PRGF-supported program following the successful completion of the current post-conflict program. To this end I welcome the progress in restoring stability in the country under the post-conflict program. The successful completion of the program will pave the way for formulating a medium term program, which will allow the Congo to benefit from substantial external debt relief.

The Congolese authorities have launched several reform initiatives to create an environment conducive for future investment and growth. I welcome the useful information provided by staff (Box 2), concerning the restructuring and privatization of commercial banks. Despite obstacles with their efforts to privatize public banks the authorities have managed to keep the process on track. The successful privatization of the banks will contribute to the restoration of confidence in the banking system, enhance financial stability and improve the payments system. In addition, the dismantling of public monopolies, permitting the allocation of resources to be driven by market forces will enhance efficiency in the economy.

The lack of human and financial resources have limited the Congo's ability to generate timely and credible economic, statistical and financial data. I commend the progress that has been made in improving the coverage and the timeliness of expenditure data and agree with staff that the authorities should persist with their efforts produce quality data as an important element in the preparation for successor arrangements. However, given the resource constraints that the authorities face, the call for comprehensive and better quality data should be accompanied by more and consistent technical assistance.

I welcome the Congo's participation in regional economic institutions, as this will enhance efforts in the rebuilding the economy. As a member of the Central African Economic Community and Monetary Community (CEMAC) the Congo's foreign trade is open and virtually free of restrictions. The Congo's monetary policy is executed by the regional central bank (BEAC) and bank supervision conducted by the regional banking supervisory agency (COBAB). Membership of these regional organizations will strengthen the development of the country's own capacity.

The authorities view the current post-conflict program as a forerunner to a more ambitious program to follow. The current program has improved the conditions for private sector led growth, the fight against poverty and the rebuilding of infrastructure. I welcome the commitment of the Congolese authorities to fully implement the post-conflict program with the view to designing a medium term program under the PRGF arrangement during 2001. However, while the peace process is fully embraced by the political players, the possibility that the political and security situation can deteriorate, cannot be discounted. In this regard we urge that there to be sustained international support and donor commitment for their post-conflict program which will reinforce the authorities' endeavor for societal rebuilding and lasting peace.

With these words, I support the request for post-conflict assistance and wish the authorities every success with their future ventures.

Mr. Schlitzer made the following statement:

We can fully support the decision to extend post-conflict emergency assistance to the Republic of Congo. There is no question that the conditions of eligibility for emergency assistance are being met in this case. Most importantly, the authorities have acted decisively both to restore peace in the country and to put in place some of the crucial conditions to restore economic activity. They deserve to be commended.

The resources that will become available to Congo are certainly not sufficient, but they should perform an essential catalytic role. We expect this to be so in view of the sound program that authorities and staff have agreed upon as well. It is not easy to pursue fiscal consolidation in a situation that requires massive public investment. Yet, the program strikes the right balance, and it is worthy of note that the fiscal surplus will reach almost 12 percent of GDP in 2001.

Congo's medium-term outlook is clouded by its high dependency on oil production, a productive potential that has been greatly hampered by armed conflicts, its huge stocks of external and domestic arrears, an insolvent banking system, and massive poverty. To confront these tremendous challenges Congo will badly need the financial support of the donor community, continued technical assistance, and a good PRGF program. This chair is ready to support all these actions if Congo maintains its commitment to adjustment and reform. Attentive program monitoring is crucial, and we welcome the decision to deposit excess oil revenues with the BEAC and, in principle, to use them to reduce the stocks of external debt and external arrears.

My only reservation with regard to the Staff Report concerns the level of access that is afforded to Congo. Emergency assistance entitles the borrowing member to 25 percent of its quota. Congo has an outstanding purchase under the 1998 emergency assistance equivalent to 12.5 percent of its quota then in effect (see Appendix III, p. 61). However, in terms of Congo's new quota, which is the only one relevant for today's decision, this amounts to only 8.6 percent. Accordingly, Congo should be entitled to purchase a further 16.4 percent of its quota under the emergency assistance policy. This point has relevance not just for Congo, but also from the point of view of establishing the right practice under emergency assistance in the presence of outstanding drawings and a quota increase. I would expect staff to comment on this issue.

I would like to conclude by thanking the staff and wishing all the best to the Congolese authorities.

The staff representative from the African Department remarked that the World Bank had indicated that the transitional support strategy for the Congo was being finalized, including its main element—an economic recovery loan of about $27.5 million from October 2000 to September 2001. The Bank had made a small net transfer to the Congo. The Bank staff's completed draft of the transitional support strategy (TSS), which had been explained to the Fund staff, differed from the version used for the staff report, in that it said that until the end of June 2001 net outflow would be $22-23 million. The Fund-supported program allowed for a reduction of arrears to multilateral institutions of about $55 million, assuming that it would be shared between the African Development Bank (AfDB) and the World Bank. If the arrears clearance payments to the Bank were as assumed in the new TSS, and the government's spending program had no cuts as agreed under the post-conflict program, minimal arrears payments would be available to other multilateral institutions, in particular, the AfDB.

If the Congo performed well under the post-conflict program, the Bank had indicated that more funding would be available in the next fiscal year, the staff representative continued. The Fund staff recommended approval of the program, and was prepared to confer further with the Bank on how to increase its contribution to the effort.

Mr. Houtman asked why the Bank had changed its plan.

Mr. Barro Chambrier encouraged the Board to support the proposed Congo program, calling it a good and timely move to rebuild capacity and further stabilize the economy. Fund approval would serve as a catalyst to enlist the backing of the financial community on the Congo's behalf.

The representative from the World Bank said that the Bank supported the proposed program. The change in strategy, including the economic recovery credit, had been legally necessary because lending was not permitted while a country remained in arrears, and thus IDA funds could not be used to service IBRD funding. The Bank had agreed with the Congolese authorities at the recent meeting in Paris to split the arrears between them. The first part of the loan would cover arrears, while the rest would allow the Congo to service the prior loan from the Bank until the end of the Bank's fiscal year in June 2001. As requests for post-conflict countries were considered annually, good loan servicing performance by the Congo through June would permit the Bank Board to consider another IDA allocation for the next fiscal year.

Mr. von Kleist said that he regretted the change, saying that the written statement informing the Board had been circulated only at the beginning of the Board meeting, late on Friday afternoon, and thereby rendering responsible officials at the Bank and the AfDB unreachable to discuss the burden-sharing implications for the Fund and the AfDB. The latter was not in a position to carry the additional responsibility under the new plan. As the matter did not concern only the Fund, it would be preferable to postpone consideration of the program for a few days, until counterparts at the Bank and the AfDB would be available.

The Acting Chairman said questions about burden sharing should be put forth immediately for later examination, and he invited Mr. Barro Chambrier to comment.

Mr. Barro Chambrier reiterated that at the donor meeting in Paris, commitments were made, but that the Bank had to modify that. If well managed, the Congo's debt could be properly serviced so that the Bank could provide further financing for the new fiscal year, probably by October. The complex matter would be further complicated by delaying the current meeting; that would send a bad signal to the Congo—already in a position to carry a heavier burden.

Mr. Cippà said the explanation was sufficient and that the Board could probably conclude the current discussion. However, the Bank staff's comments were surprising, as they suggested that the staff had been unaware of its policy on arrears.

Mr. Milleron said that failing to inform the Fund Board on the matter was regrettable. However, it would be preferable to continue the current meeting, as some Directors were on both the Fund and the Bank Board and could provide assistance if necessary.

The staff representative from the World Bank said the AfDB would have a difficult task in accepting an extra measure of burden sharing, but AfDB officials considered that they could proceed once the Bank had initiated the program. The transitional plan would be presented to the Bank Board December 19, as the earlier statutory deadline had been missed. Prior to that meeting the Bank staff would coordinate carefully with the AfDB to be sure there would be no misunderstandings.

The Bank was certainly of its own policy on arrears, but at the Paris meeting it had been hoped that further financing could be realized, the staff representative continued. The Bank had merely been trying to bypass some technical obstacles, as had been done before with bridge loans, which could be used to clear Bank arrears. Emergency credit could then pay the bridge loan. However, that had not been possible under the statutes in the current situation. That bridge loan would have to be provided through another source.

It was regrettable that the Fund Board had not been informed earlier, the staff representative said, but the problem had only been identified a week earlier, and that had delayed the Bank's own date for a transitional strategy. Having members of one Board serving on the other could facilitate the matter, despite the delays and complications.

The Acting Chairman said that Fund management was alerted that morning about the matter, and had concluded that the program was sound for a post-conflict case. As for the change itself, it was understood that it would affect settlement of arrears between other multilateral institutions. The matter would be addressed again at the upcoming Bank Board meeting December 19.

Mr. Milleron made the following statement:

> The case of Congo deserves special attention, in and of itself, but also as a model. Indeed, Congo is an exemplary story worth telling of post-conflict economic and social policy. Let me try to elaborate a little on this.
>
> The cornerstone of such policies is a basic political agreement which is broadly accepted by society and which gives a reasonable chance for a peaceful environment to prevail for a lapse of time of at least two or three years. It seems to me that, after one year, it is reasonable to say that the late

1999 cease-fire agreement has gained sufficient credibility. It is significant that the most recent note on the EIU site has the following headline: "Congo-Brazzaville: Renaissance."

The post-conflict program as presented in the report is well drafted and geared toward issues which are crucial indeed in post-conflict situations: rebuilding the governmental administration apparatus; difficult issues related to disarmament, demobilization, reintegration and resettlement of displaced populations; relief and humanitarian assistance; first steps towards reconstruction with a priority on basic infrastructure. Apparently, the authorities have identified these issues extremely well.

Clearly, in such a situation, priorities have to be defined and there are tough problems in deciding the order in which these various activities should be implemented. Without using the word "planning" which might be too strong, I would like to understand how the authorities are making sure that these activities are integrated in a properly designed and consistent framework. Obviously, in a situation like that of Congo, the country should be entitled to benefit from international solidarity and staff is perfectly right to insist on the importance of a full normalization of relations with the Congo's development partners. I guess there is—as in many places—the difficult question of a better coordination between development banks and agencies, NGOs, local authorities, etc. I would like to make sure that these issues, which are sometimes conflictual, are not forgotten in the overall design.

In most post-conflict situations, there is a most difficult conceptual issue which may be formulated as follows: how to make sure that in the post-conflict program which is elaborated and implemented today, we make the right decisions to prepare, to pave the way for what I would call a "dynamic and balanced development process." There are certainly mistakes to be avoided today and orientations which are more favorable than others for future development. What does staff think? What are the specific difficulties they could identify, from this point of view in the case of Congo? In other words, what are the pitfalls to be avoided as we try together to make this post-conflict period bridge into a sustainable development.

Turning to the Structural Reform agenda, I would like to make a few comments. I welcome the set of reforms agreed on with the authorities and which address key sectors for the reconstruction of the country's economy. In particular, I would like to emphasize the importance of clarifying the relations between SNPC (Société nationale des Pétroles du Congo) and the government, the first step being the signature of the covenant between SNCP and the Ministry of Petroleum Affairs expected by end November 2000. This is essential to improve transparency and ensure more stable fiscal revenues for the future and we certainly welcome the commitment expressed by the authorities in this field.

I would also like to commend the authorities' initiative to create a special account with the BEAC for the oil revenue surplus which will be used to reduce external arrears, primarily with the multilateral agencies but also with bilateral creditors. In fact, this initiative can be related to the global long-term framework for the stabilization of oil revenues which has been proposed by the Comité de convergence de la Zone Franc to the Ministries of Finance of all oil producing states in the region and which could certainly be applied in the case of Congo. I would appreciate it if staff could provide us with more details on the modalities which are envisaged for the supervision of this special account.

Overall, we are pleased to support the proposed decision and we would be willing to go along with the Italian suggestion if it helps to bridge the financial gap that might remain.

Mr. Fenton made the following statement:

We would like to commend the Congolese authorities for their commitment to securing peace, and undertaking the difficult task of reconstruction and rehabilitation of the social and physical infrastructure of the country. We fully support Emergency Post-Conflict Assistance for Congo. But, given that the peace process in its initial stages, we would ask staff to closely monitor developments within the country and make the Board aware of any problems as they arise. Also, we would like to underscore the catalytic role of the program in paving the way for aid disbursements from other donors. We understand that the United Nations Development Program (UNDP) is involved in reconstruction efforts in Congo and is currently finalizing an Economic Recovery Loan. We encourage staff to work closely with the UNDP and other donors to ensure that external assistance to Congo is effective.

We agree that the proposed macroeconomic framework for 2000-2001 seems to strike an appropriate balance between the requirements for emergency rehabilitation and macroeconomic stability. In particular, we are pleased to note that the fiscal program, while reflecting the priorities of social assistance and reconstruction needs, also attempts to normalize the country's relations with international creditors.

We welcome the progress to date in improving governance and transparency and we encourage the authorities to continue their efforts in these areas. In this context, we support the establishment of a special account for windfall oil revenues at the BEAC and the authorities intention to consult with staff before using receipts.

With these remarks, I wish the Congolese authorities success in their efforts.

Mr. Cippà made the following statement:

I welcome the normalization of the situation in Congo and the resumption of the cooperation with the Fund after nearly a decade of domestic conflict disrupting economic and social life and causing massive destruction of the country. Outbreaks of fighting had been bringing the previous Fund-supported programs to failure. The last emergency assistance program in 1998 had been much similar to the current one, but was soon abandoned due to the renewed conflict, and the situation in most areas returned to the starting point.

I agree with the proposed decision establishing Congo's eligibility for receiving the emergency post-conflict assistance, and I hope that the Fund's program will enhance peace and stabilization efforts in the country. I also hope that it will pave the way for other multilateral institutions and donors to come in, without which the reconstruction of the country will not be possible.

I welcome one important aspect mentioned both in the letter of Minister Dzon and in Mr. Barro-Chambrier's statement—the declaration of the plans for a constitutional referendum and presidential and parliamentary elections to be held in the first half of 2001. This is clearing some doubts raised by several external sources on the possibility of postponing such important steps. This will hopefully have much influence on enhancing democracy and will provide the basis for a sustainable and peaceful growth. It should also allow to improve the participatory process of preparing the PRSP, negotiating the medium-term PRGF and finally applying for the HIPC initiative. The key issue for the near-term is the decisive implementation of the current economic program from the very beginning. Like Ms. Lissakers and Mr. Weisman, we think that too much haste with proceeding to the PRGF would not be appropriate. A twelve-month track record under the current arrangement should be a basis for the next phase of cooperation, also in light of the already mentioned elections and its potential consequences on the future ownership and policy choices of the authorities.

Turning now to the structural side, which was the core of previous programs and remains so in the current arrangement. I welcome the steps already taken to enhance the budgetary process, governance and transparency, in particular in the treatment of oil industry revenue, and I look forward to the implementation of other structural reforms and privatization as described in the Memorandum on Economic and Financial Policies. In the case of privatization I tend to agree with Ms. Hetrakul and Ms. Manivat that the privatization program may actually seem too ambitious if implemented with high speed and not enough caution. I would therefore urge the authorities to proceed with care so that the enterprises are restructured and sold at a good price rather than at any.

I welcome the good budgetary performance this year aiming at positive fiscal surplus and the recent resumption of the external debt servicing. At the same time, I note the moderately rising stock of external arrears. However, the possibility of a reversal in the trend in oil prices and the factors mentioned in the staff's statement call for careful monitoring of the situation and taking necessary adjustments on the expenditure side. In the context of fiscal policy, it is also very important to enhance revenue administration and expenditure management together with further improvement in fiscal data reporting, which the staff and other authors of preliminary statements have already raised. I also support the Fund's technical assistance in this area.

With these remarks I wish the Congolese authorities success in their difficult endeavor.

Mr. Maino and Ms. Perez dos Santos made the following statement:

The economy of the Republic of Congo is finally recovering from a lost decade of macroeconomic mismanagement, fiscal disruption, poor governance, and civil wars. Restructuring and privatization in the banking system, the negotiation of new borrowing agreements with multinational oil companies and the emergence of a vibrant private sector are clear signals of progress. In particular, we welcome the reduction of inflation and the efforts being made toward improving the quality of public investments. This has been rewarded with a significant increase in GDP growth. Nevertheless, additional efforts are needed to consolidate the advances, particularly in fiscal policy, bank soundness and the efficiency and diversification of production.

The country's authorities must work hand-in-hand with the civil society during the reconstruction process. Full local ownership of the post-conflict program is the only way to secure success and attain long-run sustainable growth.

Credibility must be restored after years of budgetary misconduct. External support, both in the form of technical and financial assistance is inextricably linked to fiscal consolidation and budget transparency. The Republic of Congo should adopt mechanisms to reassure the international community that the era of large budget deficits financed through the accumulation of arrears is gone. This endeavor requires institutional development and the adoption of strict rules. After years civil unrest, the country needs to restore governance and clearly defined property rights.

The easing of financial constraints—due to the oil windfall—poses potential risks for public finances. This situation is not permanent, and expenditure levels should be defined accordingly. It is absolutely necessary that some of the windfall be used to accumulate precautionary savings.

Reconstruction expenditures, while a pressing need, should not lead to further financing gaps.

Re-establishing accurate statistics in the areas of national accounts and government finance is essential for the success of the reforms and fiscal consolidation. The road to attain fiscal transparency and adequate accounting is long and difficult. Government expenditures should be monitored closely and critically under the emergency post-conflict assistance.

We concur with Staff that the wage bill must be stabilized during this fiscal year. The proceedings of the fiscal surplus should help the Republic of Congo to clear arrears and to reestablish debt-service payments with multilateral creditors and the Paris Club. We would like the staff to consider forms to put aside precautionary savings from the abnormally high oil revenues, in view of the transitory nature of the oil shock.

On the structural front, it would be desirable to diversify the economy away from oil. This is especially important from a fiscal point of view. Today more than 40 percent of GDP, 72 percent of fiscal revenues and 92 percent of exports originate in the oil sector. We acknowledge the efforts to diversify stressed in Mr. Barro Chambrier's preliminary statement, and we would like to see some analysis of the sectors that present the best growth potential. The proposed reform of the tax system—in particular the adoption of a VAT—and a strengthening of customs will provide the government with additional and more reliable sources of revenue.

We support the Congolese authorities request of Fund resources under the umbrella of the Emergency Assistance to Post-Conflict Countries.

Mr. Kelmanson said the program was appropriate for a post-conflict case, and he commended the authorities for having made progress on political stabilization and the economy, including on structural matters, such as the petroleum expenditure control systems. Much work would be needed from the Congolese authorities, and on the part of the staffs of both institutions.

The burden-sharing problem was basically a matter of timing and of Bank financing catching up, although it seemed more serious at first, Mr. Kelmanson continued. However, it was regrettable that the Bank had not informed the Fund of its statutory problem and its solution to the bridge loan question.

The staff representative from the African Department, responding to a question from Mr. Milleron, said that the program would be administered through quarterly staff visits. The Fund and the Bank would provide assistance on issues of tax administration, customs, and spending control. The Fund would also monitor windfalls from high oil prices, and keep the Board informed. France had also offered assistance in several areas.

Parliament is expected to approve in February the budget containing the package. It was hoped that budget execution would follow in a fully transparent manner, the staff representative commented. Demobilization, disarmament, and reintegration activities are to be under the leadership of UNDP, while the Bank is to manage reconstruction. At the Paris meeting, the European Union had also offered its services.

The Fund for the Future Generation in the Congo might not be set up for some time, given the immediate humanitarian, construction, and basic infrastructure needs, the staff representative stated.

The staff representative from the Policy Development and Review Department pointed out that the level of access to Fund financial resources was based on the Congo's updated quota. The Republic of Congo had first gained post-conflict assistance in 1998 in the amount of SDR 7.2 million, or 12.5 percent of the previous quota. The current calculation was 8.6 percent of the new quota. The staff would correct the report to reflect that access would be based on the new quota.

On Mr. Schlitzer's use of the word "entitlement" in reference to Fund-supported programs, the staff representative pointed out that no such entitlement exists, as access to Fund resources were based on a program's strength, balance of payments needs, and the country's ability to repay the Fund.

Mr. von Kleist expressed concern that the Congo authorities could request further Fund support in mid-2001. The time constraint that the Board had instituted for emergency assistance above 25 percent of quota, after about a year, should, in light of Congo's poor track record, be interpreted strictly. If the rebuilding efforts progressed as swiftly as foreseen by the staff, a PRGF arrangement could be considered within 12 months.

Mr. von Kleist said the staff report lacked some detail on debt restructuring and relief, and he questioned whether relief of nearly $1.5 billion could be reached, one-quarter of which was to be rescheduled and three-quarters forgiven. He wondered whether other creditors would regard those calculations as realistic, in view of the Bank's altered plan.

Structurally, winding down insolvent public banks should be a top priority, and the staff's opinion that bank privatization should be completed by the end of the year was sound, Mr. von Kleist remarked. Also, quick improvement of statistical procedures was necessary for the monitoring of performance criteria under any possible PRGF.

Mr. Houtman said Ms. Lissakers's and Mr. Weisman's reluctance on early consideration of a PRGF arrangement could be addressed by mid-2001, after it was more clear how much progress was being made. Early conclusions should be put aside, in view of the good progress made so far.

The staff representative from the African Department said the program provided CFAF 190 billion for debt service in 2000, about half for mortgage debt and half for the multilateral institutions. The staff would discuss with the Bank how that amount should be allocated among each multilateral institution.

Mr. Kelmanson asked whether, if the Bank's new proposal was accepted, the program would be viable.

The staff representative from the African Department reported that, if the Bank maintained the new position, the financing deficit would be about $15 million in 2001. The adjustment would have to occur on expenditure and resources, which the staff believed would have negative repercussions for the Congo. As such, the staff hoped that $50 million could be provided by the Bank, at least in the second fiscal year of the program. The first fiscal year the Bank would provide about $40 million, resulting in a negative balance of $27 million for the Congolese. However, the need would be greater in 2001.

Mr. Barro Chambrier said $15 million was probably accurate, but oil revenues might provide a solution by the time of the next Bank Board meeting. Given the small size of the Congolese economy, sudden changes in oil revenues could alter the situation considerably; flexibility would be important in such a post-conflict case. The Congolese authorities were aware of the situation and their coordination with the Fund staff should assure the Board that Congo would avoid any under financing with extra effort as needed.

Mr. Milleron considered that the Congo experience was one of extraordinary post-conflict effort, but that coordination was poor between the Bank and the Fund. The Board should be updated following the Bank's decision

The Acting Chairman asked the Director of the African Department to explain the burden-sharing arrangement between the multilateral institutions.

The Director of the African Department explained that the program was still financed, but that the amount would be different to reduce arrears to the multilateral institutions. The Bank staff would be meeting with AfDB officials to clarify the matter.

The Acting Chairman remarked that, irrespective of the Bank's decision, the program remained in place, and the only remaining questions would be relating to the burden-sharing arrangements among the multilateral institutions. Discussions to clarify the matter could be pursued at an early date.

Mr. Barro Chambrier expressed confidence that the program should still work, despite the changes. The Congo was emerging from two civil wars that had taken a toll on the economy and caused great human suffering. Following the signing of the peace agreement in late 1999, the economic and social situation had improved considerably, as evidenced by the progressive resettlement of the population, the rehabilitation of basic infrastructure, and the resumption of economic activities. Also, administrative capacity had been strengthened, transparency in government administration had been improved, and a favorable environment for the implementation of policies was now in place. The authorities were aware that much remained to be done to address the basic needs of the population, whose living conditions had deteriorated dramatically during the conflicts.

The emergency post-conflict effort would lay the ground for a credible reconstruction program, thereby contributing to peace consolidation, Mr. Barro Chambrier stated. The authorities were willing to reduce macroeconomic imbalances and implement structural reforms as presented in the program.

The environment had changed in the Congo with a homegrown peace agreement, Mr. Barro Chambrier said. Largely supported by a population that had suffered for too long, this would be a new opportunity to truly improve the economic and financial situation.

Mr. Barro Chambrier noted Directors' remarks with regard to the constitutional and political process that should strengthen democratization, adding that it was the authorities' intention to organize this in a timely and transparent manner. The normalization of relations with external creditors that had been undertaken, as well as measures under way to improve transparency in the oil sector, were a clear indication of the authorities' commitment to reforms. Technical assistance would also be important to strengthen the ability to carry out the hoped-for reforms.

The Acting Chairman made the following summing up of the discussions on the Article IV consultation:

> Executive Directors agreed with the thrust of the staff appraisal. They welcomed the prospect of peace and economic renewal offered by the cease-fire agreements of late 1999 following devastating civil wars in 1997-1999.
>
> Directors commended the authorities for the rapid progress to date in implementing measures necessary for political normalization and economic recovery. They noted that the peace process is mainly homegrown and has the broad support of society. Nevertheless, formidable challenges remain as the government faces the daunting task of consolidating the peace agreement, completing the process of demobilization, disarmament, and resettlement of former militia members and displaced persons, rehabilitating war-torn infrastructure, and rebuilding institutional, administrative, and statistical capacity. Success in these areas will help to lay the foundation for strong, sustainable economic growth that will reverse the steep decline in living conditions and solidify the gains in the peace process.
>
> The current oil revenue windfall is particularly propitious, facilitating the financing of peace-related outlays. Directors urged the authorities to take advantage of the favorable prospects for oil revenues to normalize relations with the country's external creditors so as to allow the resumption of much-needed financial and technical assistance. They also urged the international community and multilateral development banks to be forthcoming in their assistance to the Congo.

Directors considered that the authorities' fiscal policies for 2000 and 2001 strike an appropriate balance between the requirements of emergency needs and reconstruction on the one hand, and the objective of reducing internal and external macroeconomic imbalances on the other. They welcomed the objective of increasing the primary fiscal balance. Directors emphasized that the attainment of the program's fiscal objectives will require that the fiscal stance be maintained, especially in the run-up to the anticipated 2001 elections.

Directors noted that medium-term fiscal viability will require greater reliance on non-oil revenues. They therefore urged the authorities to explore ways to diversify the economic base of the country in order to reduce dependence on the oil sector and promote sustainable growth in the medium term. Directors welcomed the projected increase in 2001 in non-oil revenues, mainly by improving the effectiveness of collection procedures and the strengthening of tax and customs administration, in particular through the elimination of ad hoc tax exemptions and the strengthening of procedures to monitor imports and petroleum production.

Directors emphasized the need for strengthening the mechanisms for expenditure control and monitoring, which are essential for effective budget execution. They noted the progress achieved to date, and urged the authorities to improve further the coverage, quality, and timeliness of expenditure data. Directors hoped that the Congo could benefit from external technical assistance in the course of implementing these measures.

Directors emphasized that good governance and increased transparency are critical for promoting the rule of law and investor confidence. In that context, they noted that the proposed agreement defining the financial relationship between the state and the national petroleum company is a good start, and urged the authorities to implement it without delay. Directors also suggested that the authorities undertake regular audits of the oil sector and strengthen accounting procedures as well as administrative capacity to better account for oil receipts from private sector partners.

Directors welcomed the authorities' determination to move ahead with their ambitious structural reform agenda, which offers the prospect of increased investment and efficiency gains in key sectors of the economy. The restructuring and privatization of the commercial banks represents an essential first step toward the creation of a well-functioning financial system. Dismantling of the inefficient public enterprises through privatization should alleviate the burden on the budget, while providing the impetus for much-needed restructuring and reorganization of these enterprises. Some Directors cautioned that the authorities should proceed with care in undertaking structural reforms so as not to overburden their implementation capacity.

Directors noted the serious disruptions to the collection of financial and economic statistics by years of armed conflict, and expressed concern that the deficiencies in the quality of national income, price, and balance of payments statistics impede a timely assessment of economic policies. They therefore urged the authorities to continue their efforts to improve the quality of basic macroeconomic data, with Fund technical assistance as necessary.

Directors welcomed the Congo's participation in regional economic institutions, and noted that membership in these organizations will help the authorities in their efforts to rebuild the economy.

It is expected that the next Article IV consultation with the Republic of Congo will be held on the standard 12-month cycle.

The Acting Chairman made the following summing up of the discussions on the request for emergency post-conflict assistance:

Executive Directors supported the authorities' request for emergency post-conflict assistance. They noted the devastating effects of the civil wars in 1997-1999 on the Congolese population and economy, including the severe disruption of the country's administrative capacity. Directors hoped that the concerted international effort to help the Congo—of which the Fund's emergency post-conflict assistance was an integral part—would allow the authorities to make further rapid progress in capacity rebuilding and economic reconstruction.

Directors considered that the authorities' post-conflict program strikes an appropriate balance between the requirements of immediate reconstruction and the objective of establishing macroeconomic stability. Although the current high international oil prices make the financing of peace-related needs easier, adherence to the program's fiscal targets remains essential to ensure that its objectives will be met. Directors welcomed the authorities' commitment to place oil revenue windfalls in the Bank of Central African States (BEAC) and to discuss with the Fund the use of oil revenues that may accrue in excess of program projections. They agreed that the bulk of any oil revenue in excess of the projected amounts should be used for arrears reduction. This would help to normalize relations with the Congo's creditors and attract a much-needed flow of technical and financial assistance, which has been quite limited to date. Directors also urged the multilateral development banks to do their share in providing assistance to the Congo to ensure appropriate burden sharing between the Congo's multilateral creditors.

Noting that good governance and transparency are indispensable elements for a well-functioning economy, Directors identified improvements in tax and customs administration and expenditure monitoring as critical objectives for the program period. They also urged the authorities to use the period under the emergency post-conflict assistance program to improve data collection and reporting, especially in the area of fiscal expenditures. Directors emphasized that tangible progress in the area of budget transparency will be critical for paving the way for a medium-term program supported by the Fund. Prompt implementation of the agreement that defines the financial relationship between the national oil company and the state will be an important first step in improving transparency in the oil sector.

Directors welcomed the progress made with structural reforms. Restructuring and privatization of the commercial banks and the privatization of the inefficient public enterprises are critical elements in creating conditions favorable for non-oil private sector development.

Directors also welcomed the authorities' intention to move rapidly to a more ambitious medium-term program that could be supported by the Poverty Reduction and Growth Facility (PRGF) and allow access to debt relief. At the same time, a few Directors stressed that the authorities will need to make significant and measurable progress for a period of time in implementing the post-conflict program before consideration could be given to a PRGF-supported program. In this regard, it was noted that substantial improvements in the quality and timeliness of data are needed to enable the authorities to formulate and implement a PRGF-supported program. Directors also urged the authorities to start improving quickly the quality and provision of social indicators that will assist with the effective design and monitoring of a poverty reduction strategy.

The Executive Board took the following decision:

Purchase Transaction—Emergency Post-Conflict Assistance

1. The government of the Republic of Congo has requested a purchase in an amount equivalent to SDR 10.575 million (12.5 percent of quota) under the Fund's guidelines on emergency assistance to post-conflict countries.

2. The Fund notes the intentions of the government of the Republic of Congo as stated in the letter, dated November 3, 2000, from the Minister of Economy, Finance and the Budget and its attached memorandum of economic and financial policies for 2000–01, dated November 3, 2000 (EBS/00/220, Appendix II), and approves the purchase in accordance with the request. (EBS/00/220, 11/7/00)

Decision No. 12328-(00/113), adopted
November 17, 2000

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/00/112 (11/15/00) and EBM/00/113 (11/17/00).

4. EUROPEAN CENTRAL BANK—PRESCRIPTION AS HOLDER OF SDRs

Prescription as a holder

The European Central Bank is prescribed, in accordance with Article XVII, Section 3(i) of the Articles of Agreement, as a holder of SDRs.

Terms and conditions for acceptance, holding, and use of SDRs

The European Central Bank is authorized to accept, hold, and use SDRs in transactions and operations in accordance with and on the terms and conditions specified in Executive Board Decision No. 6467-(80/71) S, adopted April 14, 1980 ("Terms and Conditions for the Acceptance, Holding, and Use of Special Drawing Rights by Other Holders Prescribed under Article XVII, Section 3").

Decision No. 12329-(00/113), adopted
November 15, 2000

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by an Advisor to Executive Director as set forth in EBAM/00/157 (11/14/00) is approved.

APPROVAL: September 14, 2001

SHAILENDRA J. ANJARIA
Secretary