

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

August 31, 1988 - 88/61

Statement by Mr. Jorgen Ovi on  
Overdue Financial Obligations to the Fund -  
Draft Report to the Interim Committee  
(Preliminary)  
Executive Board Meeting 88/132  
August 30, 1988

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The draft report, in my view, represents a well balanced text following our discussion on this subject in July. Therefore, I shall make only a few general comments before suggesting some amendments to the proposed text.

I agree with Mr. Massé and Mr. Kafka that we should not at this stage hide unduly the substantial differences of opinion which exist among us. Hopefully, the Interim Committee will be able to narrow down the differences somewhat, enabling the Board in the following months to develop a more precise framework for dealing with these problems.

As a general introduction, I would like to emphasize four aspects of the financial role of the Fund that my authorities believe are of fundamental importance, also in our discussion of the arrears problem.

First, financial assistance from the Fund in support of economic adjustment programs must be based on the usual requirement of balance-of-payments viability over the medium term.

Second, my authorities feel strongly that solutions to the arrears problem should not involve any "write-off" of arrears to the Fund. This would go fundamentally against the cooperative character of this institution.

Third, financing from the Fund, including disbursements under the ESAF, should not be used simply in order to clear arrears to the Fund.

Fourth, a positive track record for some period of time for a member country in arrears to the Fund will be absolutely necessary in order to generate the necessary financing.

Also, a few remarks on the idea of establishing support groups.

I detect from the grey statements of Mr. Cassell and Mr. Goos some hesitation on the issue of support groups. To the extent that this hesitation can be interpreted merely as a wish for flexibility, I can fully agree. What we are trying to do in this report is to establish some sort of overall framework. In practice, I have little doubt that it will very much have to be a case-by-case approach and I see no reason why we should insist on the establishment of support groups in all situations. However, I do believe that the idea as such merits our full support.

Following discussions with my capitals -- and this in all cases included contacts to our aid agencies -- my authorities have indicated

that they find the idea of support groups a constructive one and should like to see it developed further. At the same time, however, they stress that actual participation would have to be based on the merits of each individual case. With reference to what was just said by Mr. Dallara, I do not believe that we can leave out the issue of burden-sharing in this context.

Clearly, there are many difficult issues which would have to be resolved in developing such an approach. At what point in time should such groups be established and what would be their precise function? On this, we have an open mind. There are cases where it could prove useful to have a support group established already before a shadow program had been finalized. However, it is important to stress that even in such cases, the ultimate responsibility for the program would rest with the staff and the Executive Board and not be part of the domain of the support group.

In addition, I have a number of suggestions for changes to the draft report:

1. On the very bottom of page 4, it might be appropriate to add the following sentence: "It deserves mentioning that most members faced with similar circumstances have managed to stay current in their financial obligations to the Fund".
  2. On page 5, first sentence, the phrase "a more appropriate balance" might leave the impression that the mix between Fund financing and other sources of financing have been less appropriate in the past. I do not think this is a message that should be conveyed, and suggest that the sentence be terminated after "... from the outset."
  3. On page 6, in the first full paragraph, a number of my colleagues and I did not favor the proposal to establish a special "escrow account" based on withholding part of Fund lending in order to ensure timely repayments to the Fund in the future. In cases where the Fund is not satisfied that adequate safeguards for the use of Fund resources are met, shadow programs and/or prior action should be required before a Fund program is approved. I do, however, recognize that the idea of such an escrow account received some support in the Board, as is also made explicit in the Chairman's summing-up. This difference of opinion should be made clear in the draft report.
- As regards the other type of an "escrow account", which is intended to accumulate financial contributions from various sources in order to enable clearance of arrears to the IMF, we continue to see merit in further consideration of this proposal.
4. Following this same paragraph on page 6, I believe it would be appropriate to add a new paragraph emphasizing the need for all members to treat the Fund as a preferred creditor. I fully agree with Mr. Cassell's remark that the cooperative nature of the Fund is clearly

linked to the treatment of the Fund as a preferred creditor. From the Board's experience in considering cases of members' overdue payments, it is evident that in practice creditor countries must play a central role to ensure that the preferred creditor status of the Fund be maintained. I suggest the following paragraph be added:

"Executive Directors have also stressed the need for all members in practice to treat the Fund as a preferred creditor and further consideration will be given to this matter."

5. On page 8, regarding the Board's endorsement of a "shadow" program. My understanding is that a discussion and possible endorsement by the Board of a shadow program, neither implies that the Board approves a program for a country in arrears to the Fund, nor formally commits itself to provide future financing.

6. On page 9, the second sentence of the second paragraph, there is a reference to the "large external financing requirements" in some cases. I believe that no such link between the size of financing requirements and the need for appropriate Fund financing is warranted. Thus, I suggest that this sentence is amended to read as follows:

"Many Executive Directors have stressed the need for an appropriate financing role for the Fund following clearance of the arrears."

7. On page 10, last sentence of the first paragraph, instead of the phrase: "the use of ESAF resources", I believe it would be more accurate to say: "the purpose of ESAF resources". Furthermore, in order to clarify this sentence, the following phrase could be added: "i.e. to finance the members' arrears to the Fund".

8. On page 13, paragraph (a), regarding the Ninth General Quota Review, I note that a time limit is suggested for a member to clear its arrears and to pay for its share of the quota increase. If this suggestion is a purely technical matter, I have no problems with it. If it, on the other hand, is an additional remedial action, I believe this suggestion needs further consideration.

9. On page 16, as I have already stated, I do not think it is appropriate for the Fund to consider any scheme for "write-off" of overdue payments. Therefore, I would prefer to delete this page entirely.