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August 18, 1997

To: Members of the Executive Board
From: The Secretary
Subject: **Post-Program Monitoring, Including in Cases of Very High Access**

Attached for consideration by Executive Directors is a paper on post-program monitoring, including in cases of very high access, which will be brought to the agenda for discussion on a date to be announced. The executive summary and issues for discussion appear on pages 2 and 3.

Mr. Leckow (ext. 34799) and Ms. van der Willigen (ext. 38861) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Post-Program Monitoring, Including in Cases of Very High Access

Prepared by the Policy Development and Review and Legal Departments

(In consultation with other departments)

Approved by Thomas Leddy and William E. Holder

August 15, 1997

I. INTRODUCTION

1. On December 13, 1996, the Executive Board held a preliminary discussion of possible safeguards for the Fund's resources in cases of very high access.¹ Most Executive Directors considered that there was a persuasive case, for members with very high access, for post-program monitoring, and it was agreed that a short paper on the modalities of post-program monitoring for cases of very high access, excluding arrears cases, would be prepared.^{2 3} The present paper responds to this request, taking into account also the interest expressed by a number of Executive Directors in a wider application of post-program monitoring.

2. The paper is structured as follows. Section II provides an executive summary, presenting tentative conclusions for discussion by the Executive Board. Section III suggests criteria for the application of post-program monitoring in very high access cases, and discusses how post-program monitoring might also be applied to other cases. Section IV examines possible legal bases for post-program monitoring, including the waiver required in certain cases under Article V, Section 4, and the consultation clauses included in arrangements; it proposes that a new policy on post-program monitoring be adopted. Section V suggests possible procedures.

¹"Safeguards for the Fund in Cases of Very High Access—Preliminary Considerations" (EBS/96/182, November 27, 1996) (hereinafter referred to as the "safeguards paper").

²"Concluding Remarks by the Chairman, Charges on Large-Scale Use of Fund Resources, and Safeguards for the Fund in Cases of Very High Access—Preliminary Considerations" (BUFF/96/130, December 24, 1996). Directors also asked the staff to conduct a review of the early repurchase policy, which has been placed on the work program for late 1997.

³The term "post-program" monitoring is used for simplicity. The Fund's resources are exposed to risk whether purchases have taken place under an arrangement or under another facility, and the Fund's interest in monitoring encompasses these cases equally.

II. EXECUTIVE SUMMARY AND ISSUES FOR DISCUSSION

3. The following main conclusions are proposed for discussion by Executive Directors:

(a) The Fund may wish to establish a threshold beyond which members would automatically become subject to post-program monitoring. This threshold could be set at 300 percent of quota, and against it would be measured total Fund credit outstanding, defined as the sum of outstanding purchases under the credit tranches, the EFF, and other facilities, and outstanding disbursements under SAF/ESAF (and any purchases/disbursements under financing policies the Fund may adopt in the future). The threshold would be subject to review at the time of reviews of access limits.

(b) For members that exceed the threshold, the Fund would automatically move to post-program monitoring. Monitoring would begin when outstanding Fund credit exceeds the threshold, or, if an arrangement is involved, upon the expiration or cancellation of the arrangement, or after the program has been off track (as indicated by the inability of the member to make purchases) for a period of six months. It would continue until Fund credit falls below the threshold. The member's policies for the first year of monitoring would normally be described at the time of the last review under an arrangement that causes Fund credit to exceed the threshold, or at the time of the request for an outright purchase that causes Fund credit to exceed the threshold.

(c) For users of Fund resources that had not reached the threshold, the Managing Director could call for post-program monitoring if special concerns about the prospects for the member's balance of payments and capacity to service its obligations to the Fund surfaced upon or following the end of an arrangement.

(d) In order to give effect to these intentions, the Fund would adopt a policy on post-program monitoring, which would (i) provide for consultation clauses in all arrangements and for post-purchase monitoring for outright purchases, and (ii) specify circumstances that would activate the consultation clauses or the monitoring provision. Cooperation in the process of monitoring would not be an obligation of members under the Articles.

(e) The opportunity could be taken to harmonize the present consultation clauses in arrangements, and in particular to streamline the scope of the standard consultation clause contained in stand-by arrangements.

(f) Should a member not comply with post-program monitoring, this would most likely be an indication that any further use of Fund resources by this member would be subject to excessive risk. The Managing Director would not recommend to the Board any further use of Fund resources by such a member until a cooperative relationship had been restored, and a failure to cooperate would be taken into account in the Fund's assessment of the member's

capability to implement a new program, should it request renewed use of Fund resources in the future.

(g) The present consultation clauses would be used to apply post-program monitoring in existing cases of very high access.

(h) Monitoring would involve regular discussions between the staff and the authorities regarding economic and financial policies, centering on a quantified framework and resulting in staff reports to the Executive Board. This framework would also, ideally, be used to monitor the achievement of both intermediate and ultimate targets, through the establishment of quantitative benchmarks; structural benchmarks could also be included, as appropriate.

(i) Board consideration of the member's situation would typically take place at six-monthly intervals, unless the Board determined that more frequent consideration was desirable. Once a year, Board consideration under the monitoring procedures would coincide with the Article IV consultation.

(j) The Board's views would normally be expressed in a summing-up, although the Board could conclude its consideration of the member's situation by a decision adopted on a lapse-of-time basis, if the staff's appraisal is positive.

III. APPLICATION OF POST-PROGRAM MONITORING

4. At present, when an arrangement expires and is not followed by a new arrangement, a member's situation is generally formally reviewed by the Board only on the occasion of the annual Article IV consultations. Of course, staff contacts with the member typically remain quite intensive. Staff visits and other communications usually continue on a more frequent basis than for other members that do not have arrangements, and if a resident representative was in place during the period of the arrangement, he/she will often remain for some time after the end of the arrangement. In addition, the Board will often be kept quite closely informed of developments in the member's situation in informal country matters sessions.

5. There is, however, a case for more formal post-program monitoring. As discussed in the safeguards paper, such monitoring could be applied in cases of very high access to the Fund's resources, with a view to minimizing the risks associated with large Fund exposure and helping to ensure that the member will be able to service its obligations to the Fund. At the same time, as has been highlighted in the discussions on strengthening surveillance that have taken place since 1995, such a procedure could also be of use in other cases, where access is more moderate.⁴ Of course, monitoring is by no means a sufficient condition for minimizing

⁴See, for instance, "Biennial Review of the Implementation of the Fund's Surveillance over Members' Exchange Rate Policies and of the 1977 Surveillance Decision" (SM/95/22,
(continued...))

risks to Fund resources in any particular case, as its impact will depend on the extent and quality of the member's cooperation with the Fund; however, a continuing dialogue with the member is a necessary condition for an attempt by the Fund to influence the member's policies. The present section first considers possible criteria for the automatic application of monitoring in very high access cases, and then discusses the possible extension of the procedure, on a case-by-case basis, to other users of Fund resources.

6. The safeguards paper defined cases of very high access as those where Fund holdings of a member's currency exceed a certain threshold in percent of the member's quota. Such holdings arise from operations and transactions in the General Resources Account (GRA), comprising quota payments in the member's currency, reserve tranche purchases, and purchases under the credit tranches and special facilities. This definition thus did not cover use of Fund resources outside the GRA—in particular, under the Structural Adjustment Facility (SAF) or the Enhanced Structural Adjustment Facility (ESAF). The paper noted that some of the safeguards outlined might also be considered in these latter cases; and some Directors, in discussing the paper, raised the possibility of applying safeguards on the basis of credit outstanding (which could include SAF/ESAF) rather than holdings of currencies arising from purchases within the GRA. For the purposes of post-program monitoring, in particular, there would appear to be little *a priori* reason to distinguish between exposure in the GRA and exposure under SAF/ESAF: the risks to which these resources are exposed are similar, and, whether resources are provided under the GRA or under SAF/ESAF, the Fund needs to be satisfied that there are adequate safeguards in place to ensure that the resources will be repaid. Thus, rather than focusing on holdings of currency, the present paper considers Fund exposure in terms of total "Fund credit", defined as the sum of outstanding purchases under the credit tranches, the Extended Fund Facility (EFF), and other facilities (in particular, the Systemic Transformation Facility (STF) and the Compensatory and Contingency Financing Facility (CCFF)), and outstanding disbursements under SAF/ESAF.

7. The safeguards paper put forward two options for the level of the threshold beyond which safeguards might apply.⁵ The threshold was formulated in terms of holdings of currency, and the options put forward were based on the Fund's limits on cumulative access under the credit tranches and the EFF, which can be considered an indication of what the Fund considers to be "normal" maximum access to its resources. Thus, one option was intended to capture all cases where Fund credit under the credit tranches and the EFF

⁴(...continued)
January 26, 1995).

⁵This threshold need not be the same for post-program monitoring as for other safeguards that the Fund might wish to apply, although simplicity would be served if it were.

exceeded the current cumulative access limit of 300 percent of quota, and the second to capture cases where such credit exceeded a somewhat lower limit of 200 percent of quota.⁶

8. Establishing a threshold beyond which post-program monitoring would apply might appear to suggest that the need for safeguards for the Fund's resources rises sharply as outstanding credit ranges from just below to just above the threshold. Yet risks to the Fund's resources are not limited to countries with very high outstanding credit: these resources could be at risk even for members with modest amounts of Fund credit outstanding, especially if the member were to adopt imprudent policies following the end of a Fund-supported program. Nonetheless, there is a case for limiting the *automatic* application of post-program monitoring to a smaller, rather than larger, number of countries, and thus for establishing not only a threshold but a relatively high one. For example, to allocate staff and budgetary resources *routinely* to post-program monitoring for a wide range of cases would risk diverting such resources from other, possibly more pressing, surveillance cases that do not necessarily involve use of Fund resources. The latter may, for example, be cases that also put the Fund's resources at risk, albeit indirectly, in the event of a crisis—especially one that affects other members through contagion effects.

9. Accordingly, it is suggested that the threshold on outstanding Fund credit beyond which the Fund would automatically call for post-program monitoring be set at 300 percent of quota, the equivalent of the present cumulative access limit under the credit tranches and the EFF.^{7 8} Such monitoring would foster, for the members with the largest Fund exposure, closer

⁶Only one member (Mexico) has exceeded the cumulative access limit under the credit tranches and the EFF since the adoption of the guidelines on access in individual cases in 1983. However, as discussed in "Review of Access Policy and Limits Under the Credit Tranches and the Extended Fund Facility" (EBS/96/163, October 21, 1996), there is a growing divergence between the financing "needs" of most Fund members, which are rising modestly, and those of a small number of primarily middle-income countries, which have increased very sharply. While the latter countries are receiving correspondingly large private capital inflows, their heavy reliance on these flows underscores their vulnerability to changes in sentiment and, should they turn to the Fund, requests for substantial access could be involved.

⁷As of June 30, 1997, apart from protracted arrears cases, Fund credit as defined in this paper (including purchases under the credit tranches, the EFF, and other facilities, and disbursements under SAF/ESAF—i.e. a broader definition than used in the preceding footnote) exceeded 300 percent of quota for only one member (Mexico).

⁸In practice, such a threshold is more likely to capture members that use GRA resources than ESAF users. Maximum access under an ESAF arrangement is 190 percent of quota (255 percent of quota in exceptional cases); the "working assumptions" for ESAF access for
(continued...)

collaboration than would typically be the case under annual Article IV consultations, and this narrow application would help ensure that the routine use of staff resources for this purpose was limited and focused. Setting the threshold at the equivalent of the cumulative access limit was the option favored by most Executive Directors who spoke on this issue at the discussion of the safeguards paper.

10. If the threshold beyond which post-program monitoring would automatically apply were to be based on the cumulative access limit, there would be a case for establishing a system under which the threshold would vary as the cumulative access limit varies. However, the absolute level of the Fund's exposure in relation to quotas is also of importance for the management of risks to the Fund. Rather than establishing a system whereby the threshold would be changed automatically whenever the cumulative access limit changed, it is proposed that the threshold be subject to review from time to time, at the time of reviews of access limits. It would then be open to the Board to change the threshold whenever it made changes to the cumulative access limit.

11. Although post-program monitoring would be applied automatically only in cases where Fund credit exceeded 300 percent of quota, it could still be applied on a case-by-case basis to other members. In particular, such monitoring might be viewed as desirable in cases where Fund resources are thought to be at unusual risk even though the member's outstanding use of Fund resources is below the threshold. Whether post-program monitoring is desirable for countries below the threshold would normally become clear at the conclusion of a Fund-supported program. Indeed, the Guidelines on Conditionality specify that "[t]he staff will prepare an analysis and assessment of the performance under programs supported by use of the Fund's general resources in the credit tranches in connection with Article IV consultations. . .".⁹ Adherence to this guideline—though it has been less than rigorous in the past—is important if the Fund is both to draw the lessons of experience and to evaluate correctly the desirability of continued close consultation with the member concerned. During such a post-program assessment, concerns might surface about the prospects for the

⁸(...continued)

first- and second-time ESAF users are 120 percent and 90 percent of quota respectively ("Continued Financing and Adaptation of the ESAF" (EBS/95/130, August 4, 1995), and BUFF/95/95, September 14, 1995); and access is normally expected to decline with successive ESAF arrangements. Following an ESAF arrangement of 190 percent of quota, it would take access of over 160 percent of quota under a second ESAF arrangement for cumulative ESAF access to exceed the proposed threshold (assuming uniform phasing of access under each arrangement and a six-month interval between arrangements).

⁹Guidelines on Conditionality, Executive Board Decision No. 6056-(79/38), March 2, 1979, *Selected Decisions and Selected Documents of the International Monetary Fund*, Twenty-First Issue, June 30, 1996 (hereinafter referred to as "*Selected Decisions*"), p. 97, paragraph 11.

member's balance of payments and in particular its capacity to service its obligations to the Fund, be it because of political developments or prospects, gaps in the member's institutional capacity, the adoption of imprudent policies, or an unfavorable external environment—particularly in a context of relatively large use of Fund resources. Accordingly, the Fund could determine on a case-by-case basis that post-program monitoring was desirable. This decision would, of course, need to weigh carefully the likely benefits of such monitoring, based on the circumstances of each particular case, against the costs in terms of staff resources.

IV. LEGAL BASIS FOR POST-PROGRAM MONITORING

A. Current legal authority for post-program monitoring

12. Currently, two bases exist for the Fund to conduct post-program monitoring. The first one is the Fund's authority under Article V, Section 4 to impose conditions when granting a waiver to allow purchases that envisage holdings of a member's currency in the General Resources Account (GRA) above 200 percent of its quota. The second one is the possibility of activating the existing consultation clauses in arrangements.

1. *Waiver of limitation on holdings above 200 percent of quota (Article V, Section 4)*

13. Under Article V, Section 3(b)(iii) of the Fund's Articles of Agreement, a member is only entitled to make purchases that would not cause the Fund's holdings of its currency to exceed 200 percent of its quota.¹⁰ Article V, Section 4 adds that the Fund may waive this limit "in its discretion, and on terms which safeguard its interests". Thus, in cases where an arrangement or an outright purchase envisages Fund holdings of a member's currency that exceed 200 percent of its quota, the Fund could require post-program monitoring as a condition for the waiver required under Article V, Section 4 if it found that such monitoring would help safeguard its resources. This requirement would constitute an obligation under the Articles.

14. The obligation that would be established as a condition for this waiver could continue to apply until full repurchase of the corresponding purchases had been made. In other words, the obligation would not necessarily lapse simply because the Fund's holdings of the member's currency dropped below 200 percent of quota after initial repurchases. The obligation would lapse, however, once the purchases that were subject to monitoring had been repurchased in full.

15. As this limitation applies for members using Fund resources under stand-by or extended arrangements and those that are making outright purchases (in the credit tranches or

¹⁰If a member has drawn its reserve tranche, the Fund's holdings of its currency will reach 200 percent of quota when Fund credit in the GRA reaches 100 percent of quota.

under special facilities such as the CCFF), attaching a condition to the waiver could be used as a basis for post-program monitoring in these cases.

16. In contrast, use of resources under the SAF/ESAF does not result in an increase in Fund holdings of a member's currency. Therefore, Article V, Section 4 could be used as a basis for post-program monitoring in SAF/ESAF cases only where the member was also using GRA resources and had to obtain a waiver.

2. *Consultation clauses in the text of arrangements*

17. The texts of stand-by, extended, and ESAF arrangements include a clause providing for consultation after the period of the arrangement. The clauses in the various types of arrangement differ in their scope, however, particularly with respect to the amounts covered.

18. The consultation clause in *stand-by arrangements* provides that "after the period of the arrangement and while (member) has outstanding purchases *in the upper credit tranches*, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies" (emphasis added).¹¹ Because of the reference to the "upper credit tranches," the consultation clause applies after the stand-by arrangement has expired and even after purchases under the stand-by arrangement have been repurchased, if there are other purchases remaining outstanding in the upper credit tranches.¹² (It does not apply to SAF/ESAF loans, or to purchases under extended arrangements or under other special facilities (STF, CCFF), which are all outside the credit tranches.)

19. The consultation clause in *extended arrangements* provides that "after the period of the arrangement and while (member) has outstanding purchases *under this arrangement*, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies" (emphasis added).¹³ The reference to "purchases under this arrangement" makes this

¹¹Stand-By and Extended Arrangements—Standard Forms, Executive Board Decision No. 10464-(93/130), September 13, 1993, *Selected Decisions*, p. 118, Attachment A, paragraph 10.

¹²As stated in the Guidelines on Conditionality, "this [consultation] provision will apply whether the outstanding purchases were made under a stand-by arrangement or in other transactions in the upper credit tranches". Executive Board Decision No. 6056-(79/38), March 2, 1979, *Selected Decisions*, p. 97, paragraph 5.

¹³Stand-By and Extended Arrangements—Standard Forms, Executive Board Decision No. 10464-(93/130), September 13, 1993, *Selected Decisions*, p. 118, Attachment B,

clause narrower than that in stand-by arrangements because it is limited to the time when purchases under that particular extended arrangement are outstanding. At the same time, unlike under stand-by arrangements, the clause continues to apply as long as any purchases under the relevant arrangement, no matter how small, remain outstanding.

20. The consultation clause in *ESAF arrangements* provides: "Moreover, after the period of the [first/second/third] annual arrangement and while (member) has outstanding financial obligations to the Fund arising from loans under *that arrangement*, (member) will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on (member's) economic and financial policies" (emphasis added). Similar to the clause contained in extended arrangements, the consultation clause applies only when amounts (no matter how small) are outstanding under the particular arrangement.

21. There is no consultation clause in first credit tranche arrangements or in arrangements under the SAF, or in the documentation for outright purchases in the credit tranches or under special facilities.

22. There is little power to enforce these consultation clauses. The consultation clause for stand-by and extended arrangements creates only an expectation, while under ESAF an obligation could be created only under the terms of the ESAF instrument. The consequences of the clauses are similar, however, in that no obligation is created under the Articles (as compared to the obligation that would result from a condition of the waiver under Article V, Section 4). Therefore, the sanctions provided by the Articles for breach of obligation (ineligibility, suspension of voting rights, compulsory withdrawal) do not apply. Moreover, the Fund has not adopted a policy to take such failure to consult into account in considering future requests for the use of Fund resources. Various means of making the clauses more meaningful for post-program monitoring, particularly in high access cases, are discussed below.

B. Possible new approaches

1. Article V, Section 4

23. As a matter of policy, the waiver under Article V, Section 4 could be used as a basis for establishing a requirement for post-program monitoring in cases where GRA credit exceeds 100 percent of quota. Thus, a fortiori, the waiver could be used to require automatic post-program monitoring in cases of very high access under the GRA, if the applicable threshold were set, as suggested above, at 300 percent of quota. The staff, however, believes reliance on this option is less desirable for several reasons:

¹³(...continued)
paragraph 10.

- First, Article V, Section 4 would not be applicable in post-SAF/ESAF cases, because it concerns only the Fund's holdings of a member's currency in the GRA; yet, as noted above, there is little reason to distinguish between the Fund's exposure in the GRA and its exposure under SAF/ESAF.
- Second, while recourse to Article V, Section 4 would mean that failure by the member to cooperate in the process of monitoring could trigger the sanctions available for breach of obligations under the Articles, the ability to apply these sanctions may not be of great benefit to the Fund.¹⁴ The possible sanctions range from a declaration of ineligibility,¹⁵ to suspension of voting rights, and, ultimately, to compulsory withdrawal. Even the mildest of these—a declaration of ineligibility—carries considerable stigma, and the Fund might be reluctant to apply it. In any case, its practical effect would be achieved to a significant extent if, as suggested below, failure to consult on outstanding purchases prevented approval of new access to Fund resources.
- Third, if monitoring is to be applied below the threshold on a case-by-case basis, this could not be done on the basis of Article V, Section 4, for two reasons. First, the Fund may wish to apply monitoring in some cases where no waiver is necessary. Second, it will typically not be clear at the time that the waiver is granted under Article V, Section 4 (at the outset of an arrangement) whether special concern will be warranted after the arrangement's conclusion. Creating an obligation of post-program monitoring only in cases where the threshold is exceeded would then appear, improperly, to signal a sharp jump in the Fund's concern when the high access threshold is passed.

2. *Policy on post-program monitoring*

24. If the Fund wished to strengthen its post-program monitoring, including in high access cases, it would seem desirable to adopt a policy to this effect. Such a policy would set out the scope of such monitoring and would avoid the limitations discussed above (that is, the absence of consultation clauses for some forms of Fund financing, and the absence of enforcement should the member not abide by a consultation clause). Consultation clauses—perhaps modified in the ways described below—would continue to be included in arrangements, and

¹⁴At the Board discussion of the safeguards paper, there was some support for introducing post-program monitoring on the basis of the waiver under Article V, Section 4, so that sanctions would be available if a member did not cooperate. "Concluding Remarks by the Chairman, Charges on Large-Scale Use of Fund Resources, and Safeguards for the Fund in Cases of Very High Access—Preliminary Considerations" (BUFF/96/130, December 24, 1996).

¹⁵Under Rule K-2, whenever a member may be declared ineligible to use the Fund's general resources, the declaration may be replaced by a limitation on access to the Fund's general resources.

the policy would determine when post-program monitoring will actually take place. For outright purchases, the policy would apply and there would be no need for a consultation clause. Post-program monitoring would also be expected of members whose outstanding Fund credit exceeds the threshold at the time the policy is adopted, but only where the member has outstanding credit under an arrangement containing a consultation clause.¹⁶

(a) *Elements of the policy*

25. The policy on post-program monitoring would consist of two parts. The first part would provide for consultation clauses (in general terms) in all arrangements and for post-purchase monitoring (also in general terms) for outright purchases.¹⁷ The second part, which could be amended from time to time, would specify circumstances (e.g., level of use of Fund credit or other indications of high risk, as discussed in paragraph 11 above) that would activate the consultation clauses or the monitoring provision.

26. Consultation clauses would continue to be routinely included in arrangements, and the policy would also provide for monitoring after outright purchases in the credit tranches or under special facilities. The policy would indicate at what level of Fund credit outstanding (including resources under both the GRA and SAF/ESAF) the consultation clauses or the monitoring provision would be "activated" and post-program monitoring called for. The policy could be subject to periodic reviews, at which time, as noted above in Section III, the Board could change the threshold, for example, whenever it made changes to the cumulative access limit. A change in the threshold would be applicable to all members that have outstanding credit covered by a generally-drafted consultation clause, and thus no transitional issues would arise.¹⁸

27. As this policy would apply to all purchases, including those that do not reach the applicable threshold, post-program monitoring would also be possible if a determination were made following the conclusion of a program that the circumstances fit those identified in the

¹⁶These members are, as a result of the consultation clauses contained in their arrangements, already informed of the need to engage in post-program consultation; this would not be the case for members whose outstanding credit arises exclusively from outright purchases, but there is currently no member that exceeds the very high access threshold without having outstanding credit under an arrangement, nor is there likely to be such a member in the near future.

¹⁷The policy could be written so that it would apply also to new forms of financing in which the Fund might engage.

¹⁸Similarly, since members are subject to policies as they may be in effect from time to time, outstanding credit under outright purchases would be subject to changes in the threshold under the policy.

policy and warranted monitoring. Such a determination, however, would remain a matter of judgment.

(b) New consultation clauses

28. Consultation clauses would continue to be used as a routine matter in arrangements, but the opportunity could be taken to harmonize them. As noted above, the scope of the consultation clauses differs between different types of arrangements. The clauses in extended and ESAF arrangements are limited to credit under the particular arrangement, while the consultation clause in a stand-by arrangement covers credit outstanding from sources other than that particular stand-by arrangement. The introduction of a new policy on post-program monitoring would provide an opportunity to harmonize the consultation clauses. There would be no further need for broad consultation clauses, covering credit outstanding from other sources, because consultation following outright purchases would be provided for in the policy. Thus, the consultation clauses could be harmonized to follow the form currently used in extended and ESAF arrangements, whereby they apply only as long as purchases are outstanding under the particular arrangement. The stand-by arrangement clause—following the approach currently adopted in stand-by arrangements—would apply as long as there were outstanding purchases under the arrangement that were subject to upper credit tranche conditionality.¹⁹

(c) Consequences of non-cooperation in post-program monitoring

29. The establishment of the proposed Fund policy on post-program monitoring would not create obligations under the Articles and consequently its nonobservance would not give rise to sanctions for breach of obligations.²⁰ Nonetheless, the following consequences would affect the member's relationship with the Fund.

30. If the member failed to comply with post-program monitoring, the matter could be brought to the attention of the Executive Board by the Managing Director.

¹⁹Thus, the clause would not extend to purchases that do not cause the Fund's holdings of the member's currency subject to repurchase to exceed 25 percent of quota.

²⁰It would remain possible, however, in individual cases where an arrangement or purchase would bring Fund holdings of currency above 200 percent of quota, for the Fund to require a member's agreement to post-program monitoring as a condition for the waiver under Article V, Section 4, if this requirement were considered to be warranted.

31. Failure to comply with post-program monitoring could also be taken into account by the Fund when deciding on a request for use of Fund resources.²¹ Should a member not comply with post-program monitoring, this would most likely be an indication that any further use of Fund resources by this member would be subject to excessive risk. The Managing Director would not recommend to the Board any further use of Fund resources by this member until a cooperative relationship had been restored, and a failure to cooperate would be a factor in the Fund's assessment of the member's capability to implement a new program, should it request renewed use of Fund resources in future.²²

V. MODALITIES OF POST-PROGRAM MONITORING

32. Post-program monitoring would involve regular discussions between the staff and the authorities regarding economic and financial policies, supported by a quantified macroeconomic framework. These discussions would result in staff reports to the Executive Board, in which the staff would provide its assessment of the member's objectives and of the consistency of intended policies with those objectives. The Board's views would normally be expressed in a summing-up.

33. A member's commitment to monitoring would require it only to engage in the *process* of monitoring—that is, to provide data and information, and to make itself available for discussions with the staff. There would be no requirement or expectation that the member should reach a common understanding on a program with the staff or the Fund. The provision of data by the member to the staff would be expected to continue as under the foregoing arrangement.

34. When the approval of an arrangement (be it under the credit tranches, the EFF, or the ESAF), an outright purchase, or a purchase under a special facility will raise total Fund credit above the threshold, the member would indicate its willingness to engage in monitoring in the documentation supporting its request for use of Fund resources. (As explained above, members that have outstanding credit under an arrangement at the time the policy is adopted will be taken to have indicated their willingness to engage in monitoring through the consultation clauses contained in their arrangements.)

²¹See, e.g., the Fund's policy on misuse of amounts set aside under a stand-by arrangement for debt and debt service reduction operations (Debt and Debt Service Reduction Operations—Early Repurchase Expectations, Executive Board Decision No. 9331-(89/167), December 19, 1989, *Selected Decisions*, p. 152, paragraph 12).

²²Consideration could also be given to making failure to consult under an earlier arrangement grounds for suspension of purchases under a subsequent arrangement, if this consequence were clearly provided for in the consultation clause.

35. When a member has exceeded the threshold on account of an arrangement, post-program monitoring would begin upon the expiration or cancellation of the arrangement, or after the program has been off track (as indicated by the inability of the member to make purchases, e.g., because a review has not been completed or a performance criterion has not been observed and a waiver has not been granted) for a period of six months. If no arrangement is involved but the high access threshold is exceeded on account of an outright purchase, monitoring would begin upon the making of the purchase that causes total Fund credit to exceed the threshold. Whether the threshold is exceeded on account of an arrangement or an outright purchase, monitoring would continue until Fund credit falls below the threshold (unless the Managing Director then chooses to call for continued monitoring under the case-by-case provisions of the policy).

36. Where the Managing Director wished to call for monitoring of members below the threshold, or to continue monitoring when outstanding credit to a member has fallen below the threshold, he would inform the member accordingly, and would also inform the Board. In so doing, he would indicate the period over which monitoring will be applied. Such a call would typically follow a discussion by the Board, for example, at the time of the first Article IV consultation following the conclusion of an arrangement, at the time of the last review under the arrangement, or at a subsequent Article IV consultation. The Managing Director could also, however, call for monitoring at other times, should untoward developments unfold between formal Board discussions of the member's situation.

37. The staff's discussions with the member in the course of monitoring would focus on the formulation of the member's program of economic objectives and policies, and on their consistency. These discussions would be assisted by a quantified financial framework, which would help ensure the transparency of the member's objectives and of the relationship of proposed policies to those objectives. This framework would be produced by the member (perhaps with staff assistance) and would quantify the member's proposed policies and objectives.²³ It would subsequently be used to monitor the achievement of both intermediate and ultimate targets. Progress would be measured against quantitative benchmarks, and structural benchmarks could also be included; benchmarks would be quarterly or semiannual, depending on the frequency of Board consideration (see below) and the immediacy of the risks perceived by the staff.²⁴ It would not appear to be a worthwhile exercise to base the

²³It is conceivable that the staff would consider the authorities' framework to be internally inconsistent—that is, that the policies were unlikely to allow the objectives to be met. In such a case, the authorities' framework would nonetheless be presented to the Board, together with the relevant staff analysis, and the expectation would be that the monitoring of subsequent developments would confirm the inconsistency in the original framework.

²⁴The choice of benchmarks would be determined primarily by the staff's assessment of where the risks to the framework lay; benchmarks could thus include either intermediate or ultimate
(continued...)

monitoring on developments relative to targets that were not considered appropriate, and it is conceivable that no benchmarks would be formulated at all, if the staff considered both the intermediate and ultimate targets put forward by the authorities to be inappropriate.

38. If the threshold had been exceeded on account of an arrangement, discussions between the staff and the authorities on policies for the first year of monitoring (which would begin upon the expiration of the program underlying the arrangement) would normally be held at the time of the last review under the arrangement. These policies would in any case be addressed as part of this review, provided it takes place sufficiently near the end of the program period, and they would be described to the Board as part of the staff report for this review. If the threshold were exceeded on account of an outright purchase or purchase under a special facility, discussions between the staff and the authorities on policies for the forthcoming year would be held, and these policies described to the Board, at the time of the request for the purchase.

39. Board consideration might normally take place at six-monthly intervals, unless it were determined that more frequent consideration was desirable. Once a year, Board consideration under the monitoring procedures would coincide with the Article IV consultation; on the other occasion(s), the Board might conclude its consideration of the member's situation on a lapse-of-time basis, if the staff's appraisal is positive.²⁵ In cases of access above the threshold, there would be no requirement for further Board consideration in the framework of (automatic) post-program monitoring after Fund credit had fallen below the threshold. However, policy discussions and quantified frameworks would cover full years even if it were foreseen that, reflecting scheduled repurchases, Fund credit would fall below the threshold at some point during the year.

40. If a member failed to cooperate, for instance by failing to provide data or to accept staff missions, the staff would report this to the Board at the latest at the time a report was normally due.

²⁴(...continued)
targets, or both.

²⁵In these cases, there would be no Board discussion or summing-up. Rather, the Board would simply adopt a decision endorsing the staff appraisal.

