

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/96

10:00 a.m., June 18, 1990

M. Camdessus, Chairman

Executive Directors

G. K. Arora
F. Cassell

Dai Q.
Zhang Z.
T. C. Dawson

E. T. El Kogali

E. V. Feldman
L. Filardo
R. Filosa
M. Finaish

M. R. Ghasimi
G. Grosche
J. E. Ismael

J.-P. Landau

Y. A. Nimatallah
G. A. Posthumus
K. Yamazaki

Alternate Executive Directors

L. E. N. Fernando
C. Enoch
D. Powell, Temporary

J.-P. Schoder, Temporary

S.-W. Kwon
M. Hepp, Temporary

I. H. Thorláksson
O. Kabbaj

T. Sirivedhin
L. M. Piantini
J.-F. Cirelli
C. V. Santos
J. K. Orleans-Lindsay, Temporary

J. W. Lang, Jr., Acting Secretary
S. L. Yeager, Assistant

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Also Present:

African Department: M. Touré, Counsellor and Director; P. S. Heller.
Asian Department: A.-D. Riess, R. S. Teja. Exchange and Trade Relations
Department: L. A. Whittome, Counsellor and Director; J. T. Boorman,
Deputy Director; T. Leddy, Deputy Director; E. Brau, G. R. Kincaid,
J. M. Landell-Mills, C. Puckahtikom, J. P. Pujol, B. C. Stuart. External
Relations Department: E. Ray. Legal Department: F. P. Gianviti, General
Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy
General Counsel; A. O. Liuksila, J. K. Oh. Secretary's Department:
C. Brachet, Deputy Secretary; A. Tahari. Treasurer's Department: G. Laske,
Treasurer; J. E. Blalock, P. Fontana, D. Gupta. Office of the Managing
Director: A. K. Sengupta, Advisor to the Managing Director; E. A. Milne;
J. M. Eun. Personal Assistant to the Managing Director: B. P. A. Andrews.
Advisors to Executive Directors: N. Adachi, M. B. Chatah, Z. Iqbal,
J. M. Jones, K.-H. Kleine, M. J. Mojarrad, B. S. Newman, A. Raza.
Assistants to Executive Directors: B. A. Christiansen, T. T. Do,
S. K. Fayyad, B. R. Fuleihan, M. A. Ghavam, A. Hashim, K. Ichikawa,
M. E. F. Jones, G. Montiel, S. Rouai, M. J. Shaffrey, Wang J.,
J. C. Westerweel.

1. OVERDUE FINANCIAL OBLIGATIONS - RIGHTS APPROACH - OPERATIONAL MODALITIES

The Executive Directors considered a staff paper on operational modalities of the "rights" approach relating to overdue financial obligations to the Fund (EBS/90/102, 5/29/90).

Mr. Yamazaki made the following statement:

The rights approach is one of the most important elements of the package on quotas and arrears agreed by the Interim Committee in May 1990 and constitutes an essential part of a balanced and credible arrears strategy. Although like all other elements of the package, the modalities of the rights approach and gold pledge are the product of compromise and are therefore not fully satisfactory to any one member, this chair strongly believes that in order to implement the arrears strategy quickly and smoothly, it should not reopen the issue at this time. To do so might jeopardize the credibility of the arrears strategy and impede the Fund's efforts to solve individual arrears cases. I therefore support the basic thrust of the staff paper, which fairly reflects the agreement reached by the Interim Committee.

The modalities of the rights approach should strike a balance between the need to protect the Fund's resources and the need to encourage countries in arrears to implement far-reaching adjustment programs. In this context, I am in basic agreement with the staff's proposal on the main features of the rights accumulation program. Nonetheless, I would like to emphasize some points that this chair regards as most important.

With respect to the scope of the utilization of the rights approach, this chair firmly believes that the approach should be limited to the 11 arrears countries that begin their rights accumulation program before the Interim Committee's spring 1991 meeting, in order to provide them with a strong incentive to initiate adjustment programs as soon as possible. As to the content of the rights accumulation program, I have no difficulty with the staff's proposals. With reference to financing during the rights accumulation program, it should be emphasized that the ultimate responsibility for financing the program rests with the arrears country itself, and that a prerequisite for mobilizing exceptional external resources would be the country's exceptional efforts to this end.

On the phasing of rights accumulation, contrary to the staff proposal, this chair considers that if the program goes off track, the accumulated rights should lapse after six months and that the Fund should decide whether some of the previously accumulated

rights should be restored when the program resumes. In our view, the staff's proposal that the rights would lapse at the rate of 25 percent per quarter might not provide sufficient incentive to expedite the resumption of the program.

On the arrangements for financing rights, this chair supports the staff's view that accumulated rights would be encashed under the subsequent financing program. In our view, the proposed scheme would adequately protect the security of the Fund's resources. My authorities also agree with the staff that the composition of financing for countries eligible to use the structural adjustment and enhanced structural adjustment facilities should be decided on a case-by-case basis in the context of the subsequent financing program. When deciding on the financing mix, however, the Board should also consider the security of ESAF Trust resources, including the adequacy of the ESAF Trust reserves, and the price of gold, as well as the needs of members and the availability of resources under those facilities.

The staff paper alludes to the issue of extending the commitment period for ESAF Trust loans. Since Executive Directors will elaborate on this issue at the forthcoming review of the structural adjustment and enhanced structural adjustment facilities, on this occasion I will offer some brief comments. While my authorities can agree to extending the commitment period by two years, they consider that any further extension should be made only if the following conditions are met: (i) the conditionalities attached to the rights accumulation program are strong; (ii) the economic reforms of the arrears countries have progressed satisfactorily; and, (iii) the proceeds from the sale of three million ounces of gold, as well as the ESAF Trust reserves, are judged to be sufficient to back the timely repayment to all the ESAF Trust creditors.

Furthermore, the extension of the commitment period beyond 1992 should be applicable only to arrears countries which are engaged in a rights accumulation program in the spring of 1991. It is also important that ESAF Trust resources should not be disbursed to arrears countries before the decision on a gold pledge enters into force.

The Director of the Exchange and Trade Relations Department recalled that Mr. Yamazaki had suggested that if the Fund-monitored program went off course, then any accumulated rights should lapse. That approach could be followed, but two issues would need to be considered. The first was the duration of the rights accumulation period in the event that a new program was reintroduced after rights had lapsed. If the program period was again three years, for instance, the process of accumulating rights would be

prolonged, and could continue virtually indefinitely if subsequent lapses were followed by yet other programs. The second problem was the magnitude of total rights to be accumulated. The longer the accumulation period, the greater the risk that financing gaps would need to be covered and that the originally envisaged amount of rights might not be sufficient. Those two technical problems would have to be addressed if Directors chose to adopt Mr. Yamazaki's approach.

On another point, Mr. Yamazaki had indicated that it was important that ESAF Trust resources should not be disbursed to arrears countries before the decision on a gold pledge for the use of such resources under the rights approach entered into force, the Director of the Exchange and Trade Relations Department observed. He understood that that limitation would apply only to the arrears countries which utilized the rights approach.

Mr. Kwon remarked that the staff paper was generally in line with the consensus that had been reached in the Board over the past couple of months as well as in the recent meeting of the Interim Committee. Therefore, his chair would not reopen any issues at the current stage.

On the operational modalities of the rights approach, he wished to reaffirm his chair's position that the approach should be limited to the existing protracted arrears cases, Mr. Kwon continued. With respect to program content, he agreed that in view of the deep-seated structural nature of the problems confronting the arrears countries, the program should adhere to the macroeconomic and structural policy standards associated with extended Fund or enhanced structural adjustment arrangements and would require a close collaboration with the World Bank. He also endorsed the proposal that the program design should provide for the monitoring of performance and the accumulation of rights on a quarterly basis.

It was important that members having a program under the rights approach generate the financing required to remain current on obligations falling due to the Fund and the World Bank during the period of the rights accumulation program, Mr. Kwon considered. That would require ever-increasing efforts on the part of the donor community, and in that connection he looked forward to the staff paper on the proposal advanced by Mr. Arora for voluntary contributions.

He could accept that total accumulated rights should be limited to the equivalent of the member's arrears outstanding at the beginning of the program, and that the duration of a rights program should generally be about three years, with some flexibility, Mr. Kwon stated. However, for some members with very large arrears, that accumulation limit would imply an average annual rate of accumulation of between 100 and 175 percent of quota--the latter far exceeding the annual access limit for other members. Although those cases might be seen as exceptional, it must be recognized that they could create a moral hazard problem and thus undermine the credibility of the Fund in the long run.

He could endorse the staff's proposal on the phasing of rights accumulation, Mr. Kwon commented. He had some difficulty, however, in seeing the merits of the front-loading of rights in the first annual program. In view of the risk of a lapse of accumulated rights in the event of the nonobservation of performance criteria in subsequent periods, the value of the front-loaded approach was dubious.

He had no difficulty in supporting the proposal that the encashment of accumulated rights take place as the first disbursement under a successor financial arrangement to be approved by the Board after the successful completion of the rights program and the clearance of arrears, Mr. Kwon remarked. In some cases, however, the successor arrangement might not involve additional financing from the General Resources Account if the accumulated rights exceed access limits unless a special provision was introduced in the guidelines governing the use of the general resources. He would appreciate staff clarification of that point.

Mr. Grosche made the following statement:

The staff paper, by and large, adequately reflects the understandings reached in the Board and endorsed by the Interim Committee. Directors will recall that this chair had some problems with the intention to use ESAF Trust resources to finance rights. But after the long and careful discussions in the Board and in the Interim Committee, my authorities believe that understandings have been reached that allow them to agree to the use of ESAF Trust resources and to the extension of the commitment period of the facility's lending by two years.

My authorities understand that the following will apply during the extended commitment period:

- (1) The conditionalities attached to the Fund-monitored programs for arrears countries must be strong;
- (2) The economic reforms of the arrears countries have to progress satisfactorily; and,
- (3) The proceeds from the sale of 3 million ounces of gold, as well as the ESAF Trust reserves, are judged to be sufficient to backstop the timely repayment to all ESAF Trust creditors.

I agree with Mr. Yamazaki that any further extension of the commitment period should be made only if these conditions have been met.

As for the staff paper on operational modalities, there are only a few points where this chair would put the emphasis somewhat differently or would like to see more precise wording.

First, the three-year rule for a rights program should be taken seriously. The three-year minimum period of probation is appropriate for the country to regain credibility and to justify exceptional efforts by the Fund. The three-year period is also necessary to avoid giving the impression that there is preferential treatment for problem countries. That would send the wrong signal to the good debtors.

Second, unlike the staff, this chair does not see the scope for a front-loading of rights in the first annual program. Such a procedure would tend to encourage a shortening of the period of the rights accumulation program. In my view, the Board should dismiss the idea that a satisfactory period of cooperation with the Fund leading up to the program is reason for front-loading or shortening of the rights program. I cannot see a case for a special reward for behavior that is nothing more than in the very interest of the country. In view of the past history of cooperation of members with protracted arrears to the Fund, there are many reasons for not being too lenient with the rights accumulation.

Third, this chair would wish to see a reduction in the stock of outstanding arrears during the course of the rights accumulation program. Clearly, the support group has to play a role in that respect.

Fourth, we would emphasize that in financing the rights in the case of ESAF-eligible countries, one cannot rely solely on ESAF Trust resources. Rather, what is required is a contribution from the General Resources Account, including extended burden sharing. A contribution from non-ESAF Trust resources is needed out of consideration for the special concerns of ESAF Trust creditors where backing through a gold pledge is limited and in order to ensure that the lion's share of concessionary ESAF Trust resources will be reserved for the "good" debtors, namely, those that are discharging their obligations.

In the same vein, I would like to reiterate my authorities' view that accumulated rights should, to the extent possible, be financed by the support group or through contributions. In light of this, the statement on page 6 that "total access to ESAF resources by a member would not exceed the maximum permitted under the ESAF regulations" is somewhat misleading. A more appropriate formulation would be: "total access to ESAF Trust resources would be in accordance with ESAF regulations."

Fifth, this chair is not particularly agreeable to the staff's proposal that in the event that a member's program went off track, previously accumulated rights would begin to lapse

after six months. Such a policy has the potential to encourage a delay of the adjustment process. Accordingly, we believe that after the six-month period of unsatisfactory performance, all accumulated rights should lapse in one single step.

Finally, my authorities attach great importance to the deadline of spring 1991. The Board should ensure that this deadline cannot be circumvented by a succession of unsuccessful rights accumulation programs.

Mr. Feldman made the following statement:

In all previous discussions on the cooperative strategy for dealing with members in arrears, this chair has supported the rights approach, in the understanding that it provides a realistic and viable solution, particularly for those countries with large protracted arrears. Consequently, the rights approach has great relevance for some members of my constituency.

I have no comments on the staff's proposals with respect to the scope and content of rights accumulation programs. It is certainly appropriate that countries in arrears adopt and implement strong, growth-oriented adjustment programs and that the standards of these programs adhere to the policies and guidelines associated with the use of Fund resources in the upper credit tranches.

One point in the section on program content--which reappears again in the section on arrangements for financing of rights--deserves comment. When referring to the Fund's financial involvement during the "successor financial arrangement," the staff mentions that some additional financing would "normally" or "generally" be envisaged, once accumulated rights have been encashed. In my view, for a member country embarking for a long period of time on a rights accumulation program with no Fund financing, the Fund's financial assistance during the successor program is of the utmost importance. Moreover, the Fund's financial involvement during the successor program is relevant for creditors and donors who provide support during the rights accumulation program. I believe that countries involved in a rights accumulation program should be reassured that the Fund will become financially involved in a successor program. I therefore propose to delete the words "normally" and "generally," in the relevant sections to dispel doubts about the Fund's participation in the financing of the successor program.

As for financing during the rights accumulation program, the reference to the "orderly reduction and elimination of external

payments arrears to all creditors" raises once again the question of sequencing and the Fund's--as well as other international financial institutions'--preferred creditor status. In this regard, my authorities continue to believe that the crucial factor should be the country's chance for re-establishing a positive flow of resources with international institutions, once that country becomes current with them. This positive flow could be of central importance for the country's financing during the rights accumulation program. The possibility for a sequential clearance of arrears is an unresolved issue, and a case-by-case approach should apply.

The staff indicates that rights could be accumulated up to the equivalent of the overdue obligations to the Fund outstanding at the beginning of the program. That approach is reasonable, although it might involve some moral hazard problem with respect to those countries that have started to stabilize their outstanding arrears by making payments to the Fund prior to embarking on a rights accumulation program. These relatively better-behaved countries--and I stress the word "relatively" because they have only partially fulfilled the test of cooperation--would be at a relative disadvantage in terms of potential accumulation of rights vis-à-vis those members whose arrears continue to increase up to the moment when the rights accumulation program begins.

Regarding the duration of the program, three years should be the maximum, not the minimum. The minimum length, perhaps, should not be far from this maximum. Three years is long enough for a country to accumulate rights and to build a good track record. A longer period may prove discouraging for countries embarking on rights accumulation programs. In any event, a period of three years or longer might imply--for some of the largest arrears cases--an annual rate of rights accumulation that exceeds the member's annual access limit, and would consequently call for the application of exceptional clauses.

On phasing, I agree with the proposal for an even distribution of rights accumulation throughout the program period. In my view, whether rights are back-loaded or front-loaded is irrelevant to the financing of the rights accumulation program. However, the phasing of rights accumulation becomes relevant if the accumulation of rights is taken by other creditors as the signal to trigger their disbursements. In that context, the front-loading of rights, which might be associated with prior actions, becomes of the utmost importance for the effective financing of a rights accumulation program.

In the event that a program goes off track, this chair can agree that, after some reasonable period during which efforts are

made to bring the program back on track, the previously accumulated rights would begin to lapse. Good judgment and some flexibility should, however, prevail under those circumstances. Consider, for instance, a case in which the program has gone off track, but the member continues making regular payments to the Fund, and the stock of outstanding arrears does not grow but remains at the same level as when the rights accumulation program started, which means that the country is still eager to cooperate with the Fund. That situation might call for a freeze in the previously accumulated rights, rather than a scaling down of the accumulated rights until the program was brought back on track. I would appreciate some comment from the staff on that point.

Similarly, the circumstances under which deterrent measures are to be applied should not be defined with too much rigidity. For instance, these measures might be applied only when all accumulated rights have lapsed rather than when rights have begun to lapse. In sum, for programs going off track, a case-by-case, cautious approach would be justified.

The Chairman remarked that the changes Mr. Feldman had proposed, as well as Mr. Grosche's suggestions, would remove all of the flexibility that had been built into the approach to allow the Board to deal with unexpected developments. It was important to be realistic and to accept that, despite the considerable effort that had been made to anticipate difficulties with respect to the implementation of the rights approach, not all problems had been, or could be, foreseen. The qualifications used in the staff paper--"normally," "generally," and "approximately," for example--reflected that fact. In his view, rather than introducing rigidities, Directors should seek to give management and the staff the instrument needed to act expeditiously and properly to resolve the problem of overdue obligations to the Fund.

Mr. Thorláksson stated that his chair could generally accept the modalities of the rights approach as put forward in the staff paper, which gave a fair reflection of earlier Board discussions and the endorsement of the rights approach by the Interim Committee. It was important to note that the proposed modalities implied that the Fund would be involved only in financing the existing stock of overdue financial obligations. Thus, the responsibility of financing the rights accumulation programs, including the mobilization of resources for staying current with the Fund and the World Bank during the program period, would be in the hands of the respective country, in cooperation with donors and creditors.

On the accumulation of rights, he recognized the difficulties for countries to reduce their outstanding overdue obligations to the Fund during the rights accumulation program, Mr. Thorláksson continued. However, every effort should be made in that regard, and some projections of expected

reductions should be integrated in the program. In that connection, the Fund should, at the outset of the program, refrain from indicating its eventual willingness to refinance the total amount of outstanding arrears to the Fund. To the extent that countries were able to reduce the outstanding stock of arrears to the Fund, the period for the accumulation of rights could be shortened.

He could accept a possible front-loading of rights in the first annual program in order to, among other things, facilitate the mobilization of financing from other sources, Mr. Thorláksson commented. However, any front-loading of rights should be closely linked to the implementation of measures to the Board's approval of the program. Otherwise, front-loading might prove unsuccessful in catalyzing additional resources. He agreed with other Directors that, in cases where the rights accumulation program went off course, the accumulated rights should lapse entirely after a period of six months, unless the program had been brought back on track.

As for the Fund arrangement following the rights program, he fully agreed that the encashment of rights would require the rights accumulation program to be followed by another, Fund-supported arrangement, Mr. Thorláksson remarked. Access under the subsequent program, however, like that under the rights accumulation program, should be in accordance with established guidelines, thus taking into account the strength of the program as well as the member's remaining access within the cumulative access limits. Only that approach could avoid the perception that the Fund was undertaking a financial responsibility beyond its normal practice.

Mr. Piantini stated that the Fund should be ready to extend the deadline for countries to enter into a rights accumulation program beyond the spring of 1991. As to the program's content and financing, he had no objection to the inclusion of macroeconomic and structural policy standards associated with extended Fund and enhanced structural adjustment arrangements. It was of paramount importance that the program be fully financed from the beginning to allow the country to implement the program without uncertainties. The Guyana case was an example of stingy financing, notwithstanding Mr. Clark's efforts to achieve the maximum feasible financing from bilateral donors. Substantial progress toward external viability could be achieved only if a country's economic growth was not hampered by the debt overhang. Thus, financing during the rights accumulation period should be sufficient to allow the country to remain current in its external payments as well as to satisfy its growth requirements. Financing that only sufficed to avoid an accumulation of official arrears, or any arrears--which the staff referred to as "the acceptable minimum"--was not a realistic goal.

The staff rightly recognized that the resumption of support from private creditors required a lengthy favorable track record, Mr. Piantini commented. Consequently, the time allowed within the rights accumulation program to regularize relations with private creditors should be longer than in other programs. Moreover, countries entering into a rights accumulation

program should be eligible automatically to benefit from the Toronto Summit initiative with respect to official creditors.

The magnitude of the annual rate of accumulation of rights should be similar to the magnitude of disbursements under extended Fund arrangements, Mr. Piantini considered. He endorsed the staff's flexible case-by-case approach to fixing the duration of Fund-monitored programs at around three years. Even three years would generally be too long--unless the monitored program permitted meaningful economic growth. To require that a monitored program should be followed by a successor financial arrangement was unrealistic and implied that a country must accept the Fund as governess for six years. The need for, and length of, the successor program should be decided on a case-by-case basis.

Regarding the phasing of rights, he agreed with the staff that some front-loading in the first annual program could facilitate the mobilization of support from other financial sources, help to generate the necessary domestic support, and encourage the authorities to act with bold determination, Mr. Piantini commented. On other points, he agreed that waivers and modifications should be acceptable. He also agreed that the member should be allowed to retain its previously accumulated rights for six months when performance criteria were not observed and the granting of a waiver was not seen as appropriate. In any event, rights should lapse at the same rate as they were accumulated, rather than at a rate of 25 percent per quarter.

Mr. Cassell remarked that the staff paper captured the thrust of the Board's earlier discussions very well. As to the modalities of the rights accumulation program, it was particularly important to define the restricted eligibility for such programs--namely, that they were limited to the existing 11 arrears countries--and to emphasize the need for the staff to work closely with the World Bank in designing sound programs. The Fund must ensure that those programs were not diluted just to get the process off the ground. Unlike Mr. Grosche, he did not see the need to establish a rigid rule regarding the program period. The special nature of the rights accumulation program made close monitoring essential, and he agreed with the proposed timetable of quarterly reviews. The provisions for dealing with programs that went off track also seemed to be sensible in allowing time for the country to adjust to adverse shocks. He did not agree that accumulated rights should lapse in one step. That was a harsh prescription, especially as some shocks that might afflict arrears countries could not be foreseen and could be severe indeed.

He was still somewhat concerned about the vague nature of the Fund's commitment with respect to future financing, but he accepted the consensus view reached in previous discussions: those who were assembling financing packages would need the clearest possible information regarding financing requirements and prospects at the outset of the rights accumulation program, Mr. Cassell commented. As for the encashment of rights as a first disbursement under a subsequent arrangement with the Fund, he wondered whether the

general expectation of further Fund financing was consistent with the view set out in the staff paper on the gold pledge that such financing was a necessity. He himself would prefer to allow for some flexibility in that regard. He would also be grateful for confirmation from the staff that the rules on annual access would be interpreted to include the period of the rights program, and not just the period of the follow-on arrangement.

Ms. Powell made the following statement:

This chair is in broad agreement with the proposed modalities for the operation of rights accumulation programs. As has always been intended, such programs would be limited to the 11 countries with protracted arrears to the Fund. It would be necessary for countries to adopt a comprehensive economic program. My authorities agree that, in view of the deep-seated problems in these countries, the envisaged programs should be similar in policy content to programs in support of an extended Fund or enhanced structural adjustment arrangement. For countries eligible to use the enhanced structural adjustment facility, the preparation of a policy framework paper would be appropriate.

This chair also agrees that the Fund should draw on the policies and guidelines associated with the use of resources in the upper credit tranches, and that a rights accumulation program should involve policies that represent substantial progress toward external viability and permit a positive assessment of the country's capacity to repay the Fund under the expected successor program. My authorities support the monitoring of performance and the accumulation of rights on a quarterly basis. Close monitoring is important, so that early action can be taken to prevent a program going seriously off track.

While precise details will be worked out on a case-by-case basis, my authorities would agree that, if necessary, rights could be accumulated up to the equivalent of overdue obligations to the Fund at the beginning of the rights accumulation program and that the duration of the program should be around three years. The phasing of rights accumulation should, in general, be evenly spread throughout the program period. At this stage, my authorities can see little reason for considering the front-loading of rights accumulation.

My authorities are definitely of the view that the initial accumulation of rights in subsequent annual programs should be conditioned on observance of the final set of criteria in the previous annual program. They also feel that in cases where performance criteria are not met, any waivers or modifications should be subject to the same guidelines as those for upper credit tranche arrangements.

If a program goes off track, six months was a reasonable period of time to allow a member to bring it back on track or formulate a new program. If this has not been achieved, it would normally be expected that rights would begin to lapse, although the Board would have the flexibility to extend the period, if warranted. This chair can agree with Mr. Cassell on the lapsing of rights: accumulated rights should normally lapse at the rate of 25 percent per quarter. The staff indicates that after rights have begun to lapse, a member could reach an agreement on a new rights accumulation program. It is suggested that the new program could be endorsed by the Board and the program period extended to enable the member to accumulate the rights needed to clear arrears. My authorities could agree to this approach, but before the Board is requested to endorse a new rights accumulation program, it would be reasonable for the Fund to seek some reassurance regarding the authorities' commitment, namely, some prior actions.

The paper also states that if the member did not adopt policies that could be supported by the Fund within "a certain period," all accumulated rights would lapse. The proposal on the normal lapsing of rights would imply that all rights could lapse within a year. It is not clear whether the staff considers that in such a case, a country would no longer be eligible for a new rights program even if it was prepared to agree on a program.

It has been agreed that members with protracted arrears would have until the spring 1991 Interim Committee meeting to reach an agreement on a comprehensive economic program that would entitle them to accumulate rights. It would thus seem reasonable to not allow more than a year for a country to agree on a new rights accumulation program if the first program goes seriously off track. I wonder whether the staff is proposing that approach.

My authorities have no problem with proposals on the encashment of accumulated rights in a successor program.

Mr. Landau remarked that he broadly agreed with the staff paper and that his chair was reassured by many features of the staff's proposals. His authorities agreed with the proposed scope and content of the rights accumulation program. They also agreed with the procedure that was envisaged in the event that the program went off track. As for the lapsing of rights, he shared Mr. Cassell's views that there should be a progressive loss of rights. He was pleased to see that Fund disbursements were envisaged under a successor program, that ESAF Trust and General Resources Account resources would be used, and that the mix of financing would be decided on a case-by-case basis.

He had four questions with respect to the rights accumulation program, Mr. Landau commented. With respect to official creditors and rescheduling, the staff seemed to assume that the adoption of the program would by itself trigger the possibility of a Paris Club rescheduling. He wondered whether the staff had received any indication from the Paris Club in that regard. On the treatment of private and official creditors by the country under the program, the staff seemed to imply that the official creditor would have to undertake the bulk of the efforts to meet the financing needs of the country during the program and that the claims of the private creditor would be met at an earlier stage than those of the official creditors. He would appreciate some clarification on that point. He also wondered what would happen if, during the program, new arrears emerged. Finally, he questioned the rationale for a possible front-loading of rights. In his view, front-loading would serve no purpose and could send a wrong signal. He would appreciate staff comment on that point.

Mrs. Sirivedhin stated that the staff paper was extremely useful, and she could generally go along with the staff's suggestions. On specific points, she attached great importance to the principle of equal treatment. Nothing should prevent a member in arrears, which had been successfully implementing a rights accumulation program, from obtaining a subsequent program with an encashment of accumulated rights and additional financing, if the member met the economic criteria. In that regard, she would appreciate clarification from the staff on the meaning of the statement in the footnote on page 1 that "rights" did not imply a legal right or entitlement to use Fund resources. She wondered how the interests of members were to be protected.

She could go along with the conditionality proposed for the rights accumulation program, namely, that it should be consistent with the use of Fund resources in the upper credit tranches, as well as the extended Fund and enhanced structural adjustment facilities, Mrs. Sirivedhin continued. With regard to financing during the rights accumulation period, she wondered whether the staff envisaged that the Fund would have a role to play in helping the member to obtain sufficient financing from support groups and to regularize its relations with external creditors and donors.

The flexibility suggested with regard to the magnitude and duration of the rights accumulation program appeared to be roughly appropriate, Mrs. Sirivedhin considered. The proposal with respect to the phasing of rights accumulation appeared to be at the same time properly flexible and adequately stringent. She would appreciate some clarification as to when deterrent measures would be called for. She might have some reservations in that regard, unless such measures were introduced only after all accumulated rights had lapsed and the member was clearly not cooperating with the Fund.

As to financing, she would appreciate clarification on the timing of the decision concerning the kind of resources to be used, Mrs. Sirivedhin commented. She wondered whether the decision would be made at the beginning

of the rights accumulation program or just prior to its conclusion and the move to a Fund-financed successor program. In her view, the first alternative made better sense. Since the terms governing the use of various financing facilities were different and might affect the financial viability of the member in the medium term, it was essential for the member to have that information before embarking on the rights accumulation program. She would also appreciate clarification on the proposed implementation of the rights accumulation approach, in particular, how and when management proposed to initiate the new strategy and how and when it would decide which of the 11 arrears countries should be approached.

The Chairman remarked that the initiation of the rights approach did not depend exclusively on the Fund but depended mainly on the countries concerned and their readiness to embark on good programs.

Mr. El Kogali observed that the rights approach under the enhanced strategy on overdue obligations had been generally accepted by the Board and had been endorsed by the Interim Committee. The management should be commended for working with the Board to bring about that useful turnaround in the arrears strategy. The procedures outlined in the staff paper reflected the consensus that had been reached following several discussions on the subject. The only weak link related to the mobilization of financial support to help finance a country's adjustment program. He wondered whether the staff could elaborate on that aspect.

The Fund should proceed on the basis that all eligible countries would make use of the rights approach, Mr. El Kogali considered. Since the objective was to set out the main features of the rights accumulation program, he did not see the purpose of including a determination that some countries might choose not to make use of a strategy that might help them. The emphasis should be on inclusion, and that was the spirit in which the enhanced strategy must go forward.

It was reasonable for the Fund to expect that members making use of the rights approach would do all that they could to reduce their arrears while implementing the rights accumulation program, Mr. El Kogali remarked. A great deal, however, depended on the level of external support; the integration of a reduction of arrears into adjustment programs should be undertaken with great caution. Care should be taken so that rights accumulation programs did not fall into trouble because they were underfinanced: that would be self-defeating.

On the question of phasing, he supported front-loading in response to the implementation of bold policies, Mr. El Kogali stated. Such front-loading might encourage increased financial support for the program.

It had been suggested that accumulated rights would begin to lapse at a rate of 25 percent per quarter in the event that a program could not be brought back on track, Mr. El Kogali observed. In that regard, he would

caution that every effort should be made to prevent the process of rights accumulation from becoming a drawn-out exercise. Before reducing accumulated rights, the Board should be strongly convinced of the need to do so. Like Mr. Cassell, he did not agree to canceling accumulated rights with one stroke. Finally, a deadline of spring 1991 for countries to embark on a rights accumulation program was too short.

Mr. Ghasimi said that he was in general agreement with the operational modalities proposed by the staff for the accumulation of rights under the cooperative framework for dealing with overdue financial obligations. As a general rule, he considered that flexibility should be allowed, when and where possible, in view of the lack of experience with the new framework.

On the scope of rights accumulation programs, he could support that utilization of the rights approach would be limited to the 11 members having protracted arrears at the end of 1989, Mr. Ghasimi continued. He preferred a flexible, case-by-case approach with respect to the deadline for endorsement of those programs by the Executive Board, but he urged all countries in arrears to seize the opportunity and agree as soon as possible on comprehensive, growth-oriented adjustment programs.

Apart from the adherence to a comprehensive adjustment program, a major test of the success of the rights accumulation program would be the ability of the country concerned to generate, with the assistance of support groups, the financing needed to support its economic program and, as a minimum, to remain current with the Fund and the World Bank on obligations falling due during the period of rights accumulation, Mr. Ghasimi considered. To that end, it was important for all participants in support groups, consultative groups, and/or similar arrangements, to support the intensified collaborative approach by providing adequate financing.

Mrs. Filardo said that she agreed with Mr. El Kogali that the deadline of spring 1991 was too short, especially as the rights approach was a new mechanism and experience had to be gained in its implementation. Moreover, experience with Guyana, Honduras, and Somalia in the context of the current arrears strategy showed that the implementation of a new mechanism could take a great deal of time. The Fund should stand ready to extend the deadline for entry into a rights accumulation program if developments warranted.

The new mechanism would be limited to the 11 countries with protracted arrears, Mrs. Filardo observed. One of those countries, Honduras, might be able to settle its arrears without recourse to the rights approach, but that did not mean that Honduras would not need special treatment in the future with respect to its program and access limits. She would prefer that a former arrears country enter into an extended Fund arrangement or an arrangement in support of a three-year program to ensure that it received Fund assistance over a longer period so as to help the country overcome the deep-seated structural problems that had led to its arrears problem. Moreover, access limits for such countries should be the same as those for other

cooperating member countries; there should be no effort to reduce the Fund's exposure to former arrears countries.

She agreed with the thrust of the staff paper and with Mr. Feldman's comments on the magnitude, duration, and phasing of rights accumulation, as well as on financing, Mrs. Filardo commented. An effort should be made at the present time to settle the issue of the sequential clearance of arrears because, even though she believed that the Fund should be accorded preferred creditor status, that was not, in fact, possible in some country circumstances. The Board would therefore have to accept that other multilateral institutions would have to be repaid first.

Mr. Finaish remarked that the outline of the key elements of the rights approach as presented in the staff paper was a fair reflection of earlier Board discussions and understandings on the subject, and therefore provided a good general framework for implementing the rights approach in individual cases. He agreed with the staff that it would be difficult to foresee all the specific issues that might arise during implementation, and therefore the Board should be ready to address such issues as they arose.

He also agreed with the staff that not all of the 11 members in protracted arrears would necessarily make use of the rights approach, Mr. Finaish continued. Excluding those situations where it might prove possible to settle the arrears outside the framework of the rights approach, the objective should be to use the approach to resolve all the protracted arrears cases. Obviously, that objective would require that those countries adopt comprehensive economic programs and that the necessary financing of those programs be forthcoming. Financing shortfalls were always a threat to successful adjustment. The cost of failure owing to a lack of sufficient financing was even greater in the cases at hand.

On the specific elements of the rights accumulation program, he could go along with the staff proposals, including possible front-loading of rights in appropriate cases and the six-month grace period before accumulated rights began to lapse, Mr. Finaish stated. He also agreed with the staff that the regularization of the member's position vis-à-vis all its creditors should be an objective to be accomplished, if not within the period of the rights accumulation program, then in the framework of the successor arrangement at the latest.

It was not fully clear to him at what point the rights accumulation program would start in individual cases, Mr. Finaish commented. To the extent that a fully specified financing plan was required in advance and fulfillment of that requirement was the only reason for delaying the initiation of the rights program, there would be an added reason for the front-loading of rights in such cases.

Mr. Posthumus said that he had no difficulties with the staff paper or proposals, which he could support. He shared the view of Mr. Cassell and

Mr. Landau that an immediate lapse of accumulated rights six months after a program had gone off track would not be desirable, and he preferred the staff's proposals in that respect.

The staff paper indicated that the member would, in any case, be expected to initiate efforts to regularize relations with private creditors early in the rights accumulation period, Mr. Posthumus observed. If those efforts were successful, the resulting arrangement with private creditors would undoubtedly involve a repayment to the private creditors. In the event, the Board should be careful to avoid a situation where the Fund's preferred creditor status was not respected.

Mr. Filosa remarked that the staff paper carefully reflected the broad agreement that had been reached in the Board, and he supported most of the staff's proposals. He did not, however, entirely favor the idea of front-loading the accumulation of rights. Like Mr. Landau, he did not understand the rationale for that approach unless it was viewed as a way to allow a substantial shortening of the period of the Fund-monitored program. Such a shortening was not appropriate where the country's credibility was low and the resumption of cooperation with the Fund needed to be confirmed over a long period of time. Moreover, the staff did not explicitly set out the conditions under which such front-loading might be allowed.

As to the lapsing of rights, he believed that the staff's proposal was too lenient, Mr. Filosa continued. As a rule, when a program had gone off track, the accumulated rights should lapse entirely after six months. To allow some flexibility, however, the Board might decide to allow the retention of some accumulated rights in appropriate circumstances, for example, if the country remained current with the Fund and agreed within an additional three to six months on a new program to correct imbalances.

The Board had earlier discussed the possibility of some use of the resources of the structural adjustment facility during the rights accumulation period if the country in arrears had re-established a credible track record, Mr. Filosa recalled. It had also been argued, by Mr. Grosche in particular, that it would be inappropriate to include such an explicit provision in the guidelines--a position with which he had agreed. At the same time, it had been suggested that that possibility could be explored on a case-by-case basis and in exceptional circumstances. He considered that the staff paper had tended to rule out entirely that possibility, and he wondered whether some language could be found to accommodate that understanding; for example, "in order to permit that in very special cases and with the approval of the Board, some financing could take place after a period in which the country has re-established its track record."

Mr. Dai remarked that the staff paper had summed up very well the Board's discussions on the rights approach and had provided answers to the questions that had been raised on earlier occasions. He could generally

agree with the main thrust of the paper and hoped that the rights approach could be put into effect as quickly as possible.

The essence of the approach was to establish a credible track record of policy implementation by the members in arrears, Mr. Dai observed. If successful, the rights accumulation program would pave the way for a successor program financed by the Fund. Therefore, everything else hinged on the rights accumulation program, and the success of the program would depend on the willingness of the members to cooperate as well as the receipt of adequate and timely financing from support groups and other donors, which would only be forthcoming if they had confidence in the program, as well as in the authorities' determination and ability to implement it. Certainly, for the program to be credible and reassuring to the support groups in particular and to the international financial community in general, it should be a full-fledged adjustment program with strong emphasis on growth and on the building of a viable external position. But the current arrears countries were severely debt ridden, had deep-rooted structural problems, and were highly vulnerable to external shocks. Mindful of the extreme difficulties involved, he believed that realism and meticulousness should be exercised in the design of programs. In addition, there should be a built-in mechanism to correct slippages if they occurred. In that connection, the staff had made a valid point in recommending that waivers and modifications be available to the rights accumulation program if deviations were temporary and reversible, if the basic assumptions of the program turned out to be incorrect, and if any unanticipated developments arose. He fully endorsed the staff's views on that point.

It was still uncertain whether support groups and other creditors and donors would generate adequate and timely financing for the rights accumulation program if the above-mentioned conditions were met, Mr. Dai commented. If not, he wondered what other sources of financing, in addition to possible voluntary contributions, did the staff envisage and how did it assess the financing gaps in view of the fact that the regularization of relations with private creditors would be difficult, if not impossible, for the arrear members. As had been stressed earlier, assuring the finance needed to support a Fund-monitored program was a key to the success of the rights approach.

Time was running out for members in protracted arrears to avail themselves of the approach before the spring of 1991, Mr. Dai stated. He wondered whether there was enough time for members in arrears to meet the deadline. In that connection, the commitment and disbursement periods of the enhanced structural adjustment facility would have to be extended to support the rights approach, especially as the period of the rights accumulation program was envisaged to be about three years. He believed that flexibility was called for in the timing, as well as in the design and monitoring, of the program.

The test of the rights approach would mainly come from the implementation of the rights accumulation programs, Mr. Dai considered. In view of the diversified circumstances of each arrears country and the many uncertainties, he firmly believed that the Board should continue its case-by-case approach with respect to the operational details, take into account the social and political implications of programs, and be alert to unanticipated developments.

Mr. Arora remarked that the staff paper accurately reflected the consensus that had been reached in the Board, and he could therefore support the staff proposals. It was, however, necessary at the present stage to draw attention to a few points, largely because the Board's discussion would serve as guidelines to the staff in its dealings with arrears countries and in developing the rights accumulation program.

In implementing the rights approach, the emphasis should be on maximum flexibility, Mr. Arora considered. Like Mr. Cassell, he was confident that the staff would act prudently and would do nothing to jeopardize the Fund's operations. The need for flexibility was acute, especially in designing the program, if the arrears problem was to be liquidated as soon as possible. In considering the design of programs for African countries, for example, the serious decline of those countries over the past ten years had made it difficult for them to implement programs that made a drastic demand on savings; that had to be kept in mind. Flexibility was also required with respect to the actions of the Board; for instance, in granting waivers where the program went off track because of purely exogenous factors, such as terms of trade losses, which were not reversible in six months.

A program should not be put in place unless the Fund was assured that adequate financing was forthcoming from support groups, consultative groups, and others to ensure that members remained current and that the economic objectives of the program could be achieved while rights accumulation was proceeding, Mr. Arora considered. If there was a hurry to put the program in place and financing was not forthcoming, the members in arrears might be blamed, unreservedly, for shortfalls and failures that were beyond its control. There would have to be continuous dialogue among the support groups, creditor countries, donor countries and the member in putting together a program.

The staff's suggestion on front-loading was most imaginative, Mr. Arora commented. It encouraged the member to complete a program in a short period of time, which, in turn, would encourage donor countries and support groups to mobilize adequate financing. Front-loading in cases where the member had cooperated and had performed properly prior to the commencement of the program was a good idea and should be supported.

Mr. Nimatallah observed that the staff paper had not included his suggestion on establishing an escrow account, which could help donors and

arrears countries to assemble the financing that would be needed to support the rights accumulation program.

Mr. Dawson remarked that the proposed operational procedures for the rights accumulation program broadly reflected the Board's earlier discussions. Therefore, he had only a few reactions.

On program content, it was essential that any rights program encompass a broad range of macroeconomic and structural reform policies which satisfy the Fund's most rigorous conditionality, Mr. Dawson considered. Regular reviews of performance were also essential to assure the Executive Board that progress was being made in restoring a viable external position. He stressed the importance that his authorities attached to close cooperation with the World Bank in that effort. Moreover, in view of the deep-seated problems confronting arrears countries and the need for a sustained effort over a period of years, policy framework papers should be prepared in all cases involving the accumulation of rights.

As to the magnitude and duration of rights accumulation programs, in earlier discussions it had been assumed that eligible countries would remain current on obligations to the Fund falling due after the end of 1989, Mr. Dawson recalled. In practice, that assumption had proven to be overly optimistic for a variety of reasons. He was concerned that the staff's proposal regarding the magnitude of accumulated rights could create pressures for the country to delay implementation of the rights program up to the last minute and weaken incentives for either the country or donors to provide the resources needed to finance the program. Therefore, he urged the staff to be very cautious in applying the flexibility contained in its proposal.

With respect to the phasing of rights accumulation, he was skeptical that the front-loading of rights would be an effective inducement for either the borrower or donors, especially as resources would not be disbursed until the conclusion of the Fund-monitored program, Mr. Dawson commented. It would, of course, be possible to take account of a member's performance in determining the length of the Fund-monitored program, which might be a more effective inducement in that it would provide real resources sooner.

With regard to programs that went off track, six months was more than adequate for a country to adopt corrective actions or develop a new program, Mr. Dawson stated. He wondered what purpose was served by stretching out the period over which rights would lapse. That approach could contribute to possible delays in the reform process. He therefore preferred a presumption that all rights would lapse immediately if the program was off track for more than six months, although the Executive Board could decide subsequently to reinstitute all or part of the previously accumulated rights in light of the country's policies and performance.

The proposed arrangements for the financing of rights reflected his earlier understandings that the precise sources would be decided on a case-by-case basis, Mr. Dawson commented. The possible blend of resources would, of course, need to take account of a variety of considerations, including the economic situation and payment capacity of the borrower, the resources available in the General Resources Account, including the new special contingent account, as well as the structural and enhanced structural adjustment facilities, and Fund policies on access. In this context, he recalled that during its discussion on whether the encashment of rights represented a back-loading of the Fund-monitored program or a front-loading of the follow-on program, the Executive Board had wisely agreed that it was unnecessary to ascribe the encashment to any particular program in order to avoid any possible misperception concerning a disbursement into arrears. He therefore urged the staff to refrain from characterizing the initial disbursement as coming from the follow-on program.

Mr. Orleans-Lindsay said that he welcomed the Interim Committee's endorsement of the rights approach as part of the cooperative strategy for dealing with protracted overdue obligations to the Fund. The staff proposals adequately reflected the consensus that the Board had reached on that important matter. He therefore supported the general thrust of the staff paper.

On the main features of the rights approach, he generally agreed with the proposed modalities relating to the scope, program content, financing, magnitude, and duration of a rights accumulation program and its phasing, Mr. Orleans-Lindsay stated. The proposed modalities provided an appropriate degree of flexibility, particularly as regarded the phasing of rights accumulation. In that connection, he did not consider that when a rights accumulation program went off track, previously accumulated rights should be forfeited in one step, as Mr. Filosa and Mr. Dawson, among others, had seemed to suggest. The staff proposal for a step-by-step reduction, at the rate of 25 percent per quarter, seemed the most appropriate way of encouraging member countries to persevere in their efforts to bring a program back on track and to restore the rights.

Some flexibility was also needed with respect to the design and content of programs, and in that regard, he appreciated Mr. Arora's comments on the unique and peculiar circumstances of African countries, which had to be reflected in rights accumulation programs, Mr. Orleans-Lindsay commented. On the financing of rights, he could go along with the elements outlined in the staff paper. At the current stage, there was a need to consider the appropriate time frame--six months or one year--for reviewing the procedures under the rights approach. Perhaps the Chairman could give an indication in that regard in the summing up.

The Chairman observed that the Board could review the rights accumulation procedures prior to the Interim Committee's spring 1991 meeting. A report to the Interim Committee on the operation of the new strategy could be made in September 1991.

Mrs. Filardo said that she understood that front-loading might be considered when there was a very strong program and the country had already implemented perhaps all of the economic measures envisaged under the program. In that event, the staff should have the flexibility to decide on front-loading. As to Mr. Arora's comments on the need for a clear view on the availability of financing for the rights accumulation program, she noted that under the cooperative strategy, it had become increasingly difficult to ascertain from support groups the amounts of finance that they were prepared to provide. Such uncertainty could discourage the authorities from continuing to implement their program until it was clear that sufficient financial support would be available.

Mr. Schoder remarked that the staff paper broadly reflected the agreement that had been reached in the Board and in the Interim Committee on the rights approach. The staff had mentioned in its report that other issues might arise in the implementation of the guidelines; he would be interested to know what those issues were. On the scope of the rights accumulation program, he could agree with limiting eligibility to the 11 countries currently in protracted arrears, and to maintaining the spring 1991 deadline at the current stage.

On the program content, he agreed with Mr. Feldman on the possibility for additional Fund financing, Mr. Schoder continued. Moreover, as long as the cumulative access limits were not exceeded, he saw no obstacle to providing additional financing in the successor program. On the magnitude and duration of the rights accumulation program, he agreed that a country could accumulate rights up to the amount of arrears outstanding the beginning of the program and that the program period should be three years, with some flexibility. On phasing of the rights accumulation, he had no objections to the staff proposals and strongly endorsed quarterly surveillance as one of the crucial features of the accumulation program. He also supported the proposal with respect to waivers.

On the issue of the lapse of rights, he could agree to some extent to all the proposals that had been made, Mr. Schoder commented. The objective was to get the program back on track, and in that regard, he wondered whether a strong reaction on the part of the Fund was the best reaction. Moreover, he wondered whether the length of good performance under the program would be taken into consideration in determining the extent to which rights would lapse. For example, for a country which had been under a Fund-monitored program for, say, three months or six months, its rights should lapse immediately; but for a country which had been under a Fund-monitored program for a longer period, say nearly three years, its rights would lapse over a longer period. He would be interested in staff comments on that

point. In the event of the emergence of new arrears, he strongly supported the application of deterrent measures, where warranted.

He agreed with the staff on the conditions under which a successor program should be initiated, Mr. Schoder remarked. As for its financing, for countries eligible to use ESAF Trust resources, care should be taken to avoid raising the issue of using one Fund facility to bail out other facilities. He basically agreed with a blending of general resources and ESAF Trust resources on a case-by-case basis. He could also agree to the prolongation of the commitment and disbursement periods for ESAF Trust loans by up to two years.

Mr. Nimatallah said that he agreed with the staff paper, but the establishment of an escrow account should be added to the section on financing. Such an account could play a large role in encouraging a country to contribute to its own financing as well as improve the timing between the progress in the country's performance and the provision of financing by support groups. It would be important for the account to ensure that contributions were disbursed on a regular basis not only to support the program but also to establish the credibility needed at the beginning of the Fund-monitored program. On a final point, he was not sure that he agreed with the footnote on page 3.

Mr. El Kogali remarked that he supported Mr. Nimatallah's proposal to establish an escrow account in the Fund because it would help encourage a country to embark on an adjustment program. The proposal was complementary to the rights approach in that there was a need to cover the financing gap so that the member could keep current, resolve its balance of payments problem, and alleviate the impact of the program on the poorest segments of the population.

The Chairman said that while it was important to encourage countries to embark on an adjustment program and that an escrow account could be an extremely valuable incentive in that connection, it was unlikely that a donor country would make disbursements to such an account before a strong adjustment program had been initiated.

The Director of the Exchange and Trade Relations Department recalled that Executive Directors had referred to two kinds of front-loading. The first was front-loading within the Fund-monitored program. Such front-loading might be possible if, for instance, it triggered flows of external finance and there had been strong prior actions. He observed, however, that even though Zambia had been observing a Fund-monitored program for many months, the front-loading of rights for that country was unlikely to generate additional financing, but it might encourage a continued good performance. In that connection, it had been suggested that a particularly strong program, including strong prior actions, might warrant a shortening of the program period. The staff had proposed a three-year program period

in the light of the Board's earlier discussions, but Directors might wish to consider a shortening of the period under certain conditions.

While he accepted Mr. Dawson's cautious views toward the front-loading of disbursements in a successor program, that approach would avoid any accusation that the Fund was committing resources to a member in arrears, the Director continued. Above all, it tied the encashment of rights more firmly to the adoption of a successor program. Clearly, the debate on whether front-loading should occur at the end of the Fund-monitored program or at the outset of the successor program was not closed.

As to the restructuring of obligations to the Paris Club on the basis of a rights accumulation program, the Director observed that for Zambia, which would be considering a rights accumulation program in the coming year, the Paris Club had agreed informally to restructuring debt on the basis of a Fund-monitored program under the rights approach. As to obligations to private creditors, the staff had taken the position that the present policy on financing assurances would also apply to a rights accumulation program. That approach could lead to a situation where, as Mr. Landau and Mr. Filosa had noted, private sector creditors would be repaid before the Fund as well as public sector creditors. That situation currently existed, and how to assure the Fund's preferred creditor status remained a major question. The staff's approach was in no way intended to exacerbate that problem.

On a technical point, if a rights program that was adopted before the spring 1991 deadline ran into difficulty, rights lapsed, and a new program was adopted after the deadline, it would be for the Board to decide whether lapsed rights should be reinstated, the Director remarked. A succession of rights accumulation programs could be viewed as a continuum, as long as there were grounds for doing so.

As to financing the rights accumulation program, the formulation in the staff paper reflected a trade-off between the desire for the country and support group to have a clear view of how financing was to be arranged at the end of a Fund-monitored program, including the costs of such financing, and the important need to build in incentives for better country performance than might be initially foreseen as well as to ensure that the bulk of the proceeds of that better performance accrued in somewhat earlier repayments to the Fund, the Director explained. The resulting flexible language used in the staff paper was intended to allow the Fund to seek both of those goals. Moreover, it had been assumed that the Board would wish the Fund to play its customary role in helping to assemble the necessary financing, and in that context, that it might be desirable to indicate the mix of financing that would be available from the enhanced structural adjustment facility and the General Resources Account. The Fund might, however, be precluded from making a precise statement in the earliest stages for the reasons that had been given.

On other points, the words "normally" and "generally" had been used in describing the modalities of the successor program in response to Directors' emphasis on the need for flexibility, the Director commented. As presented, the procedures in the event of a lapse of rights would, for example, allow the Board flexibility to decide on the duration and amount of financing of a new program. On the possible use of structural adjustment facility resources, he recalled that Directors had earlier recognized that the use of those resources would involve a revision of the existing regulations governing the facility. As for the establishment of an escrow account, the staff considered that if an arrears country's performance, good fortune, or the generosity of others resulted in a somewhat better financial position, the country should make earlier repayments to the Fund rather than place resources to an escrow account. Nonetheless, some trade-off at the margin might be reasonable in that respect. As for the lapsing of rights, the approach taken toward a country whose program went off track after three months could be different from that taken toward a country whose program went off track after, say, two and a half years. Such a determination would, of course, take other factors into account, including the reasons why the program went off track and the authorities' efforts to redress the situation.

The Board had agreed earlier that the sequential clearance of arrears had to be examined on a case-by-case basis, the Director recalled. In two cases currently under discussion, it had been proposed that the country and its creditors provide assurances to safeguard adequately the position of the Fund, so as to allow the prior clearance of arrears to the World Bank. As Directors had emphasized, a sequential clearance of arrears should not put the Fund's resources at additional risk. That objective had guided the staff in dealing with those two cases, which would be brought to the Board for its consideration in due course.

As Mr. Kwon had indicated, the rights approach could involve substantial amounts of Fund financing, and requests for exceptional financing would have to be dealt with on a case-by-case basis, the Director of the Exchange and Trade Relations Department remarked. It might happen that the encashment of rights after the successful completion of the rights accumulation program would leave little or no room for Fund financing under the successor program. However, by that time it was also likely that a new access policy and new quotas would be in force.

Mr. Landau observed that while the Paris Club had agreed on restructuring for Zambia in the context of a rights accumulation program, he was not aware of a general agreement by the Paris Club regarding the treatment of countries which entered into the rights approach. In that light, it was important that the procedures set out in the staff paper seek to better assure comparable treatment between private and public creditors, so as to facilitate future agreements between arrears countries and the Paris Club on restructuring.

He could agree with Mr. Finaish that when a country had committed itself to a reform program and the Board's approval of the program was delayed for reasons beyond the member's control--because of difficulties in obtaining financing assurances, for instance--some front-loading of rights might be justified, Mr. Landau commented. An important issue that remained to be resolved was how the country would generate finance during the rights accumulation program. In the case of Guyana, for example, the adoption of a program in the context of the cooperative strategy had not prevented the accumulation of further arrears. Thus, the adequacy of financing during the program period remained a concern.

Mr. Posthumus remarked that the Fund's preferred creditor status, especially vis-à-vis private creditors, remained a concern. Although most arrears countries had few private creditors, the treatment of those creditors could become an issue. In the case of Peru, for example, the Fund must be careful to see that private creditors were not accorded better treatment than the Fund.

The Chairman proposed that the summing up on the operational modalities of the rights approach be made at the outset of the afternoon session.

The Executive Directors accepted the Chairman's proposal.

2. OVERDUE FINANCIAL OBLIGATIONS - RIGHTS APPROACH - MODALITIES OF GOLD PLEDGE FOR USE OF ESAF TRUST RESOURCES

The Executive Directors considered a staff paper on the modalities of a gold pledge for use of ESAF Trust resources under the rights approach (EBS/90/108, 6/12/90).

Mr. Yamazaki remarked that since he was in broad agreement with the staff paper and could support the proposed draft decision, he had only a few questions and comments. He would appreciate an explanation of the procedure for adopting the proposed decision, since he understood that at the current stage, the necessary 85 percent majority of the total voting power had not yet been achieved. In that context, he associated himself with the Chairman's remarks on the occasion of the Board's recent discussion on the proposed Third Amendment of the Articles of Agreement, when the U.S. authorities were urged to obtain congressional approval to support the proposed decision on a gold pledge as soon as possible. In a similar vein, his authorities sought legal assurance that no disbursement of ESAF Trust resources would be made in the context of the rights approach before the Board decision entered into force. He therefore requested the staff to propose necessary legal procedures to that end.

The Interim Committee had concurred with the proposal for a gold pledge in light of the exceptional risk involved in the rights approach, Mr. Yamazaki commented. However, if, as the staff paper on extended burden

sharing (EBS/90/105) emphasized, the risks associated with the encashment of rights were not distinguishable from other risks associated with the use of Fund resources, it would be appropriate for gold to backstop ESAF Trust lending to the arrears countries that opt for a "traditional," rather than a rights, approach, as well as ESAF Trust lending to finance the program that followed the rights accumulation program.

He hastened to add that he could support the proposed decision as it stood, Mr. Yamazaki stated. Nonetheless, if the risks covered by the new special contingent account were not consistent with the risks covered by the gold pledge, it would be extremely difficult for his authorities to extend the commitment period for ESAF Trust lending beyond 1992. Finally, he would appreciate the staff's confirmation that Executive Board Decision No. 8759-(87/176) ESAF on the Fund's commitment to consider all initiatives to assure full and expeditious payment to ESAF lenders, as well as the Chairman's summing up at the conclusion of Executive Board Meeting 87/171 (12/15/87), would remain in force irrespective of the proposed decision on the gold pledge.

The Deputy General Counsel confirmed that Executive Board Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, containing the commitment of the Fund to consider all such initiatives as might be necessary to assure full and expeditious payment to ESAF Trust lenders, as well as the Chairman's summing up of the discussion of December 15, 1987, would not be affected by the proposed decision on the use of gold. As described in the Interim Committee's recent communiqué, the new mechanism was intended to provide additional safeguards.

As for the procedures for the adoption of the proposed decision, the staff had envisaged that the current discussion would help to identify any difficulties and determine whether there was broad support for such a decision, the Deputy General Counsel explained. As an 85 percent majority of the total voting power was necessary to formally adopt the proposed decision, the staff had further envisaged that that decision would be formally presented to the Board for adoption when the procedures required for some member countries to vote on the decision had been fulfilled.

The assurance that Mr. Yamazaki had requested could appropriately be addressed in the summing up of the discussion on the modalities of the rights approach, the Deputy General Counsel considered. The proposal implied that the discussion on the gold pledge for the use of ESAF Trust Fund resources for the financing of rights would have to be adopted before it was proposed to commit ESAF Trust resources for the financing of rights accumulated under a rights accumulation program. Appropriate language for the summing up would be considered.

Mr. Dawson made the following statement:

My authorities are in broad agreement with the staff proposals regarding the modalities of the ESAF Trust gold pledge, which reflect the understandings reached by the Interim Committee and the Executive Board. However, two issues require further clarification.

Under the proposed decision, the Fund would be required to sell up to 3 million ounces of gold, if necessary, to replenish the ESAF Trust Reserve for any drawdowns owing to the failure of a rights participant to make payments. The rights participant would continue to have an obligation to the ESAF Trust, and any interest or subsequent repayments on the outstanding obligation would accrue to the ESAF Trust. It is my understanding that as a result of these procedures, the Fund would be repaid only if there are excess resources in the ESAF Trust Reserve or the borrower resumes payment on its overdue obligations when the facility is wound up, or at liquidation of the Fund. Moreover, the Fund would not be able to apply remedial measures as a means of encouraging the borrower to fulfill its financial obligations at an earlier date since the country would not be in violation of its obligations under the Articles of Agreement even though the Fund had used its own resources to compensate the ESAF Trust. Thus, there could be no recourse to declarations of ineligibility, suspension under the proposed Third Amendment, or compulsory withdrawal.

In these circumstances, the Fund would have no means of protecting its financial interests despite having provided substantial resources to the ESAF Trust. These procedures also create the anomalous situation that a participant in the rights approach which fails to meet its financial obligations would be treated more favorably than a borrower from the Fund, even though the implications for Fund resources are the same. In effect, incentives would be created for a rights participant experiencing balance of payments problems or for other reasons to go into arrears on ESAF Trust obligations, thus increasing the risk that the Fund would have to sell gold.

A related issue concerns the disposition of any resumption of payments by a rights participant on overdue obligations. Under the terms of the ESAF Trust, such payments would accrue to the ESAF Trust Reserve even though the ESAF Trust had been compensated for any previous drawdowns, including forgone interest, from the proceeds of the gold sale and ESAF Trust creditors had been repaid. In effect, the ESAF Trust Reserve would be at the same level had there been no overdue obligations while the proceeds from Fund gold sales reduced the exposure of ESAF Trust creditors. In these circumstances, there would appear to be scope to reduce

the level of the ESAF Trust Reserve by retransferring to the Fund an amount equivalent to the initial gold sales proceeds provided to the ESAF Trust Reserve. This would enable the Fund to recoup its investment at an earlier stage than liquidation of the ESAF Trust, while leaving the coverage of the ESAF Trust Reserve relative to outstanding claims unaffected.

The staff's comments on these two issues would be appreciated. In particular, I wonder whether it would be possible to develop specific rules for the rights program that would enable the Fund to utilize the full range of the remedial measures in the event that gold is sold to compensate the ESAF Trust Reserve due to overdue obligations by participants. For example, one possible approach might be to modify the current procedures on attribution of repurchases under the rights accumulation program to require that any payments of interest and principal be attributed to both the structural adjustment and enhanced structural adjustment facilities. Thus, any arrears would involve obligations to the Fund, and the Fund could apply appropriate remedial measures.

With regard to the second issue, in the event that gold is sold, would it be possible to have any subsequent repayments on overdue rights obligations accrue to the Fund rather than the ESAF Trust Reserve? For example, during the periodic review of the adequacy of the ESAF Trust Reserve, provision could be made to retransfer to the Fund an amount equivalent to the original gold sales proceeds if ESAF Trust reserves were otherwise determined to be adequate. This would serve as a counterpart to the review procedure to determine whether gold should be sold to replenish the Trust Reserve.

With regard to Mr. Yamazaki's point regarding the gold coverage for lending from the enhanced structural adjustment facility under a rights program, I understood that that issue had been resolved earlier: the Board had decided not to go that route.

Mrs. Hepp said that she was in general agreement with the thrust of the staff paper and therefore had no difficulties in endorsing the proposed decision.

Mr. Piantini stated that he also endorsed the proposed decision.

Mr. Grosche recalled that his authorities had had some difficulty in agreeing to the use of ESAF Trust resources under the rights approach and had felt that a pledge of 3 million ounces of the Fund's gold as a backstop for ESAF Trust lenders did not take full account of the risk that was being shifted from Fund members to ESAF Trust creditors. But his authorities were

willing to accept that pledge with the understanding that he had set out in his statement on the modalities of the rights approach.

As to the modalities of a gold pledge, his authorities wished to carefully examine the staff paper, which had been issued only a short time earlier, Mr. Grosche continued. Unfortunately, he was not in a position to share with the Board his authorities' final views on the staff's proposals. His comments were therefore preliminary, and he would ask to revisit the issue, perhaps on the occasion of the review of the structural adjustment and enhanced structural adjustment facilities.

The staff paper seemed to reflect appropriately the discussions in the Board and in the Interim Committee on the subject, Mr. Grosche observed. There were, however, a few points that needed further clarification. The first related to the first sentence of the draft decision. He wondered whether the word "loan" covered all obligations that could be outstanding. It was intended that the gold pledge would cover not only the principal, but also the forgone interest. Some explanation by the staff would be helpful. A similar question arose in respect of paragraphs 4 and 7 of the paper. In his view, the word "loan" could be replaced by "obligations," and in paragraph 4, after "remain outstanding," the following could be added: "or as long as the need could arise to reimburse the Reserve Account for forgone interest earnings."

The second point related to the review period, Mr. Grosche stated. If after six months, all obligations falling due in that period had not been met, the ESAF Trust Reserve Account could be exhausted to such an extent that obligations falling due on the next date, say January 15 or July 15, could not be met because gold sales had been initiated too late. To prevent such an unfortunate situation, the staff should monitor the Reserve Account in such a way that it could apprise the Board of the Account's deteriorating position and prepare for the initiation of gold sales at the beginning of the new period. Some wording to that effect could perhaps be incorporated in the text.

He wondered whether, in paragraph 6, "lenders" meant all those contributors which had signed a loan agreement with the ESAF Trust, Mr. Grosche continued. On another point, he appreciated the staff's confirmation that the explicit gold pledge of 3 million ounces was additional to the existing securities and assurances provided for ESAF Trust creditors and did not affect the Chairman's summing up on December 15, 1987. Moreover, he wondered whether it would be appropriate to incorporate a reiteration of the Interim Committee's recent statement in that regard in the text of the draft decision.

He agreed with Mr. Yamazaki that Directors should seek legal assurance that no disbursements of ESAF Trust resources would be made in the context of the rights approach before the proposed decision entered into force, Mr. Grosche stated. In his view, a sentence to that effect needed to be

included in the proposed decision, but he was ready to consider the language that was being prepared for the summing up on the modalities of the rights approach.

Mr. Posthumus recalled that the agreement on gold sales was intended to protect the claims of ESAF Trust creditors arising from disbursements to finance accumulated rights. The proposed decision seemed to provide such protection, but it also appeared to apply to all other ESAF Trust loans, even those to countries which had never been in arrears to the Fund. He wondered whether that was the intention. If not, it should be clear that the gold pledge applied only to ESAF Trust loans to finance accumulated rights.

On another point, paragraph 2 of the proposed decision stated that "the Fund shall determine whether the amounts held in the Reserve Account, plus other financing...are sufficient to meet all obligations which could give rise to a payment from the Reserve Account to lenders," Mr. Posthumus observed. "All obligations" could include obligations that were not the consequence of financing accumulated rights. He invited staff comment on that point.

The Deputy General Counsel stated that the proposed decision would apply only to the financing of rights from the ESAF Trust as described in the summing up on the modalities at the rights approach. On another point, Mr. Posthumus was correct in his understanding that the potential shortfall that would trigger the mechanism to effect a sale of gold would be based on an objective calculation of balances in the ESAF Trust Reserve Account and scheduled payments, rather than forecasts of expected payments. That calculation was, however, only the first test. It would not in itself lead to a sale, nor would it determine the amount that the Managing Director would be authorized to sell. The amount to be sold in any period could not exceed the amounts of previous drawings on the Reserve Account attributable to overdue obligations, plus forgone interest earnings, in the context of the financing of rights from the ESAF Trust. The double-test mechanism, which provided for the replenishment of the ESAF Trust Reserve Account rather than a direct guarantee of a particular drawing, had been chosen so that a gold sale would have to be effected only when the ESAF Trust Reserve was judged to be insufficient.

Mr. Posthumus observed that under the staff's approach, no more gold would be sold than was necessary to guarantee repayment of ESAF Trust creditors in the event of the failure of rights participants to make repayments, and the proceeds would be placed to the ESAF Trust Reserve Account. If, however, a number of countries which were not former arrears countries failed to repay their obligations to the ESAF Trust and the claims of ESAF creditors arising from those arrears were repaid from the Reserve Account, the proceeds of the gold sales placed to that Account owing to a shortfall

could be exhausted even before the claims owing to the arrears of rights participants could be met. To avoid that possibility, the mechanism should be triggered only by an actual shortfall arising from the financing of rights.

The Deputy General Counsel observed that paragraph 2(i) of the proposed decision was important in that context because it determined the amount of gold to be sold. For example, if the amounts in the ESAF Trust Reserve Account were insufficient to meet all scheduled obligations, but there had been no drawing on the Reserve Account attributable to overdue obligations under ESAF Trust loans for the financing of rights, no gold would be sold. The sale was explicitly linked to overdue obligations arising from the financing of rights. These overdue obligations to the ESAF Trust, however, would first result in a drawing on the Reserve Account, which would be replenished, if necessary, at a later stage through the proceeds of a gold sale.

Mr. Dawson observed that despite the reference in the proposed decision to a potential shortfall, a gold sale would only take place in the event of an actual loss to the ESAF Trust Reserve Account owing to overdue obligations arising from the financing of rights.

Mr. Posthumus said that the staff's explanation had not removed his concern that the Fund's gold might be sold prematurely and the proceeds might not be used for the intended purposes, thereby necessitating additional gold sales to meet the claims of ESAF creditors arising from the financing of rights.

Mrs. Sirivedhin stated that while her chair had not favored the use of the Fund's gold to finance rights, the staff paper appeared to accurately reflect the intentions of the Interim Committee at its last meeting, and she could go along with the proposed decision. Some clarification would be appreciated on two points. She wondered what was the current position of the ESAF Trust Reserve Account. Also, Section II.b of the staff paper referred to "other means of financing" available to the Reserve Account: were such means limited to expected earnings, or were other sources envisaged?

Mr. Enoch said that he had no difficulty with the staff paper. Like Mr. Dawson, he would be interested to hear the staff's comments on the Fund's ability to use remedial measures and on the use of gold-based resources which flowed back to the ESAF Trust Reserve. On another point, he considered that Mr. Yamazaki's statement on the use of gold went further than had been agreed in earlier Board discussions and in the Interim Committee. The Board had to stick with its earlier compromise that gold would only backstop disbursements under the rights approach.

Mr. Cirelli remarked that he was in broad agreement with the proposed decision. He had no difficulty with the proposed procedure as long as the

proceeds from the sale of gold were transferred to the Special Disbursement Account upon the termination of the ESAF Trust Reserve Account. He could also accept Mr. Dawson's proposal to effect that transfer at an earlier stage.

Gold should be sold only after having ascertained that the shortfall had in fact occurred and not before, Mr. Cirelli continued. He wondered whether it was necessary to include forgone investment earnings in the amounts for reconstitution through a gold sale. He would prefer their exclusion in view of the fact that the gold pledge was limited.

He hoped that the mechanism and procedure would not be used, as it was a contingency provision, and its exceptional character must be stressed, Mr. Cirelli commented. While he appreciated the proposed pledge, the Fund's previous commitment to ESAF Trust lenders still applied. Finally, he agreed with Mr. Grosche and Mr. Yamazaki that the gold decision should enter into force before any disbursements were made from the ESAF Trust under the rights approach; that aspect was a part of the compromise.

Ms. Powell remarked that she had no problems with the staff paper and could go along with the proposed decision. She understood, however, that the Fund's gold reserves were owned outright by the Fund. She therefore would appreciate clarification of the statement in the staff paper that "the Fund shall for a specified period and under certain circumstances retain full ownership of the specified amount of 3 million ounces of gold."

The Deputy General Counsel explained that the statement to which Ms. Powell had referred was necessary because of the particular technique that was being used. As the Fund was making a promise to sell--rather than an actual sale--the intention was to assure that the Fund retained at least 3 million ounces of gold if it sold gold for other purposes. The specified amount thus became earmarked for the purpose of the gold pledge.

The Deputy Director of the Exchange and Trade Relations Department remarked that the staff understood that the Interim Committee's commitment with respect to gold was limited to the financing of rights. For that reason, the gold pledge related exclusively to rights rather than overdue obligations, as Mr. Yamazaki had suggested. The proposal on extended burden sharing was intended to cover the risk arising from overdue obligations, particularly of those countries which did not cooperate with the Fund at all. The staff's proposal on extended burden sharing therefore sought to further protect the Fund's resources through the establishment of a new special contingent account.

The Deputy General Counsel recalled that Mr. Dawson had asked what remedial measures were available if a country failed to meet its obligations to the ESAF Trust. From a legal standpoint, an ESAF Trust loan constituted an obligation under a trust instrument; it was not an obligation under the Articles. Under the Fund's arrears policies, arrears to a trust had over

the years been treated in the same fashion as arrears to the Fund itself, namely, no new resources were committed as long as arrears were outstanding. Arrears to the ESAF Trust would therefore affect a member's access to the general resources of the Fund. As for other remedial measures, if a member's arrears were to the ESAF Trust alone, ineligibility, suspension, and withdrawal would not apply. In practice, however, a disbursement from the ESAF Trust to a country under the rights approach would normally be made in conjunction with a disbursement under the structural adjustment facility, and to the extent that the members fell into arrears to that facility as well, there would be a breach of an obligation under the Articles. It should be noted, however, that a country with a successor program that was supported by arrangements under both the enhanced structural adjustment facility and the structural adjustment facility would have the option to attribute a repayment to either facility under the Fund's current rules. Of course, special rules on attribution of payments under structural adjustment and ESAF Trust loans could be established.

Resources of the ESAF Trust Reserve Account would be transferred to the Special Disbursement Account upon the termination of the ESAF Trust or when the amounts in the ESAF Trust Reserve Account were sufficient to cover all outstanding obligations, the Deputy General Counsel explained. A transfer of a claim on a borrowing country, to the extent that gold had been sold to replenish the Reserve Account in compensation for a payment made in connection with an overdue obligation, would require an amendment of the instrument establishing the Reserve Account. Under the current mechanism, payments in discharge of overdue obligations were to be made to the Reserve Account. An amendment of the instrument would require the consent of all ESAF Trust creditors. The transfer of a claim, moreover, would not change it into an obligation under the Articles; the claim would retain the nature of the original obligation.

The use of the term "loan" in the proposed decision covered all outstanding obligations to the ESAF Trust, principal and interest, the Deputy General Counsel observed. The inclusion of "forgone interest earnings" in calculating the shortfall in the Reserve Account was appropriate because the Fund would have to be compensated for the interest forgone on overdue amounts. However, when the borrower fell into arrears to the ESAF Trust, the interest rate increased to the SDR rate in order to compensate for the interest forgone. Consequently, when all outstanding obligations had been discharged, the decision provided for its own termination because the Reserve Account would have received compensation from increased interest payments.

It was not necessary to mention constant monitoring of the mechanism in the decision, the Deputy General Counsel commented. The Trust instrument already prescribed that the Reserve Account had to be kept under review, and the new review mechanism would not interfere with the existing mechanism. The new mechanism that had been proposed addressed only the possible sale

of an amount of the Fund's gold in precisely defined circumstances, and required a clearly defined periodicity.

As for other means of financing, the staff paper gave one example, namely, investment earnings which were expected with certainty in the six-month period ahead, the Deputy General Counsel observed. All such "other means of financing" would be subject to one criterion: the resources would have to be available unconditionally when the first drawing could be made on the Reserve Account so as to forestall a shortfall in that Account.

The incorporation of a statement in the draft decision to indicate that the gold pledge was in addition to the Fund's earlier commitment was unnecessary, the Deputy General Counsel considered. A specific decision on the Fund's commitment to consider all limitations had been adopted, and a statement that the proposed decision did not supersede that decision could put in question all other decisions that were taken at that time. The previous decision remained in force and unchanged.

The Chairman observed that the proposed decision would be presented to the Board after certain Directors had obtained the authorizations necessary for them to vote on such a decision. The proposed decision would incorporate a reference to his forthcoming summing up of the discussion on the modalities of the rights approach. To facilitate the procedures, any remaining points could be taken up with the staff on a bilateral basis.

The Executive Directors concluded their discussion of the modalities of a gold pledge.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/90/95 (6/15/90) and EBM/90/96 (6/18/90).

3. CZECHOSLOVAKIA - TECHNICAL ASSISTANCE

In response to a request from the Czechoslovak authorities for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/90/179 (6/12/90).

Adopted June 15, 1990

4. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 89/136 are approved.

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/90/156 (6/14/90) is approved.

APPROVED: April 30, 1991

LEO VAN HOUTVEN
Secretary