

**FOR
AGENDA**

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CONFIDENTIAL

December 14, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Financing Assurances in Fund-Supported Programs

There is attached for consideration by the Executive Directors a paper on financing assurances in Fund-supported programs which will be brought to the agenda for discussion at a date to be announced.

Mr. Brau (ext. 7854) or Mr. Watson (7350) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

Financing Assurances in Fund-Supported Programs

Prepared by the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by L.A. Whittome

December 14, 1987

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I. Introduction

One essential element in the Fund's approach to arrangements for use of its resources has been a judgment that, at the time of Board approval, adequate financing would be available for the program to be implemented by a member country. The Fund's practice of ensuring that this requirement was met began to evolve when widespread debt servicing problems emerged in mid-1982. ^{1/} Specifically, a number of adjustment programs were approved which involved ex ante financing gaps of a size that the Fund could not prudently assume would be filled by debt rescheduling and new money, in the absence of specific confirmation by commercial banks or other creditors. The Fund indicated to commercial banks that it could not proceed to make its own resources available in such cases unless it had received confirmation from banks accounting for the overwhelming majority of commitments to the financial package (a "critical mass" of commitments satisfactory to the Fund) that the financing necessary to fill the gap would be forthcoming.

In this way, the Fund sought to promote a smoother and more realistic path toward payments viability by actively seeking to foster broad agreement on the respective contributions of adjustment by the debtor country and financing by creditors. However, by early 1987 it had become clear that the normalization of debtor/creditor relations would take substantially longer than originally thought, and that the provision of additional financing by commercial banks was becoming more and more difficult. Some of the implications regarding the financing assurances necessary for Fund programs were discussed in "Implementation of the Debt Strategy - Current Issues" (EBS/87/38, 2/20/87).

During 1987, the environment in which banks operate has changed further. As one consequence of these changes, serious delays have emerged in a few cases where the international community wanted to support a country's adjustment efforts but the banks had not yet achieved the necessary consensus on the extent and terms of their contribution. In some cases, these delays, which were due to the need for agreement by a high percentage of the banks involved, had the potential to jeopardize the implementation of a country's adjustment program.

The broader implications of these developments for the debt strategy will be assessed in a Board paper on the "Management of the Debt Situation," to be discussed by Directors prior to the April 1988 Interim Committee meeting. A forthcoming Board paper by the Legal Department will set out the legal consequences of the Fund's approval or nonapproval of exchange restrictions. The present document reviews in Section II the principles behind the Fund's policy on financing

^{1/} For a discussion of the pre-1982 experience in this regard, see Section II of "The Role of the Fund in Assisting Members with Commercial Banks and Official Creditors" (EBS/85/173, 7/23/85).

assurances and examines its practice during the last five years. Section III considers recent developments that may require an adaptation of the Fund's practice under certain circumstances. Section IV offers some concluding observations.

II. Principles and Practice of Seeking Financing Assurances

The Fund's policy on financing assurances is designed to provide a safeguard for the Fund's resources, but it needs also to be seen in the overall context of the debt strategy--the objectives of which are to support growth-oriented adjustment by debtor countries and orderly progress toward regularizing creditor-debtor relations, within the framework of cooperation among all the parties involved. The Fund's concern with financing assurances has reflected three particular objectives: assurance as to the financing of a program; confidence that the specific commitment to avoid or reduce arrears could be achieved; and assurance that Fund resources will be appropriately complemented by the contribution of the other parties in the debt strategy.

1. Nature of assurances

The Fund's policy has been to seek firm assurances in all cases, but the extent and type of confirmation sought from creditors depended on the degree of uncertainty associated with particular types of financing during Fund arrangements or subperiods of longer-term arrangements. Thus, confirmation had to be particularly formal and comprehensive when there were significant doubts about the availability of the financing assumed in a program, but less so when the financing appeared reasonably assured. This policy was a logical extension of the pre-1982 practice, when programs with countries dependent on credit market access could be assumed in most cases to be able to be financed by renewed spontaneous lending, so that formal confirmation on the availability of bank financing was thought to be unnecessary.

This evolution reflected increased uncertainty attaching to financing for programs, the seriousness of the balance of payments problems encountered by many members seeking a Fund program, and, in particular, the scale and terms of financing needed.

For countries without debt servicing problems and having continued access to private credit markets, the Fund has sought to leave the arrangement of private financing to be agreed, over time, between the borrower and its creditors. Thus in these cases determination of the timing, scope and terms of commercial bank financing remained on a market basis.

For countries facing debt servicing problems the Fund has generally not considered it necessary to seek specific confirmation that the assumed financing from official creditors would be forthcoming, provided that the financing assumptions of the program involved nonexceptional Paris Club terms and comparable effort among the main creditor groups.

This reflects the well-articulated practices and procedures of the Paris Club, where problems of cohesion rarely arise. Given the Paris Club's readiness to envisage rescheduling of interest, as well as principal, there has not been an inherent distinction between the type of financing assurance sought by the Fund based on whether or not "new exposure" was involved. In a few cases where exceptional rescheduling terms were considered necessary, uncertainties regarding official financing led the Executive Board to give approval in principle. But this procedure has been increasingly rare given the frequent opportunities for such questions to be raised at a prior Paris Club meeting.

In early 1987, the Paris Club decided, in exceptional cases and on a case-by-case basis, to link reschedulings to arrangements under a SAF. In such cases, Paris Club creditors have indicated well in advance of the date of the Board meeting their probable willingness to proceed with a rescheduling on the basis of a SAF.

As regards officially supported export credits, experience has shown that these trade-related flows cannot appropriately be dealt with on the basis of pledging, although projections of these flows are incorporated in Fund programs. Commitments expected from Consultative Groups or Round Table conferences are frequently built into the financing assumptions underlying Fund programs.

The nature of the assurances for financing from commercial banks has, in general, depended on the type of financing sought (Table 1). In cases where a rescheduling of amortization payments falling due during the program period was sufficient to close an ex-ante financing gap, Board approval was often granted on the basis of ongoing negotiations between the country and its bank creditors since the current account financing was assured and the agreement of banks on reschedulings of principal has not normally presented serious difficulties for countries committed to a Fund-supported program. This approach also helped to avoid the Fund becoming drawn into the discussion on terms between a country and its bank creditors. Occasionally, the bank advisory committee had reached an agreement in principle on the rescheduling at the time of Board approval. But while no further formal confirmations from banks were required for such programs to become effective, review clauses on the adequacy of external financing and on appropriate progress in obtaining it have been included in such programs.

In some cases, the closing of the ex-ante financing gap required not only the rescheduling of amortization payments but also the regularization of accumulated arrears. In these cases, the Fund has generally considered an agreement in principle by the advisory committee as the appropriate confirmation on the availability of financing; a critical mass of commitments has not been required.

Formal confirmation of bank financing through achievement of a critical mass has in general been confined to cases where new concerted lending from banks was needed to fill an ex-ante financing gap. This

Table 1. Status of Commercial Bank Financial Packages at the Time Fund Arrangements Became Effective, 1982-November 1987

Agreement Reached	Critical Mass Secured	Agreement in Principle with Bank Advisory Committee	Active Negotiations In Progress	Other Provisions
<u>Rescheduling Only</u>				
Sudan (1982) <u>1/</u> Niger (1984) Sudan (1984) <u>1/</u> Madagascar (1985)		Malawi (1983) Morocco (1983) <u>3/</u> Jamaica (1984) <u>1/</u> Sierra Leone (1984) Jamaica (1985) Cote d'Ivoire (1986) Morocco (1986) Peru (1984) <u>7/ 15/</u>	Liberia (1983) Romania (1983) Dominican Republic (1984) Senegal (1984) Yugoslavia (1984) Morocco (1985) Niger (1985) Uruguay (1985) Yugoslavia (1985) Philippines (1986) <u>15/</u> Jamaica (1987) Zaire (1987)	Malawi (1982) <u>2/</u> Senegal (1983) <u>4/</u> Zaire (1983) <u>1/ 5/</u> Zaire (1985) <u>5/</u> Zaire (1986) <u>5/</u>
<u>Rescheduling and New Money</u>				
	Mexico (1982) <u>8/</u> Argentina (1983) <u>8/ 17/</u> Brazil (1983) <u>8/</u> Chile (1983) <u>8/</u> Ecuador (1983) <u>1/</u> Uruguay (1983) <u>10/</u> Argentina (1984) Brazil (1984) Chile (1984) <u>7/ 8/ 16/</u> Mexico (1984) <u>7/ 16/</u> Philippines (1984) <u>8/</u> Chile (1985) <u>1/ 7/ 8/</u> Ecuador (1985) Ecuador (1986) <u>11/ 16/</u> Mexico (1986) <u>1/ 18/</u> Nigeria (1987) <u>1/ 13/</u> Argentina (1987) <u>1/</u>	Costa Rica (1982) Cote d'Ivoire (1984) <u>1/</u> Costa Rica (1985) Panama (1985) Congo (1986) <u>1/</u> Mozambique (1987)	Yugoslavia (1983) <u>7/</u> Gabon (1986) Chile (1987) <u>7/ 19/</u> Costa Rica (1987)	Bolivia (1986) <u>6/ 20/</u>
	Peru (1983) <u>14/</u> Colombia (1985) <u>12/</u>			
<u>New Money Only</u>				

Sources: Various Fund documents; and restructuring agreements.

- 1/ Approval in principle. Status of agreement with banks refers to the time when the program became effective.
- 2/ Meeting with banks expected shortly.
- 3/ Rescheduling and new money requested by the authorities but an agreement in principle was reached only on a rescheduling package.
- 4/ Rescheduling assumed.
- 5/ Temporary deferment agreement.
- 6/ While negotiations with banks had broken off at the time of Board approval it was assumed that agreement would be reached before the end of 1986.
- 7/ Board approval was for subperiod of longer-term arrangement.
- 8/ Critical mass was about 90 percent of commitments.
- 9/ Approval in principle. Status of agreement with banks at the time of Board approval in principle.
- 10/ Critical mass was \$200 million out of \$240 million or 83 percent of commitments.
- 11/ Critical mass set at the amount necessary to finance the gap or about \$160 million. Ex post this amounted to about 85 percent of total commitments.
- 12/ Fund Arrangement to monitor performance under economic program.
- 13/ Critical mass was 88 percent of commitments.
- 14/ No bank debt rescheduling foreseen at time of Board approval.
- 15/ Program assumed disbursement of new money that had already been committed.
- 16/ Rescheduling already agreed as part of a longer-term consolidation.
- 17/ Agreement on rescheduling was only reached after approval of the program.
- 18/ Critical mass was set at about 95 percent of commitments.
- 19/ Recycling of interests payments in lieu of new money package.
- 20/ An increase in arrears of principal and interest to banks was approved under the Fund arrangement.

has reflected the inevitable uncertainties as to whether the scale, terms, and speed of commercial bank financing would be adequate to ensure the financing of the program; the elimination or reduction of existing arrears and the avoidance of new arrears, as well as assurances that the action of other creditors was adequately complementary to that of the Fund.

Since 1982, the Fund has required the commitment of a critical mass of commercial bank support in the overwhelming majority of cases where concerted lending was involved. In about half the cases (14), a critical mass was obtained prior to Executive Board approval. In five additional cases, arrangements approved by the Board in principle became effective when a critical mass had been obtained.

In a number of cases, the Fund has relied on agreement in principle between the country and the bank advisory committee, and the advisory committee's confirmation that the general agreement of banks was expected. In the five other cases, the Executive Board approved the entry into effect of the programs while discussions between the countries concerned and the banks were still in progress (the relevant considerations in these cases are discussed below).

The degree of uncertainty associated with financing from other private creditors is typically high (e.g., rescheduling of private debt owed to nonbanks and not guaranteed by an official agency in creditor countries, including bonds). These potential sources have not normally been used for new financing of a program--because the process would have been too difficult, too time-consuming, and the amounts too small. However, the rescheduling of unguaranteed suppliers' credits has been an important part of the assumed financing in some cases (e.g., Nigeria, Turkey and Zaire) where the amounts were relatively large. In several cases, the absence of an established framework for negotiations has posed problems.

2. Approval procedures for Fund arrangements

The extent and type of confirmation on the availability of financing required in each specific case has thus reflected a number of considerations. In the case of official creditors, the key factor has been the issue of "exceptional" relief. In the case of banks, it has been whether or not concerted new money was required. Different procedures have been used according to the type of confirmation that was sought.

Outright Board approval has been recommended in cases where the financing assumed was either judged to be assured or had been specifically confirmed. As regards official creditors, this has been the practice where non-exceptional terms were involved. As regards commercial banks, this has occurred in the following cases: when countries were able to finance the balance of payments deficit on the international capital markets; when a rescheduling of amortization

payments due to banks during the program period was sufficient to fill the ex-ante financing gap, and negotiations between the country and its banks were underway; when a regularization of arrears was needed and the bank advisory committee had reached an agreement in principle; and finally, when concerted lending was needed to finance a program and a critical mass of bank commitments had been obtained.

As noted above, in some cases outright Board approval has been granted on the basis of agreement in principle by the advisory committee on the concerted loan or, exceptionally, while discussions were underway. In the absence of an advisory committee agreement programs were allowed to enter into effect only in very special circumstances. In Yugoslavia (1983), the financing was needed for a future subperiod of the program and it was not considered appropriate to delay the beginning of the program. In Chile (1987), the completion of the February 1987 review took place without the prior requirement of either an advisory committee agreement or a critical mass of bank financing; difficult negotiations on the issue of retiming of interest payments were in process. Instead, a performance criterion provided that satisfactory arrangements for financing Chile's balance of payments had to be in place by a certain date.

In Bolivia (1986), the arrangement entered into effect when there was not yet an agreement in principle between the country and the banks or a critical mass of bank financing--but this case embodied very special features: a low income country, with large interest arrears; an established need for concessional restructuring; and unwillingness on the side of the banks to discuss innovative approaches while negotiations with Mexico were unresolved. In Gabon (1986), the scale and structure of financing needed from banks was defined only at a late stage in program negotiations, and was not deemed crucial in magnitude for implementation of early stages of the adjustment effort. In Costa Rica (1987), commercial banks had expressed reservations about the country's initial demand for concessional terms, but were also preoccupied with negotiations with Brazil and concerns about precedent; it was considered by all parties that proceeding with the Fund arrangement would be supportive of progress toward a cooperative negotiation on the bank debt.

The flexible approach used in these cases has reflected the particular circumstances of each case and always involved some elements of judgment. Factors influencing these decisions have included the actual or likely progress of negotiations with banks; the extent to which a request for confirmation on the availability of financing at a particular moment in time would provide appropriate pressure for rapid progress in assembling the financial package; and the history of prior relations between the country and its creditor banks. A general issue has been concern that the implications of a delay might seriously affect the debtor country's program. This has led to the need to weigh the desirability of further progress in bank financing against the consideration that the Executive Board's approval be carefully timed to

obtain such a result while facilitating the adjustment process in the country requesting the use of Fund resources.

When the type of confirmation considered necessary was not expected to become available before the normal time of Board consideration, there was a range of options available. Management could decide to delay the issue of the relevant Board papers requesting an arrangement; the papers could be issued but consideration by the Board could be postponed; or the Board could approve a program in principle only. While postponement of Board consideration for a short while has occurred in some cases, approval in principle has been the approach that has been used in most cases.

The approval in principle procedure was first used in January 1983 in the case of Sudan. The procedure originally was intended to accommodate the Paris Club's requirement that a Fund arrangement be in place before the Paris Club considered a request for rescheduling. Financing by Paris Club creditors of an "exceptional" nature was considered essential for the viability of programs in a number of countries. Programs were designed assuming such "exceptional" assistance but substantial uncertainty remained as to whether or not it would be provided. Pending the outcome of Paris Club discussions, the Fund approved arrangements for such countries in principle rather than outright.

The approval in principle procedure was subsequently used also to muster exceptional financing from other sources--e.g., Consultative Groups and commercial banks--and, in some cases, to ensure that specific policy measures were implemented before a program became effective. A total of eight programs were approved in principle in 1983 and 1984; in two of these cases (Zaire and Jamaica), drawings under the Compensatory Financing Facility were approved in principle at the same time.

The Executive Board reviewed the procedure and endorsed guidelines on its use in October 1984 on the basis of a paper prepared by the staff ("Approval in Principle of Fund Arrangements," SM/84/217, 9/25/84). The guidelines approved by the Board in 1984 stated that this procedure should be used sparingly and in exceptional cases, and that it should not result in more favorable treatment for the members affected relative to those who sought outright approval. In particular, the procedure was to be used only if the problem being faced was that of substantial uncertainty as regards financing, and then, only if management believed the procedure would assist a member in reaching agreement with its creditors. The guidelines also stated that all arrangements approved in principle should include a deadline--on a case-by-case basis, but normally not exceeding 30 days--by which the arrangements should become effective.

Eight additional arrangements have been approved in principle since the first review of the approval in principle procedure in October 1984 (Table 2). 1/ In each of these cases, the procedure was used to deal with financing uncertainties; satisfactory arrangements for the covering of the financing gap were a necessary condition for approval of the arrangements to become effective. 2/

In some recent cases (Kenya (1985), Somalia (1985)), one of the conditions associated with approval in principle has been an adequate commitment from a donors' meeting. But, in general, the approval in principle procedure has increasingly been used to facilitate the mustering of commercial bank financing. This reflects two main developments. First, even when "exceptional" Paris Club financing is required, the Fund staff now is usually able to obtain before Board discussion a good understanding of what the Paris Club is willing to do. Second, banks have encountered increasing difficulties in putting together commercial bank financing packages; this was evident in the recent cases of Mexico and Nigeria, when the initial periods of approval in principle proved insufficient to allow a critical mass to be put together; subsequently, the arrangement for Argentina (1987) was approved in principle without a deadline.

III. Considerations Affecting Future Practice

1. Change in bank attitudes

The present debt strategy is based on the premise that the cooperative approach is maintained by all participants involved. This requires that:

--The debtor country should make efforts to regularize its position as rapidly as possible, by adopting appropriate policies, and to maintain or resume debt service payments;

--The banks should be willing to make a significant and timely contribution to financial packages when needed, at their own risk and using the "menu" modalities they elect;

--The Fund should be ready to facilitate discussions between debtor and creditor and be able to have a view on the realism and implications of different financing assumptions, as well as on the readiness of creditors to cooperate in this framework.

1/ Requests for CF drawings in three of these cases (Somalia, Chile, and Argentina) were approved in principle at the same time; however, in the case of Argentina, the CF drawing was effected before the arrangement became effective.

2/ In the case of Zaire, (1986) further adjustment to fill part of the financing gap was considered necessary. Measures to achieve this adjustment were to be discussed at the first review.

Table 2. Approval in Principle of Fund Arrangements, 1985-87

Country	Type of arrangements	Annual access as percent of quota	Date of Board Approval in Principle	Effective Date of Arrangement	Effective Approval on Lapse of Time Basis	Deadline for Lapse of Approval	Expiration Date of Arrangement	Conditions ^{1/} (date of meetings)	Financing gap In millions SDRs (as percent of quota)
Kenya	1-year SBA	60	1/9/85	2/8/85	Yes	2/8/85	2/7/86	*Donors meeting ^{2/} 3/21-22/85 Commercial banks	93 (65.5)
Somalia	1-year SBA	50 ^{3/}	1/25/85	2/22/85	Yes	2/25/85	2/21/86 ^{4/}	*Donors meeting 1/23/85 Paris Club 3/6/85	121 (273.8)
Chile	3-year EFF	56.7	7/15/85	8/15/85	Yes	8/15/85	8/14/88	*Commercial banks 8/9/85 Paris Club 7/17/85 IBRD	1,935 (365)
Zaire	22-month SBA	40.1	4/28/86	5/28/86	Yes	5/28/86	3/27/88	*Paris Club 5/15/86 *Commercial banks Policy Actions	407 (139.9) ^{5/}
Congo	20-month SBA	36	7/15/86	8/29/86	Yes	8/15/86 ^{6/}	4/28/88	*Paris Club 7/18/86 *Commercial banks 8/19/86 ^{7/} Donors	549 (1,472)
Mexico	18-month SBA	80 ^{8/}	9/8/86	11/19/86	No	9/29/86 ^{9/}	4/1/88	Paris Club 9/16/86 *Commercial Banks 9/30/86	6,600 (571)
Nigeria	14-month SBA	76.5	12/12/86	1/30/87	No ^{10/}	1/12/87 ^{10/}	1/31/88	*Commercial banks 11/86 Paris Club 12/15-16/86	2,700 (320)
Argentina	15-month SBA	80	2/18/87	7/23/87	No	No deadline	9/30/88	*Commercial Banks 4/24/87 Paris Club 5/20/87	1,706 (153)

Sources: Various Fund documents; and restructuring agreements.

^{1/} An asterisk indicates the determining factor(s) for using the approval in principle procedure.

^{2/} After the Board approval, the 1985 balance of payments' projection was revised as a result of an improved trade balance and increased donor support. As a result, the financing gap was virtually closed and exceptional financial support was not required.

^{3/} Access was subsequently reduced to 45 percent of quota.

^{4/} The program was extended three times: the final extension was to September 30, 1986.

^{5/} After approval in principle, the financing gap was revised to SDR 511 million (175 percent of quota).

^{6/} Extended to August 29, 1986.

^{7/} The Steering Committee notified the Fund in August 1986 that it recommended rescheduling and the provision of a new loan to individual banks. Agreement in principle of these arrangements was reached on October 15, 1986.

^{8/} Total access amounted to 120 percent of quota. A contingency mechanism included in the program provided for an increase in total access to 172 percent of quota.

^{9/} The approval in principle lapsed end-September 1986 because negotiations for commercial banks had not been completed.

^{10/} Extended to January 26, 1987. The approval in principle lapsed but the program was approved outright on January 30, 1987.

Recent Executive Board reviews of progress in implementing the debt strategy show that commercial banks' approach to the debt situation has changed over time as the environment in which banks operate has evolved. The relative success of the debt strategy in avoiding a systemic financial crisis, and the increasing divergence of banks' interests, have contributed to a weakening of pressures to conclude financing agreements quickly. More recently, banks' provisions against claims on countries with debt servicing problems have increased further, in particular in creditor countries in which such provisions had been relatively low; they stand at 25-35 percent (or more) now in most industrial countries. Also, since May 1987, discounts in the secondary market for developing country debt have deepened considerably--by more than half for most of the major debtor countries. These developments signal that risk perceptions have worsened and have reduced the incentives for banks to provide new financing.

As it has become clearer that a solution of the debt problem will take longer than anticipated and as the perception of an acute systemic crisis has faded, banks' resistance to requests for increased exposure has intensified. There is also a growing belief among banks that delays in reaching agreement on financing packages may force a greater commitment of official resources from creditor countries. These developments have led to a change in the banks' view of the time frame during which they must come to a decision and also their willingness to cooperate in filling financing gaps. Moreover, the development of the menu of financing options, while helpful in obtaining a broad consensus on the overall financing, can lead to further delays since financial packages with a number of options can be relatively complex. The increased tendency to delay can also lead to different treatment as between the largest debtor countries and the smaller countries, which do not pose a threat to the international banking system or to any individual bank.

In light of recent developments, there is a need to review procedures used in implementing the collaborative approach by debtor countries, creditors, and the Fund. For debtor countries, there remains a continuous need for convincing and sustained adjustment efforts to be implemented. This is crucial primarily in order that these economies may be able to grow satisfactorily in the medium term, but it is crucial also if adequate financing from official and private creditors is to be obtained.

For commercial banks, there is a need to broaden the menu of financing options, and to apply them more widely in ways that can better accommodate the diverging interests of individual banks. The wider use of realistically-priced "alternative participation instruments" (exit bonds), for instance, could reduce the number of banks involved in a restructuring package to a more manageable size. In addition, periodic exchanges among senior officials of lending institutions may be necessary to cut through specific problems and maintain momentum in the restructuring process. Banks, as a vital participant in the cooperative

debt strategy, must ensure that these financing decisions are made within a reasonable time frame. Otherwise, actions of the other participants in the debt strategy would be blocked and the cooperative approach would be jeopardized.

2. Fund procedures

The objectives of the Fund in helping to assemble financing packages remain unchanged. They are to facilitate the implementation of growth-oriented adjustment programs, to foster an orderly progress toward more normal creditor-debtor relations, and to maintain the cooperative approach.

For adjustment programs that are to be supported by the Fund and that need an increase in bank exposure to be fully financed, there remains a continuing need for assurance, ideally in the form of a critical mass, at the time of Board approval of a program, that the financing assumed will actually be forthcoming. A request for confirmation that the requested financing is available can also help keep pressure on all parties to reach early agreement. The danger is that the time required to obtain this confirmation may be overlong and thus jeopardize the timely implementation of policy measures and ultimately the adjustment process in a particular debtor country. In all cases involving an assessment of financing assurances, a substantial element of judgment is thus inevitable.

If it appears probable that a critical mass, while not assembled by the time of the Board meeting, can be obtained within a relatively short time, and the risks of jeopardizing the design and implementation of the program are small, then the program could reasonably be put forward for approval in principle by the Board. Approval in principle has the advantage of sending a signal of support for the country's adjustment program. However, if there is serious uncertainty about the timing of agreement on bank financing, approval in principle may have the undesirable result of effectively tying the Fund's hands for the coming months. It can, for instance, make it more difficult to choose to proceed later without the banks, if it were to become apparent that more time was needed than originally envisaged to reach agreement on details of financing on a cooperative basis.

If the debtors and the banks need substantially more time than envisaged to come to an agreement, then the Fund faces the dilemma that a lengthy delay of Board consideration of a proposal can shift pressure onto the debtor country to an undue degree--especially in the case of smaller countries. This could effectively give banks a right of veto over the action of other creditors which would, in turn, block their financing. Ultimately, such a course of action could push a country into arrears with all its creditors, to the disadvantage of all the parties concerned, and seriously threaten the cooperative approach.

Given the problems of bank cohesion, and bearing in mind the importance of making decisions within a reasonable time frame, there may be times when a different approach may have to be considered. This could take the form of proceeding without confirmation even by the advisory committee on the availability of bank financing at the outset of a program, so long as this was seen by all parties as supportive of clear and orderly progress to resolving debtor-creditor differences. A key question would be the circumstances under which continued insistence on confirmation would reduce rather than increase the prospects for a successful adjustment program and regularization of creditor/debtor relations.

It would be a question of judgment as to whether the entry into effect of a program before full confirmation on the availability of financing has been obtained was the only or best way of furthering the negotiated approach. Such a judgment would clearly involve a sensitive and potentially contentious assessment of the factors at play. It should only be taken after a debtor and its bank creditors have had reasonable time to reach an understanding. If, nevertheless, no agreement was in sight, guidance from the Executive Board would be required--including early, informal consultations, during which management and staff would explain the specific circumstances of a country case, and the implications of proceeding in the specific case.

Due to the very different characteristics of every case, it is hardly possible to generalize, but it may be helpful to indicate the types of circumstance that might give grounds for approving a program before the debtor country and its banks reached an agreement. One consideration could be if timely Executive Board approval of a Fund arrangement provided crucial support for a country's adjustment program at a time when negotiations with creditor banks seemed certain to be protracted, perhaps for reasons that were extraneous to the circumstances of the member. In such cases, insistence on confirmation on the availability of financing before Board approval might not only jeopardize the implementation of sound adjustment policies, but could result in the country accepting terms and conditions less favorable than might otherwise have been secured.

Another consideration could be that the country's track record showed that it has been able to implement adjustment policies in the past, that it has made efforts in good faith to regularize relations with creditors, and that there were reasonable grounds to believe that the country would abide by the program and would not accumulate arrears beyond those envisaged in the program. It would of course be particularly important that progress be carefully monitored, and that the program incorporate an early review of progress in the bank financing situation. In cases where financing assurances are difficult to obtain, the strength of a country's adjustment effort is an important consideration, bearing in mind in particular the implications for the country's ultimate capacity to repay the Fund.

A further relevant consideration could be that, even in cases where the costs of delay might be severe, it would be important to make every reasonable effort to maintain a negotiated framework which included all parties. Thus, if efforts to reach a consensus between a debtor and its bank creditors had not resulted in a formal agreement within a reasonable time frame, there should be contacts with the advisory committee to ascertain the possible effects of proceeding with the arrangement, and tolerating arrears in the interim--and in particular whether such a step would still permit negotiations to move forward and a cooperative approach to be maintained, as in the case of Costa Rica. In that case, the country resumed partial interest payments on medium-term debt and such payments were in line with reasonable bank financing assumptions.

It is clear that, in pursuing such an approach, situations could arise in which particularly difficult issues would need to be resolved. While delays in agreement on new bank financing might be extraneous to banks' negotiations with the debtor country--for example, negotiations pending with a larger debtor--such delays could also reflect disagreement on terms specific to the country, or could amount to a challenge by banks with regard to the basic size and distribution of the financing gap. These questions would need to be decided on a case-by-case basis and guidance of the Executive Board would need to be sought.

IV. Concluding Observations

The main principle that has guided Fund practice in this area has been to seek formal confirmation on the availability of financing at the outset of a program in those cases where significant uncertainty attaches to the financing from particular creditors. It is suggested that this approach should remain the norm, in order that the absence of financing not undermine the viability of programs, jeopardize the avoidance/elimination of arrears, or result in the Fund's resources substituting for the action of other creditors.

In the case of official creditors, outright approval of arrangements would be expected to remain the usual practice. In cases, however, where exceptional relief was needed and creditors had not indicated in advance their willingness to consider a request for relief of the assumed magnitude, approval in principle would appear appropriate.

With commercial banks, when new money was requested, a critical mass of commitments would normally be required before the Fund program enters into effect, while recognizing that in some cases significant delays have occurred between assembly of a critical mass and completion of a financing package. If confirmation of such a commitment was likely to be delayed by a brief period, approval in principle of the program could be appropriate: if the uncertainties were greater, a delay in Board consideration should be considered.

If banks were asked to refinance existing arrears, an agreement in principle of the Advisory Committee would continue to provide the normal form of confirmation. Cases of rescheduling of principal payments only could continue to receive outright approval, unless particular concerns arose in a specific case--then advisory committee agreement would be sought before the program entered into effect.

It is recognized that, in exceptional cases, and given growing problems of commercial bank cohesion, a request from the Fund for confirmation of a critical mass of bank support or an agreement in principle by the Advisory Committee at the outset of a program, when significant further time for negotiation is needed, could undermine the design and implementation of a country's adjustment effort. This would, in effect, threaten key objectives of the debt strategy, including the central concern of fostering a cooperative and negotiated approach. In such cases, management would undertake consultations with members of the Executive Board to discuss whether the balance of considerations would favor allowing the arrangement to enter into effect.