

February 9, 1988 - 88/27

The Acting Chairman's Remarks at the Conclusion of the Discussion
on Financing Assurances in Fund-Supported Programs
Executive Board Meeting 88/17 - February 5, 1988

In their interventions, many Directors pointed out that the subject of financing assurances in Fund-supported programs must be seen in the context of the evolving debt strategy. Board discussions in the coming weeks will focus on important issues related to the debt strategy, and Directors did not wish to state a final position on the subject of financing assurances at this time, but rather to come back to this subject in the light of the forthcoming Board discussions. Thus, I will not sum up the discussion but will offer a few concluding remarks.

First, a number of Directors stressed the importance of three objectives that the Fund must bear in mind: promoting adjustment in the debtor countries; safeguarding Fund resources; and catalyzing external sources of financing. The policies and practices in connection with financing assurances must be viewed in relation to those three objectives. Different Directors placed varying emphasis on each of those objectives, which led to their advocating subtly different approaches.

Second, pending further discussion, Directors broadly supported the existing policies and practices on financing assurances, including the requirement of a critical mass in cases of new money. Most Directors emphasized that the Fund should move before a critical mass only in very limited circumstances and consistent with the existing policies on approval in principle.

Third, a number of Directors expressed concern about the potential risks for the Fund in deviating from present policies and practices, but those speakers recognized that circumstances could arise under which such action could be appropriate, although great prudence would be necessary. These Directors emphasized that there should not be many exceptions to established practice.

Differences of views were expressed by Directors, as some speakers suggested that explicit criteria might be used when deciding to deviate from established policies. Within that group, there were those who felt that any such guidelines should be used in a judgmental way; others believed that rigid criteria should be used. Some Directors emphasized that judgment should be used in considering individual cases and that a specific set of criteria should not necessarily determine when an exception to established practice was appropriate. Directors will want to come back to this point in later discussions.

Directors stressed the importance of prior consultations with Executive Directors before a formal request was put to the Board for use of Fund resources that would not be consistent with the established policies on financing assurances or on approval in principle. That practice will be

followed by management as it has tried to do in some recent cases. From a management perspective, the cases in recent months that led to the request for this discussion had been put to the Board in light of the three objectives mentioned earlier of promoting adjustment, safeguarding Fund resources, and promoting and catalyzing external resources.

Because of changing circumstances in the debt strategy, it is more difficult today, compared with a few years ago, to have the financing actually disbursed once the critical mass has been obtained, which in turn has made it more difficult for bank advisory committees and country authorities to reach an agreement in principle in a timely way. Other factors have also delayed agreements. Thus, cases are arising more frequently where the financing is not needed for closing an ex ante financing gap but rather for refinancing existing arrears, because the package has been put together very late in the financial planning period of the country. Some recent cases are thus different from those of several years ago when the negotiations moved more quickly.

But, again, we will come back to this discussion at a later meeting.