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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/98

10:00 a.m., June 22, 1984

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
	H. G. Schneider
	X. Blandin
A. Donoso	
	M. K. Bush
M. Finaish	T. Alhaimus
T. Hirao	I. Yamashita
J. E. Ismael	Jaafar A.
	D. I. S. Shaw, Temporary
	J. R. N. Almeida, Temporary
	G. Grosche
G. Lovato	N. Coumbis
	A. S. Jayawardena
	J. E. Suraisry
J. J. Polak	T. de Vries
	K. G. Morrell
G. Salehkhou	O. Kabbaj
	E. I. M. Mtei
M. A. Senior	
J. Tvedt	
	T. A. Clark
Zhang Z.	Wang E.

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present

African Department: O. B. Makalou, Deputy Director. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; J. O. Bonvicini, E. H. Brau, D. J. Donovan, A. K. Mitchell, D. K. Palmer. Legal Department: J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel; W. E. Holder, Ph. Lachman, A. O. Liuksila, S. A. Silard. Middle Eastern Department: Z. Iqbal. Secretary's Department: A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; A. W. Lake, G. Wittich. Western Hemisphere Department: M. E. Hardy. Bureau of Statistics: H. Flinch. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, C. J. Batliwalla, J. Delgadillo, S. M. Hassan, G. E. L. Nguyen, P. Péterfalvy, M. Z. M. Qureshi, D. C. Templeman. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, I. Angeloni, J. Bulloch, M. B. Chatah, M. Eran, I. Fridriksson, V. Govindarajan, D. Hammann, H. Kobayashi, E. Landis, E. Portas, M. Rasyid, J. Reddy, D. J. Robinson, Shao Z., S. Sornyanyontr, A. J. Tregilgas, A. Yasseri.

1. SETTLEMENT OF DISPUTES BETWEEN MEMBERS RELATING TO EXTERNAL FINANCIAL OBLIGATIONS - ROLE OF FUND

The Executive Directors considered a staff paper on the role of the Fund in the settlement of disputes between member countries relating to external financial obligations (SM/84/89, 4/25/84; and Cor. 1, 5/15/84).

Mr. Ismael said that he was broadly satisfied with the Fund's role in resolving disputes between member countries relating to external financial obligations. The staff had concluded that Fund assistance in resolving disputes fell under two general categories: in some instances, the parties to a dispute had accepted the validity and the amount of the financial obligation concerned; in others, the validity of the obligation or some essential feature of it had been challenged. He agreed with the staff that the Fund had clear jurisdiction under Articles VIII and XIV to deal with the first category of disputes, most of which were straightforward in the sense that the existence of a payments restriction had been verified and Fund approval was required for the restriction to be retained, thus enabling the Fund to apply pressure indirectly on a country to settle its overdue obligation in order to avoid violating the Articles.

The staff had noted on page 7 that the Fund had "found it necessary, in the exercise of its jurisdiction [under Articles VIII and XIV], to distinguish between nonpayment of obligations because of exchange restrictions, on the one side, and nonpayment of obligations that are to be treated as defaults, on the other side," Mr. Ismael remarked. Accordingly, a member country's refusal to make a payment according to its contractual commitments was classified as a default, not a restriction. He doubted whether that practice was appropriate. The Fund apparently preferred to avoid exercising its jurisdiction under the Articles when a member country defaulted on a contractual obligation, even though a default had the same effect as a payments restriction. As a result, it appeared that a creditor member country could expect no assistance from the Fund--even indirectly under Articles VIII and XIV--in the event of a default by another member country, a situation that was entirely unsatisfactory.

He agreed with the staff conclusion on page 8, Mr. Ismael continued, that "in situations where a debtor country disputes the validity of an external financial obligation, or some feature of it, the Fund is not in a position to determine whether there is or is not a payments arrear and the Fund ceases to have a role under its Article VIII approval jurisdiction." However, even though the Fund had to accept the debtor country's representation that the validity of an obligation was in dispute, it was entitled to conclude that the debtor's contention was without merit and, therefore, that the dispute should not be removed from the Fund's jurisdiction.

The Fund had been playing an adequate role in helping to resolve disputes about overdue external financial obligations among members using its resources, Mr. Ismael remarked. In principle, he agreed with the staff that when an arrangement with the Fund was presented for the Executive Board's approval, there should be a reasonable assurance that the amount

of external financing necessary to sustain the country's program would be available. In practice, that requirement should be applied more flexibly; insisting that it be met in every case could be counterproductive. Furthermore, the practice of approving an arrangement only in principle, pending the closing of the external financing gap, should be reviewed. Meanwhile, before the Fund made its financing available to a member country, it should continue to require, where necessary, the country to consolidate its existing payments arrears and to reschedule its maturing debt service obligations, although that practice too should be used flexibly.

The persistent problem of inadequate data on debt, including private debt, was a cause for concern, Mr. Ismael commented. Helping countries to collect comprehensive and authoritative data should be standard practice in the Fund.

The most difficult aspect of encouraging member countries to reduce payments arrears was ensuring nondiscriminatory treatment of creditors, Mr. Ismael went on. There was of course no alternative to scrutinizing closely the data on payments by debtor countries, but many of the countries lacked proper recording practices, and creditor member countries should therefore be urged to approach the Fund if they suspected inequitable treatment. The Fund could then scrutinize cases, on the basis of the complaints received from creditor members. Comparable treatment of creditor countries under multilateral debt rescheduling operations was certainly commendable in principle, but it was difficult to enforce in practice and should not be a general performance criterion under a Fund-supported program unless effective monitoring procedures could be established. Any such criterion should be used flexibly and on a case-by-case basis.

The question had been raised about the possible implications of a Paris Club rescheduling for the Fund's assessment of a member country's performance under a Fund-supported program, Mr. Ismael noted. The Agreed Minutes of a Paris Club meeting were satisfactory evidence that the member country concerned had eliminated its arrears. However, the usual stipulation in Agreed Minutes that a debtor must conclude bilateral agreements with nonparticipants in the relevant Paris Club Meeting should be approached flexibly by the Fund. Delays in reaching such agreements might be unavoidable for various technical reasons, despite the efforts of a debtor country; indeed, delays could conceivably be caused by creditors rather than debtors. The staff had usefully suggested that a reporting procedure might be devised so that the debtor country's right to make further purchases under a Fund arrangement would not be interrupted if the delay in reaching a bilateral agreement had occurred despite the debtor country's best efforts. Of course, course, a reasonable time limit for the satisfactory conclusion of bilateral agreements should be stipulated to keep the procedure from being open-ended.

In principle, Mr. Ismael continued, debtor member countries should be expected to avoid delays in concluding bilateral agreements with nonparticipants in Paris Club reschedulings. In practice, however, as arrangements with the Fund typically did not require debtor member countries to avoid

such delays in order to be eligible to make purchases, they would feel no compelling reason to do so. Similarly, in principle, a debtor member country was expected to accord comparable treatment to nonparticipants in Paris Club reschedulings. In practice, however, the burden was on the nonparticipating creditor member country to show that it had not been accorded comparable treatment, even though it often could not obtain full information about the relevant rescheduling.

The Fund should not routinely be actively and closely involved in debt rescheduling exercises, Mr. Ismael stated. Management's recent efforts on behalf of Mexico and Brazil were commendable but should be seen as exceptions to the general rule. In passing, he welcomed the Managing Director's initiative encouraging commercial banks to reward Mexico for its good performance by rescheduling the public sector debt on a multiyear basis compatible with Mexico's medium-term financial outlook. That breakthrough in the attempts to solve the debt problem should be applied in other regions. Debtor countries should be rewarded for good performance whether or not they were implementing Fund-supported adjustment programs. The recent increase in the interest margin for loans to developing countries had been felt by all debtor countries, not just those in crisis. It was inappropriate to confine rewards in the form of better credit terms to the countries where the debt crisis had originated.

It had sometimes been suggested, Mr. Ismael noted, that the Fund should assume some responsibility for ensuring that a debt rescheduling agreement was implemented by a debtor member country not only during the period for which the country had an arrangement with the Fund, but also thereafter. Such a practice would be tantamount to a kind of shadow program and would be completely unacceptable.

The established use of the Fund's good offices to settle disputes between members should continue unchanged, Mr. Ismael stated. There was no need either to formalize or to enlarge the Fund's role in that area.

Mr. Finaish commented that clear statements of Fund policy on the settlement of disputes between member countries relating to external financial obligations were helpful for both creditor and debtor member countries. The problem of overdue external financial obligations had increased considerably during the previous several difficult years, and it was well known that overdue payments had adverse implications for both creditors and debtors and undermined the flow of international trade and payments. Given the Fund's tasks of promoting international monetary cooperation, safeguarding the smooth functioning of the international trade and payments system, and maintaining an adequate flow of financing in support of adjustment, the Fund clearly favored, and had a role to play in, the prompt settlement of external obligations and in the early and orderly elimination of overdue obligations.

In exercising its jurisdiction under Articles VIII and XIV, the Fund temporarily approved payments restrictions giving rise to arrears and it did so only upon the submission of a satisfactory program for their elimination that was typically associated with the country's use of Fund resources, Mr. Finaish noted. He wondered whether the approval of such restrictions by a country not using Fund resources was also contingent upon the submission of a program for their removal, normally in the form of a schedule for the settlement of outstanding arrears.

As to requests for Fund assistance in the settlement of overdue external financial obligations that arose in the context of the use of the Fund's resources, Mr. Finaish said, it was important to stress that the principle of nondiscriminatory treatment by a debtor of all its creditors was a key to efforts at orderly settlements. Effective procedures ensuring compliance with that principle could be particularly important to smaller creditors, which normally had less leverage than larger creditors. In addition, a Fund-supported program for a member country with overdue external obligations should include a performance criterion or understanding on the settlement of those obligations on a nondiscriminatory basis.

The staff had stated on page 11 that "while comparable treatment of creditors is undoubtedly worthy of support, including it as a general performance criterion would not be practical, especially because of difficulties in monitoring," Mr. Finaish went on. That conclusion might be valid in some situations, but in others the availability of information on arrears might enable the Fund to make their scheduled reduction or elimination a performance criterion and to monitor the observance of the principle of nondiscriminatory treatment of creditors. Of course, if data on external obligations were not available in the necessary detail, the assessment of whether or not the criterion of nondiscriminatory treatment had been observed would have to be based on the best possible judgment. In passing, he noted that the availability of accurate information on arrears owed to all creditors, large and small, was a prerequisite for an effective policy for their orderly elimination. The Fund could usefully help member countries to collect information and institute needed monitoring procedures; the information should be provided systematically in country reports.

The staff had noted several optional techniques for settling arrears, such as the first-in first-out method, the last-in first-out technique, and giving priority to payments for essential imports, Mr. Finaish remarked. It had also been noted that the choice among them depended on several factors, and each one could be used without necessarily resulting in discriminatory treatment among creditors, though their implications for intercreditor equity could be quite different. Which technique had been used most often in recent years?

He agreed with the staff that the most direct way of ensuring equal treatment of creditors, including smaller ones, was for all of them to participate in creditor group meetings, Mr. Finaish commented. Achieving that good would be facilitated by making timely information available about the meetings to all potential participants. In that connection, advance notification of meetings--particularly Paris Club Meetings--to the Executive Board on a regular basis would be useful.

Follow-up monitoring was required to ensure that nonparticipants in a Paris Club rescheduling were given the same treatment as participants, Mr. Finaish considered. On page 12, the staff had suggested that failure by a debtor to reach agreement with nonparticipants on the same terms and within the same time limit as specified for participants in the Paris Club Agreed Minutes, would normally lead the Fund to conclude that the debtor had breached the performance criterion on payments arrears. That policy would be consistent with the general requirement of nondiscriminatory treatment of creditors. However, he wondered what conclusions the Fund would be able to draw in cases involving discrimination among creditors in a multilateral rescheduling that did not specifically require comparable treatment of nonparticipants, such as some recent reschedulings arranged under the auspices of the OECD.

Management should have sufficient flexibility and discretion in reacting to the inability of a debtor member country and its creditors, particularly commercial banks, to reach agreement on a multilateral debt rescheduling, Mr. Finaish considered. In fact, the Fund's responses had ranged from involvement in a purely technical capacity, to active efforts to bring about an agreement among the parties concerned. Of course, the Fund's flexibility and discretion should be exercised consistently with the principle of equal treatment of creditors by debtors and with the institution's own principle of uniform treatment of member countries.

The Fund should stand ready to respond, within the limits of its authority and resources, to requests to provide its good offices to resolve issues of nonpayment of overdue external financial obligations, especially in cases involving disputes between members as to the validity of those obligations, Mr. Finaish said. The Articles authorized the Fund to perform financial and technical services and moreover gave it substantial flexibility to do so. Accordingly, the scope of possible Fund good offices services ranged from assistance in effecting agreed transactions in the settlement of overdue obligations, to a more active role in helping the parties concerned to settle disputes still outstanding. The staff had usefully noted that Article V, Section 2(b) enabled the Fund to determine the manner and scope of its good offices functions on a case-by-case basis; he agreed that the present flexible approach should be maintained, as the various cases of nonpayment of overdue external financial obligations could vary considerably. However, the general understandings under which good offices services were provided by the Fund should be clear; the staff had noted that hitherto those services had been performed by the Fund on an ad hoc basis, and he wondered whether the consent of the Executive Board was required each time parties to a dispute requested the Fund's services.

Mr. Polak stated that he generally agreed with the staff paper. His authorities attached particular importance to the principle that international financial obligations should be discharged in a nondiscriminatory manner.

It was noted on page 4 that, when the validity of a member country's external obligation or some feature of it had been in dispute, the Fund had sought to maintain a neutral position on the merits of the dispute, Mr. Polak remarked. That position was correct, although neutrality might be difficult to maintain in some circumstances; for instance, when a party to a dispute was a member country receiving Fund assistance and the staff was making every effort to marshal maximum support for the country's program, a resolution of the dispute that was not in favor of the country might well affect the amount of resources available in support of the program.

On the Fund's jurisdiction under Articles VIII and XIV, Mr. Polak said, he agreed with the conclusion on page 8 that in situations where a debtor disputed the validity of an external financial obligation, the Fund was not in the position to determine whether or not the claim was a payments arrear and ceased to have a role under its Article VIII approval jurisdiction. In such situations, moreover, the Fund had taken the view that a country's representation disputing the validity of an obligation should be taken as having been made bona fide and should be accepted on that basis. However, the representation should be open to challenge in the light of available evidence. Accordingly, as the staff had noted on page 8, "the Fund retains the right to conclude that the debtor's contention is clearly without merit and that, therefore, the dispute should not have the effect of removing the related nonpayment from the Fund's jurisdiction."

As to requests for Fund assistance in the settlement of overdue external financial obligations that had arisen in the context of the use of Fund resources, Mr. Polak said, he agreed that a Fund-supported program normally called for the avoidance and reduction of payments arrears in an orderly and nondiscriminatory manner, although not necessarily as a performance criterion. Whether or not that requirement had been met was difficult to determine, and the staff had to use its best judgment. Presumably, it was standard practice to provide under stand-by arrangements for drawings to be interrupted if a member country intensified its payments restrictions by increasing its payments arrears in either a discriminatory or nondiscriminatory way.

Comparable treatment of all creditors by a debtor--a requirement of the Paris Club--merited the Fund's support, but making it a general performance criterion would be impracticable, Mr. Polak remarked. Enforcement of comparable treatment was a matter for the Paris Club and creditors, and not the Fund, although Mr. Finaish's suggestion to have the Fund monitor its observance was helpful.

The Paris Club stipulated a deadline for concluding bilateral agreements between a debtor and all its creditors, Mr. Polak noted, and the Fund normally regarded the failure to meet the deadline as a breach of the performance criterion on arrears. He agreed with the staff that a reporting procedure should be devised so that the debtor's right to make further purchases under an arrangement would not be interrupted if the delay in reaching a bilateral agreement had occurred despite the exercise of the debtor's best efforts.

The present ad hoc approach to the Fund's performance of good offices was appropriate, and there was no need to formulate a general policy to govern it, Mr. Polak considered. The case for help by the Fund in resolving a dispute was probably strongest where one of the two parties to the dispute had an arrangement with the Fund that could be jeopardized by the dispute. The Fund had a legitimate interest in the resolution of such disputes and should certainly make its good offices available for that purpose.

Mr. Schneider remarked that the Fund had obviously played an increasingly important role in recent years in settling disputes between member countries relating to external financial obligations, particularly under its policies and practices concerning conditionality. In so doing, the Fund had both assisted member countries in solving their balance of payments problems while safeguarding the temporary use of its resources, and had determined the magnitude of the balance of payments need of member countries in the medium term. In turn, the Fund had also determined countries' external financing gaps, since the Fund was not in a position to provide total financing and probably should not provide such financing even if it had sufficient resources to do so. The financing gap had been closed by official and private lenders, thereby providing reasonable assurance that a country's Fund-supported adjustment program could be implemented. In the process, the Fund usually had become involved in helping to secure an orderly and nondiscriminatory approach by debtors and lenders to payments arrears, to bilateral or multilateral debt rescheduling operations, and to the provision of new financing.

The Fund would undoubtedly continue to play a useful role in those areas, and he agreed with the staff that the relevant present policies and practices were appropriate, Mr. Schneider went on. However, a word of caution was warranted. Since overdue external financial obligations had become a significant problem, official and private lenders assessing potential borrowers had placed increasing emphasis on countries' taking prior action required by the Fund. That approach had placed a heavy responsibility on the Fund and had meant that its credibility hinged on the success of the adjustment programs that it supported. As a result, the Fund had gradually assumed responsibilities outside the financial field. In order to meet expectations in the coming period, the Fund should be prudent in assessing the implications of its adjustment policies in areas other than purely financial ones. There was no reason for management to be more active in settling disputes concerning overdue external financial obligations; the Fund should not volunteer its services, particularly if the chances for reaching an agreement were slim for

political or other reasons. In principle, to avoid any conflict of interest, the Fund should act to settle a dispute only if asked to do so by the parties concerned.

He had no problems with the actions the Fund had taken under Articles VIII and XIV, Mr. Schneider commented. However, decisions concluding Article XIV consultations with a member country with no restrictions on current international transactions always included a paragraph in which the Fund noted with satisfaction the absence of such restrictions. As he understood it, such statements had no legal significance, and he wondered whether they would be necessary in future, especially as the Fund usually avoided making judgments on a country's performance in decisions. However, he had no strong feelings on the matter. In conclusion, the Fund had played a useful role in providing good offices, and it should continue to do so on an ad hoc basis.

Ms. Bush commented that the staff's explanation of the legal basis for the Fund's role in the settlement of disputes, and its description of the Fund's experience to date, were useful and informative. The staff's overall approach to the various issues was basically acceptable. Prompt settlement of external obligations in accordance with the agreed terms was in the best interest of the international monetary system. Given the variety of relationships between creditors and debtors, the numerous causes of disputes, and the widespread debt problems, the opportunities for Fund involvement in the settlement of such disputes were considerable.

The Fund's exercise of its jurisdiction under Articles VIII and XIV had been appropriate, Ms. Bush remarked. Most of the recent requests for Fund assistance in the settlement of overdue external financial obligations had arisen in the context of the use of the Fund's resources. In passing, she stressed that the Fund must be concerned about the adequacy of external financing packages that supported, or operated in conjunction with, Fund-supported programs. Indeed, in many recent cases, active involvement by the Fund in helping to organize such financing had been essential to the success of programs.

In a number of disputes, some definitional and procedural questions had arisen regarding the existence and elimination of arrears, and the question had been raised whether arrears to private creditors should be addressed under Fund-supported programs, and, if so, how, Ms. Bush noted. Further study in those areas was warranted, bearing in mind the need for flexible approaches by the Fund.

The concept of good offices provided by the Fund was not a clear one, Ms. Bush commented. The main question was whether it was desirable for the Fund to play a major role, not whether the Fund had the authority to do so. Some of the conclusions in the staff paper seemed to suggest that the Fund should have a rather open-ended approach to, and should increase its involvement in, settling debt disputes. In her view, the Fund should act cautiously and with restraint--given its resource limitations--while always being careful to maintain a neutral stand.

The Fund should be involved in the settlement of disputes on a case-by-case basis, and there was no need for the Executive Board to establish formal guidelines, Ms. Bush concluded. However, great caution should be exercised, and the Executive Board should continue to be kept fully informed of developments.

Mr. Lovato agreed that the Fund had jurisdiction under Article VIII to examine disputes relating to the settlement of overdue financial obligations that gave rise to restrictions on current international transactions. The performance of good offices by the Fund should continue to be on an ad hoc basis, at the request of both parties involved. The Fund could play a more active role in that area, provided that it continued to limit itself to providing technical expertise and factual information in facilitating the process of arbitration.

When a debtor country and its creditors were unable to agree on a multilateral debt rescheduling, it was appropriate for the Fund to intervene to ensure both that adequate new financing was available and that all creditors received comparable treatment, Mr. Lovato said. The Fund had not played a neutral role in debt rescheduling between debtor countries and their commercial bank creditors; it had exercised considerable influence on lenders in order to facilitate external financing packages for member countries. In that connection, the Fund's practice of recommending rescheduling terms consistent with a debtor country's balance of payments position and debt service capacity should be continued in the coming period.

Mr. Shaw stated that he had no problems with the Fund's present approach to the settlement of overdue financial obligations that constituted exchange restrictions. The staff had noted that, if a debtor disputed the validity of an external financial obligation or some feature of it, the Fund retained the right to conclude that the debtor's contention was without merit. As a rule, the staff should explain its reasons for concluding that the debtor's contention was without merit.

The Fund should certainly remain objective and neutral in the settlement of overdue external financial obligations, Mr. Shaw remarked. Accordingly, it should not take part in a debate on burden-sharing either among creditors, or between a debtor and its creditors, most of which would be member countries or entities in member countries' jurisdiction. While the Fund might occasionally wish to point out the economic implications of proposed rescheduling terms, it should not judge their appropriateness.

The Fund had properly decided that conditionality should include the avoidance of new arrears and the reduction and eventual elimination of existing arrears, Mr. Shaw commented. In that connection, it was useful for the Fund to provide assistance in collecting information on arrears and to monitor countries' efforts to reduce arrears.

He agreed with the staff, Mr. Shaw continued, that a debtor's failure to sign bilateral agreements with official lenders as required by the Paris Club should be seen as a breach of the performance criterion on arrears. However, he also agreed that a debtor should be permitted to continue making purchases under an arrangement if the delay in reaching a bilateral agreement had occurred despite the exercise of the debtor's best efforts. In passing, he said that the Executive Board should be informed on a regular basis of all scheduled Paris Club meetings.

The Fund's recent practice of requiring debt rescheduling or new financing before approving an arrangement for some member countries had been useful, Mr. Shaw considered. However, the use of the practice should be exceptional and would be justified only if delays in assisting the member country concerned would adversely affect the overall system. He recognized that, before committing their resources, creditors would occasionally wish to have an idea of the Fund's view on a member country's adjustment effort. In such cases, the staff could usefully make assumptions about the financing that was likely to be available to the country on the basis of the staff's contacts with creditors. The assumptions could be reflected in the country's proposed program, which could be approved by the Executive Board subject to some conditions, as had occurred in a number of recent cases.

The Fund had a general mandate to perform good offices functions, but proposals for expanding them could compromise the institution's neutrality and increase the risk of misunderstandings among members, creditors, and the Fund, Mr. Shaw said. Moreover, in providing its good offices, the Fund could become involved in complex and time-consuming issues that would place great demands on the staff, which was already strained; in any event, it might find that some issues were outside its technical expertise. It seemed best to have good offices functions performed by senior staff and specifically with a view to facilitating negotiations, rather than have the Fund play a more active role in determining the facts and in providing technical analysis. The Fund could usefully be involved in seeking conciliators to settle disagreements.

Mr. Grosche remarked that, given its general purposes, the Fund was bound to play a role in settling disputes between member countries relating to external financial obligations. The existing practices were adequate, and no significant changes were required.

The present ad hoc approach to the provision of good offices was appropriate, and there was no need to formulate precise policies, Mr. Grosche considered. The Fund could become more actively involved in collecting and analyzing data and in suggesting suitable arbitrators. As the guardian of the international monetary and financial system, the Fund must perform good offices functions in settling disputes on external financial obligations, but it should do so cautiously, particularly if disputes had arisen for political reasons. Of course, the Fund should avoid any risk of appearing to support one party in a dispute more than the other. Hence, the staff's low-key approach to the provision of good offices functions was fully appropriate.

Present practices with respect to settlement of overdue obligations involving a member using the Fund's resources were also appropriate and should be maintained in the coming period, Mr. Grosche considered. The Fund's role in debt negotiations should be neutral. It should assume a leading role only in exceptional cases, to ensure that new financing would be available and that burden-sharing among creditors would be equitable. Occasionally the staff could appropriately recommend a reasonable basis for agreement among the parties concerned, but in general the staff should continue to refrain from commenting on the terms of negotiations, such as interest rates and fees. As the staff itself had concluded, equitable burden-sharing among creditors was obviously desirable, but its enforcement was not the business of the Fund and could not be practicably provided for under Fund-supported programs. Nor would it be appropriate for the Fund to assume the responsibility for the implementation by a debtor member country of a rescheduling agreement. In that broad area, the Fund's influence was limited to situations in which a member country's failure to meet repayment obligations breached a performance. Finally, the Fund's exercise of its jurisdiction under Articles VIII and XIV in the settlement of disputes on payments obligations had been fully appropriate.

Mr. Hirao stated that he broadly supported the staff conclusions. The present exercise of the Fund's jurisdiction under Articles VIII and XIV was appropriate. The policy of approving exchange restrictions only if they had been undertaken for balance of payments reasons and were temporary and nondiscriminatory should be continued. Furthermore, the Fund should refrain from becoming involved in financial disputes among nongovernmental entities; its assistance should continue to be limited to settling disputes involving member countries.

Present policies and practices with respect to the Fund's role in settling disputes that arose in the context of the use of Fund resources were generally appropriate, Mr. Hirao continued. In particular, the Fund's assistance in collecting reliable data was helpful and should be continued. He agreed with the staff that the requirement for a debtor country to give equal treatment to participants and nonparticipants in Paris Club meetings should not be made a performance criterion, because it would be difficult to monitor. The staff could usefully comment further on the suggestion that, even if bilateral agreements were not concluded by the final date stipulated by the Paris Club, a new "reporting procedure" could keep the debtor's purchases under an arrangement from being interrupted.

The present approach to the Fund's good offices functions was appropriate, Mr. Hirao said, and he agreed with the staff that there was no need to formulate a new policy. Continuing the present practice would avoid straining the Fund's available resources in the provision of good offices.

Mr. Clark commented that the staff paper showed the wide range of circumstances in which debt disputes could arise and the different approaches needed to address them. As a rule, the Fund should exercise caution in extending its involvement in such disputes.

The Fund's responsibilities under Articles VIII and XIV had been discharged satisfactorily, Mr. Clark continued. Many of the most difficult issues in the settlement of disputes seemed to involve a member country that was using the Fund's resources. On the one hand, the Fund had to give proper recognition to a creditor's claim that a financial obligation was genuinely overdue and take it into account in framing an adjustment program for the debtor member country concerned. On the other hand, the position of the debtor's other creditors and of the debtor itself also had had to be taken into account.

The Fund's involvement in the settlement of disputes should continue to be on a case-by-case basis, Mr. Clark considered. The Fund should not attempt to formulate general rules. It could often contribute in a practical way to the resolution of disputes by offering its assistance to make sure that data on claims were as accurate and comprehensive as possible. Finally, the Fund should be encouraged to continue to make its good offices available in appropriate cases, although caution seemed called for.

Mr. Suraisry said that it was helpful for creditor member countries to have a clear understanding of the Fund's role in the settlement of disputes relating to external financial obligations. It should be stressed at the outset that, under the Articles, and in the light of the principle of the uniform treatment of member countries, the Fund had a direct interest in the prompt and equitable settlement of external obligations and should therefore continue to encourage members to settle their disputes in an orderly manner.

The present approach to the exercise of the Fund's jurisdiction under Articles VIII and XIV was generally satisfactory, Mr. Suraisry considered. Regular consultations gave the staff a good opportunity to discuss with member countries their exchange restrictions and overdue payments obligations, and to resolve any problems in those areas in an informal way. The present practices of approving exchange retrictions only if they were temporary and nondiscriminatory, and of approving payments arrears that constituted a restriction only if the member country concerned presented a program for their elimination, were acceptable.

In the settlement of overdue external and financial obligations that had arisen in the context of the use of Fund resources, the Fund could play a useful role by collecting information on outstanding debt, Mr. Suraisry remarked. The debt crisis in mid-1982 had underscored the need for accurate and up-to-date data. The Fund could also help member countries to establish adequate machinery for monitoring debt, thereby creating the foundation for the orderly settlement of external financial obligations.

He agreed with the staff that a performance criterion on comparable treatment of creditors by a debtor member country would be impractical, but the Fund should make every effort to ensure that that principle would be preserved, Mr. Suraisry commented. Mr. Finaish had usefully suggested that the Fund could monitor member countries' adherence to the principle.

Maintaining the principle was important not only for the settlement of external financial obligations, but also for the continuing flow of needed capital to member countries. One way of helping to ensure that the principle of comparable treatment was observed would be to encourage all of a member country's creditors to be present at relevant meetings of the Paris Club or other creditor groups. In that respect, advance notice to the Executive Board on a regular basis of all Paris Club meetings would help creditor members considerably.

He agreed with the staff that a debtor member country's failure to conclude a bilateral agreement with an official creditor should normally be regarded as a breach of a performance criterion on arrears, Mr. Suraisry continued; that policy should cover all official creditors. He attached particular importance to prompt settlement by debtor member countries of their financial obligations to other multilateral institutions whose resources, like those of the Fund, were lent on a temporary basis. However, he agreed with the staff that the Fund should be flexible in responding to a debtor member country that had made a genuine effort to reschedule its debt but had been unable to do so by a specified date. Similarly, management should continue to use discretion in responding to a debtor member country that had been unable to reach a bilateral agreement with a non-Paris Club creditor.

The provision of good offices was a particularly useful way for the Fund to help resolve disputes between member countries relating to the validity of external obligations, Mr. Suraisry remarked. The Fund should stand ready to assist member countries flexibly, on a case-by-case basis, but it should also remain cautious, given its limited resources and experience.

Mr. Jayawardena considered that the Fund had made a significant contribution to the settlement of financial obligations in the exercise of its jurisdiction under Articles VIII and XIV, through the application of conditionality in Fund-supported programs and by providing its good offices. The present policies and practices already covered disputes arising from the discriminatory treatment of member countries, and no significant changes were required.

In discussing disputes involving member countries that were using the Fund's resources, the staff had suggested on page 19 that "it may be appropriate to inquire whether, in some of the more complex situations... the Fund management should assume a more active role," Mr. Jayawardena noted. The staff should comment further on the specific situations and role that it had in mind.

The Fund's involvement in the settlement of overdue financial obligations should be on a case-by-case basis, Mr. Jayawardena said. He doubted whether the Fund should play a more active role than hitherto, unless the parties to disputes so requested. Even then, the Fund should move cautiously, maintaining its neutrality as well as the practice of dealing with issues

on a case-by-case basis. Any new initiatives on the Fund's role should be clearly specified in a decision approved by the Executive Board. The question of the settlement of overdue financial obligations should be kept under review, so that innovative solutions to possible future problems could be found, thereby helping to ensure the orderly evolution of the international monetary system.

Mr. Mtei said that he had been surprised by the distinction that some speakers had made between overdue financial obligations per se, and the settlement of disputes concerning such obligations. As he understood it, the staff paper had dealt solely with the latter. In that connection, it was important to remember that most loan contracts included provisions for the settlement of disputes, and that other international forums--such as the International Court of Justice and the International Centre for the Settlement of Investment Disputes--were better equipped than the Fund to handle disputes.

The Fund had always taken a cautious approach to the settlement of disputes and was prohibited by the Articles from playing a role in disputes that were political in nature, Mr. Mtei noted. It should continue to avoid involvement in such disputes in the future, particularly if the validity of a claim had been questioned. It was crucial for the Fund to maintain a neutral position.

Commenting on requests for Fund assistance in settling of overdue external financial obligations that had arisen in the context of use of the Fund's resources, Mr. Mtei said that the Fund normally could exert pressure on defaulting debtor member countries only when they happened also to be users of its resources. However, such pressure effectively increased the conditionality on the use of the Fund's resources and contributed to the asymmetrical treatment of member countries that had been a cause for concern for some time.

Many financial disputes between member countries were routinely resolved without the intervention of the Fund, and there was no need for the institution to increase its role in that area, Mr. Mtei continued. Debt rescheduling negotiations in the Paris Club did not involve disputes relating to external financial obligations. Participants in those meetings appreciated that a debtor member country had had difficulty in making payments on time because of the balance of payments problems that it faced.

When there was a dispute relating to the validity or magnitude of an external financial obligation, the Fund should try to be helpful, but it should also be cautious, making its good offices available only in response to a request from both parties to a dispute, Mr. Mtei remarked. There was no need for the Executive Board to adopt a decision on the performance of good offices, which should continue to be provided on a limited basis.

Mr. Orleans-Lindsay considered that external financial obligations must be settled promptly. The present policies and procedures for the exercise of the Fund's jurisdiction under Articles VIII and XIV, the use

of conditionality to encourage members to eliminate overdue external financial obligations, and the present procedures for the provision of good offices were satisfactory. The Fund should become more active in performing good offices functions only if the number of requests for its assistance increased; it should not take the initiative.

In playing its role in the settlement of overdue external financial obligations, the Fund had acted with discretion and impartiality, correctly avoiding disputes that were political, Mr. Orleans-Lindsay commented. The present policies and practices concerning that role might need to be reinforced over time, in response to developments in the international economy, but no changes were needed at present.

Mr. Salehkhou agreed with the main thrust of the staff's report. As the world debt problem was likely to persist for some time, further detailed reports on the various issues with respect to settling overdue external financial obligations and providing background information and case experience would be helpful. Some aspects of the subject had not been dealt with in sufficient detail in the present paper. Future papers should contain a detailed account of Fund practices under each of the main categories of the institution's involvement in the settlement of overdue external financial obligations, and the results of Fund interventions, so that Executive Directors could have a fuller understanding of the scope of the Fund's role. Tables and charts clearly showing the various aspects of the main cases in which the Fund had been involved should be included.

Prompt and fair settlement of all external financial obligations was obviously in the interest of the smooth functioning of the international monetary system, Mr. Salehkhou continued. Given its purposes and its foundation of international cooperation, the Fund was bound to play an active role in the settlement of overdue obligations. That role was clearly consistent with both the letter and the spirit of the Articles. He disagreed with the staff's conclusion on page 4 that "there is no need, within the scope of this paper, to provide a full description of all the issues involved" with respect to the Fund's jurisdiction under Articles VIII and XIV. Those issues should be examined in detail, particularly in the light of the recent experience with the global problem of world debt management and the serious external payments problems facing many debtor countries, which posed a major threat to the stability of the international financial system.

The staff had divided the Fund's role in the settlement of overdue external financial obligations into three basic categories, Mr. Salehkhou noted, but it should have described the situations that overlapped the categories--for instance, when the Fund exercised its jurisdiction under Articles VIII and XIV while providing its good offices to the same member or members--and their implications for the Fund. He wondered whether the Fund could deny the use of its resources in cases involving current international transactions, and what the Fund's response would be if a member country had received the Fund's approval of its restriction on payments

and transfers for current international payments but also had a stand-by arrangement and outstanding external obligations that had been overdue for some time.

The staff had noted that, in principle, before Fund financing was made available, a member country was expected to enter into agreements with its creditors to consolidate its existing payments arrears and to reschedule its maturing debt service obligations, Mr. Salehkhou remarked. However, the actual practice had been quite different: at least one debtor member country had persistently resisted entering into agreements with all its creditors but had been permitted to make further purchases under an existing stand-by arrangement and had subsequently been given a new stand-by arrangement; as a result, the country had been given an incentive to continue to avoid settling a long overdue financial obligation. In that instance, the Fund had not concluded that the performance criterion on payments arrears had been breached, even though the staff had clearly concluded on page 12 of the present report that it should have done so. The Fund should not feel constrained by a Paris Club agreement from clearly calling for a member country using Fund resources to act consistently with all the Articles of Agreement, Rules, and Decisions.

He agreed with some of the staff's suggestions that the Fund's close examination of the relevant data helped member countries to avoid payments arrears or to reduce them in an orderly and nondiscriminatory manner, Mr. Salehkhou continued. Fund support of the concept of comparable treatment of creditors would be meaningless if creditors, particularly nonparticipants in Paris Club meetings, did not have detailed information. As an independent monetary and financial organization, the Fund should perform its functions consistently with the Articles. It was legally, technically, and administratively competent to encourage debtor member countries to seek and obtain debt relief from nonparticipants in Paris Club meetings.

With regard to the Fund's neutral posture and cautious approach in cases where its assistance has been sought by the debtor country, Mr. Salehkhou noted that the Fund would certainly be much more observant than private banks in considering all difficult implications faced by the debtor, regarding national and international law and relations, and thereby respecting and preserving the integrity of nations and sovereign governments. Thus, as it had been his continuous and strong contention that "prevention is better than cure," he felt that, under present and prospective difficult circumstances, the Executive Board ought to assume an even more active role for the Fund instead of shying away from situations that called for more impartial, more international, and more experienced cooperation and collaboration.

As the Fund considered a member's failure to maintain its repayment obligations under debt rescheduling agreements as a breach of performance criterion, Mr. Salehkhou said, it should, by the same token, provide every possible technical assistance to prepare a comprehensive plan of financial actions for the settlement of financial disputes among members. That should naturally be at the member country's request.

He strongly believed, Mr. Salehkhou commented, that the current practices regarding the settlement of overdue external obligations of members, within the Fund's jurisdiction under Articles VIII and XIV and in the context of the use of Fund resources, would be generally appropriate if such preventive and complementary assistance were provided for member countries. Needless to say, the Fund should carry out its role with utmost impartiality and nondiscrimination at all times.

The staff had suggested that the Fund's approach to the provision of good offices should be low key, and that the Fund's involvement should be merely technical in nature and quite limited in scope, Mr. Salehkhou noted. Although the Fund should not perform the functions of a court in providing its good offices, it should be in a position to assess the validity of claims and counterclaims to help the parties to a dispute to resolve their differences. Avoiding involvement in cases of a political nature could itself wrongly be interpreted as a political gesture by the Fund. Under the present approach to the Fund's performance of good offices, more active involvement might be envisaged, for example, in determining facts, in providing technical analysis, and even in moving toward active conciliation and mediation. The Fund should certainly feel no hesitation at becoming involved in cases where the legitimacy of a financial claim had been clearly established and had not been disputed. In sum, the provision of good offices by the Fund had been important and decisive, and the staff recommendations in that area on page 18 were welcome. The Fund should assume a more active role in complex situations, especially when there was a lack of agreement between a debtor member country and its creditors. The Fund's role in less complicated cases would be consistent with its objectives and would prevent their becoming more complex and difficult.

The Articles explicitly stated that active participation in the settlement of disputes between member countries relating to external financial obligations was a primary responsibility of the Fund, Mr. Salehkhou remarked. Such participation should be equitable, impartial, and nondiscriminatory, should be influenced neither by the regulations and procedures of other institutions, including semiofficial ones, nor by political considerations, and should be based on a full understanding both of the economic and financial capabilities of the debtor member country concerned and of the rights of the country's creditors. In approving a debtor member country's exchange restriction, the Fund should ask the country to negotiate in good faith with all its creditors, setting appropriate time limits for reducing or eliminating outstanding financial obligations. In that connection, the Fund could reassure creditors by providing good offices or, at least, by attending relevant meetings as an observer.

The staff should provide a comprehensive report, clearly defining the concept of dispute and summarizing in a table the various kinds that it had actually encountered, Mr. Salehkhou went on. It should also suggest the criteria for judging whether or not a disputant's claim was legitimate, and the Fund should stand ready to offer its informed judgment in helping to settle disputes--especially those involving claims of discriminatory treatment--provided that it was given well-documented information by either or both parties. In so doing, the Fund should differentiate between cases

involving defaults, those involving exchange restrictions, and those involving a combination of the two, and should conclude whether a default constituted a discriminatory practice against a debtor member country's creditors.

Mr. Tvedt considered that the Fund's role in the settlement of disputes had become particularly important since the emergence of the world debt problem. The Fund should continue to play that role in a flexible and even-handed manner in the coming period.

The Fund's good offices functions helped member countries to resolve disputes relating to external financial obligations, Mr. Tvedt considered, but he strongly agreed with the staff that the Fund should continue to proceed cautiously, avoiding direct involvement in assessing the validity of disputants' claims. As for the exercise of the Fund's jurisdiction under Articles VIII and XIV, no changes were warranted. In particular, the staff suggestion for possible involvement by the Fund in ensuring implementation of debt rescheduling agreements was not acceptable.

Mr. Blandin commented that the problem of disputes between member countries relating to external financial obligations had increased with the world debt crisis and threatened to disrupt the international system of payments. The Fund, which had primary responsibility for the system, clearly had a role to play in settling disputes relating to financial obligations, although it was important to recognize that, because of the diversity of circumstances of nonpayment of obligations, the Fund's responses could not be uniform.

The Fund's exercise of its jurisdiction under Articles VIII and XIV was well defined and had been fully appropriate, Mr. Blandin continued, and its provision of good offices had been useful, although it raised several delicate questions of international law. The Fund should continue to perform those functions cautiously, on an ad hoc basis, to avoid interfering with other institutions that might be in a better position to act.

He agreed with the staff that conditionality had had an important impact on the settlement of overdue financial obligations, Mr. Blandin remarked, and that providing technical assistance in collecting data on debt and arrears, and monitoring agreements between creditors and debtors, were in the best interests of all the parties concerned. Still, it was difficult to determine whether or not a debtor country's treatment of its various creditors was nondiscriminatory, and the staff should be careful in making such judgments.

He agreed with the staff that a member country's failure to conclude a bilateral agreement with one of its non-Paris Club creditors should be regarded as entailing payments arrears and would be ground for interrupting the country's access to the Fund's resources, Mr. Blandin commented. The staff had suggested that a debtor member country's right to make further purchases should not be interrupted if the delay in concluding a bilateral agreement with a creditor had occurred despite the exercise of the debtor's best efforts. While that approach might be appropriate in some cases, it should be used with great caution, in part because the definition of a debtor's "best efforts" was of course purely subjective.

He also agreed with the staff that participants and nonparticipants in a Paris Club agreement should be given comparable treatment by a debtor country, Mr. Blandin said. In passing, he noted that, although the Paris Club was open to all member countries willing to accept its rules, it might be difficult to keep the Executive Board regularly informed of all scheduled Paris Club meetings. Although the Paris Club itself would decide whether or not to make such information available, any debtor country could decide to take the initiative in informing the Executive Board of a forthcoming Paris Club meeting to deal with its debt.

Only in exceptional cases should the Fund take the initiative to suggest rescheduling schemes compatible with the limited resources of a debtor member country, Mr. Blandin considered. Hence, he was pleased that management and staff had reaffirmed on page 13 their intention of continuing to maintain a neutral role in the debt renegotiation process in most cases.

The growing practice of approving stand-by arrangements in principle, pending agreement on a debt rescheduling, caused delays that placed creditors under considerable pressure, Mr. Blandin said. The staff's approach in such cases should be designed with great caution, and, in that connection, the staff should adhere as closely as possible to the principle of uniform treatment; it would be inappropriate for some creditors, particularly, say, banks and suppliers, to receive relatively favorable treatment. Creditors had given debtors privileged treatment only in the sense that multilateral institutions had made a positive net financial contribution during rescheduling periods.

He basically agreed with the staff that the current practices concerning the settlement of disputes involving member countries using the Fund's resources were generally appropriate, Mr. Blandin concluded.

The Director of the Exchange and Trade Relations Department commented that the issues at hand were complex, and the staff had used a kind of case-law approach in handling them. The Fund's relevant practices and procedures had been developed over time and had had to be applied flexibly.

In principle, approval of payments arrears could be given even in the absence of a satisfactory schedule for their elimination as a part of a Fund-supported program, the Director said. In fact, however, no such case had arisen. In the past, the staff had often had difficulty in obtaining from a member country a precise description of the way in which it intended to reduce its payments arrears. Arrears that constituted a payments restriction and were not covered by the performance criteria in a stand-by arrangement should certainly be reported to the Executive Board for its approval. It was entirely appropriate for a country facing balance of payments problems and with payments arrears to use the Fund's resources to improve its payments situation.

It would be difficult for the Fund to monitor debtor member countries' adherence to the principle of comparable treatment of creditors, including bilateral agreements, the Director remarked. The Fund had not been given

copies of bilateral agreements; indeed, the Paris Club Secretariat itself did not receive all of them. Hence, it was impossible for the Fund to know whether all the agreements between a debtor country and its creditors were uniform. Even if the agreements were available, their terms were complex and usually differed from one agreement to another. As long as the Paris Club and creditors were generally satisfied with the present procedures concerning bilateral agreements, it seemed best for the Fund to avoid any attempts to monitor them. At the same time, it was important to bear in mind that, in implementing its policies on payments arrears, the Fund made use not only of performance criteria, but also of review clauses. In that sense, the Fund could certainly continue to monitor a debtor member country's efforts to reduce its payments arrears. The staff depended on individual member countries to make it aware of problems with respect to payments arrears, and it was up to the Executive Board to encourage, in a nondiscriminatory way, debtor member countries to reduce payments arrears.

Notification to the Executive Board of forthcoming meetings of the Paris Club was a prerogative of the Paris Club itself, and, as Mr. Blandin had noted, a debtor country was able to provide such notification if it wished to do so, the Director said. The Fund staff was regularly in touch with the Paris Club and would inquire about the possibility of introducing a more regular notification practice.

The desirable pattern of settlement of arrears varied from one case to another, the Director commented. The "first in, first out" principle seemed to provide for the greatest equity. The staff had not surveyed member countries to determine which pattern was used most frequently.

The question had been raised how the Fund would respond should the Paris Club not require comparable treatment by a debtor country of all non-Club members, the Director of the Exchange and Trade Relations Department recalled. The Fund normally did not take a position in such a situation. As long as the Paris Club creditors were agreed with the debtor on the terms of debt rescheduling and were therefore prepared to provide the financing needed to support a Fund program, the Fund itself would feel no need to raise the issue of comparable treatment.

The staff representative from the Legal Department explained that there was a substantial legislative history on the distinction between a restriction and a default. Article VIII gave the Fund jurisdiction over restrictions on payments and tranfers for current international transactions. The inference of that provision was that some government actions in the area of international payments and tranfers--including, conceivably, nonpayment--would not constitute restrictions. Over the years, since the distribution of the staff paper entitled "Legal Aspects of Articles VIII and XIV" (SM/59/73, 11/18/59), particularly the discussion on page 27 of the concept of a governmentally imposed measure, the focus under the Articles had been on defining and identifying restrictions, rather than both restrictions and defaults. The dichotomy between restrictions and defaults had been dealt with again in the 1980 staff paper reviewing Fund

policies and procedures on payments arrears (EBS/80/190, 8/27/80; EBM/80/153 and EBM/80/154, 10/17/80), which was mentioned on page 8 of SM/84/89. Furthermore, a default in its more technical sense was not necessarily the same as the failure to meet a payments obligation; indeed, defaults on bilateral agreements could arise for various reasons, for instance, a lack of foreign exchange.

On page 10, the staff representative noted, the staff had stated that "a Fund-supported program normally calls for the avoidance and reduction of payments arrears in an orderly and nondiscriminatory manner, although not necessarily as a performance criterion of the arrangement." The focus of the sentence was meant to be the "orderly and nondiscriminatory manner" in which payments arrears should be reduced. In that connection, it was important to distinguish between the decision whether or not a member country had introduced a payments restriction in the form of payments arrears, and the decision whether or not the precise amount of arrears at a particular time was within or exceeded the ceilings stipulated in a stand-by arrangement. In both cases, the member country could breach a performance criterion, but the former decision would embrace only exchange restrictions within the Fund's jurisdiction, while the second category would include various forms of arrears, such as nonpayments and, possibly, defaults, thus extending to developments that would normally not fall within the Fund's jurisdiction.

In other words, the staff representative observed, all the various elements of arrears would be taken into account in deciding whether or not a member country had remained within a particular ceiling on arrears; that calculation would be made in accordance with the practices described in Section IV of SM/84/89. For instance, if a member country had failed to reach a bilateral agreement with a creditor, as required by a Paris Club Agreed Minute, payments arrears would be regarded as having emerged for the purposes of a designated ceiling, and they would be included in the calculation of the country's global payments arrears. At the same time, the failure to reach a bilateral agreement would not be seen to constitute the introduction of a payments restriction that would come under the jurisdiction of the Fund under Article VIII. It would therefore be possible for a member country's arrears to fluctuate without constituting the introduction of a restriction, as long as the relevant ceiling was not exceeded.

The question Mr. Schneider had raised about the second paragraph in decisions concluding Article XIV consultations had to do with the Fund's general policies on surveillance, the staff representative remarked. The Fund had decided at the time of the Second Amendment of the Articles that, thenceforth, the Executive Board should take a stand on a member country's restrictive policies in decisions concluding consultations. In particular, the Executive Board had wished to welcome a country's lack of restrictions. That approach could of course be reviewed by the Executive Board on another occasion.

The staff's intention in the statement on page 4 that "there is no need, within the scope of this paper, to provide a full description of all the issues involved," was different from that which Mr. Salehkhou had described, the staff representative explained. The staff had meant to say that there was no need in the present paper to review the substantial Executive Board activity and staff applications concerning the meaning and scope of Article VIII, Section 2(a); the staff had not meant to say that it was unnecessary to describe fully the issues that overlapped the categories of the Fund's involvement in the settlement of disputes relating to overdue financial obligations.

The staff agreed with Executive Directors that a policy decision was not required on the provision of good offices by the Fund, the staff representative from the Legal Department said. Nor had management felt any need to inform the Executive Board immediately after it became involved in a dispute between member countries relating to external financial obligations. However, once it was clear that a dispute could have some of the important effects that were described in SM/84/89, management had reported on its involvement to the Executive Board.

Mr. Finaish remarked that it would be useful to examine further the appropriate approach for the Fund to take on the question of ensuring comparable treatment of all creditors, especially in the case of rescheduling agreements in which such a requirement was not explicitly stipulated. It would also be helpful to know whether the Executive Board was routinely informed when good offices functions were performed.

The staff representative from the Legal Department responded that it was open to the Executive Board to spell out a more definite policy concerning the performance of the Fund's good offices functions. Alternatively, it might be best to continue the present practice, under which management received a request to perform good offices functions and informed the Executive Board when the elements of a dispute had been clarified and the involvement of management had intensified.

The Executive Directors agreed to continue in the afternoon their discussion on the role of the Fund in the settlement of disputes between members relating to external financial obligations.

2. JAMAICA - STAND-BY ARRANGEMENT - EFFECTIVE DATE

The Executive Directors considered a proposed decision making effective the stand-by arrangement for Jamaica that had been approved on June 8, 1984 at Executive Board Meeting 84/90 (EBS/84/101, Sup. 6, 6/22/84).

The staff representative from the Western Hemisphere Department recalled that at EBM/84/97 (6/20/84) the Executive Board had agreed to extend the date by which the stand-by arrangement for Jamaica approved on June 8, 1984 should become effective, from June 20 to June 27, 1984, by which time the authorities were expected to have complied fully with the

agreed terms and understandings. The $55 million in short-term debt owed to Trinidad and Tobago had now been rescheduled, thereby closing the financing gap for 1984. In addition, the telephone rate increases that the authorities had promised to make had in fact been announced on June 21, 1984, thereby completing the set of measures that Jamaica had undertaken to adopt prior to seeking final approval of a stand-by arrangement. The proposed decision to make the stand-by arrangement effective had been brought to the Executive Board as quickly as possible; upon its approval, a number of payments and other transactions could be made that would bring Jamaica current with its commercial bank creditors before the meeting of the steering committee of those banks scheduled for June 29, 1984 to consider a rescheduling of Jamaica's commercial bank debt.

The Executive Directors agreed to discuss the proposed decision in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted without meeting in the period between EBM/84/97 (6/20/84) and EBM/84/98 (6/22/84).

3. ARGENTINA - 1984 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for concluding the 1984 Article IV consultation with Argentina to not later than August 31, 1984.

Decision No. 7739-(84/98), adopted
June 21, 1984

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/132 (6/19/84) and EBAP/84/133 (6/20/84) is approved.

APPROVED: February 1, 1985

LEO VAN HOUTVEN
Secretary