16

Digging a Hole, Filling It In: Payments Arrears to the Fund

An uncomfortable but unavoidable byproduct of the IMF's role as a global financial institution is the necessity of the timely repayment of credits by indebted countries. Delays in repaying either principal or interest threaten the cooperative nature of the membership and can seriously impair the Fund's ability to continue to provide financial assistance to other countries. Although critics have often attacked the IMF for being more interested in getting its money back than in helping its member countries, the vast majority of the Fund's members have always recognized that the institution cannot help unless it preserves its assets as a revolving stock of lendable resources. When arrears to the Fund became substantial in the 1980s, creditor and indebted countries alike insisted on a strong reaction.

This chapter begins with an overview on how the arrears problem at the Fund developed through the 1980s. It then reviews in more detail the cases where countries developed problems serious enough to warrant the Fund declaring them ineligible to borrow any more from the institution. During the 1980s, that was the final step available to the Fund in sanctioning countries, short of compelling them to withdraw from membership. (The lesser action—restricting access to Fund resources until arrears were settled—had a similar effect but imposed less of a stigma on the country, was not a formal step toward compulsory withdrawal, and was intended merely to cut off credits and to pressure the authorities to settle arrears within a limited period.) The practice of publicly declaring countries ineligible to borrow from the Fund was of limited value as a deterrent, and it did nothing to normalize relations with, or restore the economic viability of, the affected countries. The chapter concludes by reviewing the various steps taken by the Fund in the late 1980s and early 1990s to develop new approaches for resolving the arrears problem.

Overview

For most of the Fund's first four decades of operations, arrears were only rarely a problem. Whenever a country had difficulty making a scheduled payment, it was almost always resolved within a few months, after informal consultation between the staff and the authorities. Before 1984, the Executive Board took action in only

three cases, each of which resulted to some extent from a major political problem affecting the indebted country.

- Cuba drew its gold tranche and its first credit tranche ($25 million) from the Fund in September 1958, during the final months of the collapsing regime of President Fulgencio Batista. The Fund repeatedly agreed to postpone repayment after Fidel Castro took power in 1959, until the five-year limit on outstanding drawings was about to expire. The Managing Director issued a formal complaint in September 1963 and initiated procedures that could have led to a declaration that Cuba was ineligible to use Fund resources. That process was aborted when Cuba withdrew from the Fund in 1964, and the Castro government eventually repaid the money over the remainder of the decade. (For details, see Horsefield, 1969, Vol. 1, pp. 548–50.)
- Egypt took out a stand-by arrangement in 1962,[1] and a schedule was established for repayment through 1967. In 1966, the authorities requested a new stand-by arrangement, which would have enabled them in effect to reschedule the existing obligations over several more years, but negotiations broke down over the Fund's insistence on a large devaluation. At the end of the year, the authorities stopped paying the Fund, and President Gamal Abdel Nasser publicly linked that decision to the Fund's attempt to impose unacceptable conditionality on new lending. By the time the Executive Board began considering what steps to take in response, the Egyptian economy was hit by new shocks. After the June 1967 war with Israel (the "six-day" war), the Suez Canal was blocked by ships sunk in the fighting, and the economy also was suffering from unrelated problems including a severe drop in the cotton harvest. The authorities again asked for an extension or a new stand-by arrangement, but the Managing Director determined that they should repay their existing obligations before receiving any new credits. The Fund imposed surcharges on the overdue balances starting in July 1967, until the overdue obligations were repaid the following year.[2] No formal steps were taken toward declaring the country ineligible.
- When Pol Pot and the Khmer Rouge took control of Cambodia by overthrowing the government of Lon Nol in April 1975, the country owed the Fund SDR 12.5 million ($15 million) for Compensatory Financing Facility (CFF) drawings made in 1972–73. It also was required under the rules then in effect to restore its gold tranche and reconstitute its holdings of SDRs.

[1]At the time, Egypt and Syria constituted the United Arab Republic, which was the member in the Fund. The matter discussed here related to the Egyptian economy.

[2]The standard schedule of interest charges at that time peaked at 5 percent, subject to the provision that the Fund could impose higher charges on obligations outstanding beyond five years. From July 1967 until arrears were settled in February 1968, the obligations of the United Arab Republic that had been outstanding for more than five years were subject to charges at an annual rate of 6 percent. See IMF/CF, C/U.A.R./1750, "United Arab Republic—Charges," EBS/68/16 (January 18, 1968), and "United Arab Republic—Charges," EBS/68/49 (February 23, 1968). For the background documents on which this summary of Egypt's arrears is based, see IMF/RD Middle Eastern Department file "United Arab Republic, 1967" (Accession 71/141, Box 3, Section 118).

> Communications between the capital, Phnom Penh, and the outside world were virtually severed during the reign of terror of the next four years (and remained severed after Pol Pot was in turn overthrown by Vietnamese forces in 1978), and the Fund was able to communicate with the government only through Cambodia's ambassador to the United Nations. In December 1975, the ambassador informed the Fund that the new Cambodian government "would not assume the obligations contracted by the Lon Nol Government" and that it "regards all actions taken by the Lon Nol Government as null and void."[3] Subsequently, the ambassador was withdrawn, and the Fund no longer had any reliable channel of communication with the authorities in Phnom Phen.[4] In May 1978, the Executive Board agreed to impose penalty charges on Cambodia's overdue obligations, and in December it restricted access to Fund resources and SDRs.[5]

Arrears to the Fund generalized into an institutional issue in 1984. In April of that year, three countries—Cambodia, Guyana, and Nicaragua—were overdue by more than six months, and eight others were overdue by at least six weeks. Although the Fund had developed practices for dealing with such problems by handling the three isolated cases just described, the Executive Board had not yet adopted formal rules. Several issues had to be resolved.[6]

First, at what stage should Executive Directors get involved? Fund policy from 1946 was that the Managing Director "shall report to the Executive Board any case in which it appears to him that a member [country] is not fulfilling obligations under the Articles."[7] Such reports had been rare until 1981 but had been issued with increasing frequency since then. Normal practice was for the Managing Director

[3]"Relations with Government of Cambodia—Performance of Obligations Under the Articles of Agreement," EBS/76/501 (December 4, 1976), p. 3.

[4]In October 1978, the staff delivered a letter of inquiry to Cambodia's deputy prime minister, who was in New York to address the General Assembly of the United Nations. No reply was received. Similar attempts in the following two months also were unsuccessful, after which the Khmer Rouge government was overthrown (although it continued, in exile, to retain its formal representation in the UN). IMF/CF (C/Kampuchea/750 "Obligations Under Fund Agreement"); letter from Leo Van Houtven (Secretary of the IMF) to H.E. Ieng Sary, Deputy Prime Minister in Charge of Foreign Affairs of Democratic Kampuchea (October 11, 1978), with attached cable from the Managing Director, H. Johannes Witteveen; and memorandum from Jan-Maarten Zegers (Special Representative of the IMF to the United Nations) to Van Houtven (October 13, 1978). Also see "Text of Managing Director's Memorandum and Decision—EBM/78/182 (11/17/78)," SM/78/274, Sup. 1 (November 20, 1978), p. 3.

[5]Minutes of EBM/78/72 (May 10, 1978) and EBM/78/200 (December 19, 1978).

[6]See "Overdue Payments to the Fund—Experience and Procedures," EBS/84/46 (March 9, 1984) and minutes of EBM/84/54 (April 5, 1984).

[7]This language is from Rule K-1 of the Fund's Rules and Regulations. Similar language was included in Rule S-1, which was established in 1969 to deal with arrears in settling obligations to the SDR Department. Both rules are reproduced in the Appendix to this chapter. Throughout, this chapter focuses primarily on arrears to the General Resources Account (GRA). While several countries also had arrears to the SDR Department or on loans from the Fund's Administered Accounts, no country developed protracted arrears *only* on those books in the 1980s, and they therefore did not become an independent problem. (Iraq, which had no outstanding obligations to the GRA, went into arrears to the SDR Department in 1991.)

to notify the Board within six weeks after a payment became overdue. The Board, however, did not get involved directly in reviewing or trying to resolve the matter until the Managing Director issued a formal complaint, and there was no standard timetable for him to do so. The Board agreed to set six months as a rough standard, but management was urged to be flexible in applying it.

Second, what steps should be taken to prevent countries in arrears from continuing to borrow? The Fund had no fixed rule prohibiting a country with overdue obligations from drawing on an existing stand-by arrangement. In fact, as long as the performance criteria for the arrangement were met, the Fund had no legal means of denying a request for a drawing. The Board therefore decided to include a standard clause as a performance criterion in all subsequent arrangements, prohibiting drawings by countries in arrears.

Third, should the Fund impose higher penalty charges on overdue obligations? As noted above, the Fund had imposed higher charges in those few cases where amounts had remained outstanding for more than five years. It had not, however, adopted a policy of penalizing countries when obligations became overdue, and it had never gone beyond the 6 percent annual rate specified as a threshold in the Fund's Rules prior to the Second Amendment.[8] The Board agreed that such penalties were unlikely to create an incentive for countries to repay on time and could be counterproductive by adding to a country's financial burden.

Fourth, should the Fund issue public announcements when countries went into arrears? The threat of publicity could help put pressure on countries to settle more promptly, but the Fund still had a culture of secrecy, and the idea made many Directors uneasy. The Board agreed to consider publicizing arrears, but only on an ad hoc basis in extreme cases.

Fifth, should the Fund consider rescheduling obligations as a means of resolving or avoiding arrears? Rescheduling was a standard practice among both commercial and official creditors, but the Fund had made only limited use of it and had generally avoided it since the Second Amendment had gone into effect in 1978.[9] Before 1978, the only firm requirement on repaying Fund credits was the outer limit of five years.[10] Countries typically would agree to a schedule of repayments, but the Fund often agreed later to reschedule within the time limit when countries ran

[8]Prior to 1978, charges were imposed at a fixed schedule of rates that increased with the length of time the obligations were outstanding, up to 5 percent on large obligations outstanding for 4½ to 5 years. Beyond five years, the Rules provided that "the Fund may adopt higher maximum rates . . . provided that when the charges . . . have reached 6 per cent the Fund will review the charges to be imposed thereafter." (Rule I-4 (g) as amended through April 24, 1963; de Vries, 1976, Vol. 2, p. 178.) The Second Amendment provided for a system of variable charges linked to the current level of interest rates; see Chapter 17.

[9]Article V of the Fund's Articles of Agreement authorizes the Board to reschedule payments due to the Fund by a simple majority of votes cast, as long as the new payment schedule stays within the normal time limits. By a 70 percent majority of the voting power, the Board can reschedule obligations beyond the normal limits.

[10]As an exception, the Extended Fund Facility (EFF) provided for an eight-year outer limit and specified that "normally," repayments were to be made in 16 quarterly instalments beginning in the fifth year. See Chapter 15.

into difficulties. The Second Amendment, however, called for a standard repayment schedule beginning after three years and ending in five. Only in cases of "exceptional hardship" would the Board consider delaying that schedule. In two cases in 1982 (Guyana and Nicaragua), the Board had decided that the country was facing dire circumstances that made the normal repayment schedule impracticable. In both cases, payments were rescheduled within the five-year outer limit. Unfortunately, both countries failed to meet the revised schedule as well, and they now were the two that had recently become overdue by more than six months.

The decisive point on this issue was that rescheduling of Fund credits was inconsistent with the Fund's role in negotiating new stand-by arrangements as preconditions for reschedulings by the Paris Club and other creditors. Financially, rescheduling is equivalent to providing new credit to the borrower. For the Fund, the provision of new credit is normally subject to the country's agreement to adopt sound economic policies. For other holders of sovereign credits, such an agreement is normally a precondition for a rescheduling. Therefore, negotiating a new stand-by arrangement is almost always the preferred option. Although the Board in 1984 did not completely rule out the possibility of rescheduling, it made it clear that the practice should be reserved for rare cases where policies were already appropriate but where specific circumstances created an exceptional hardship if repayment was to be effected on a particular date.[11]

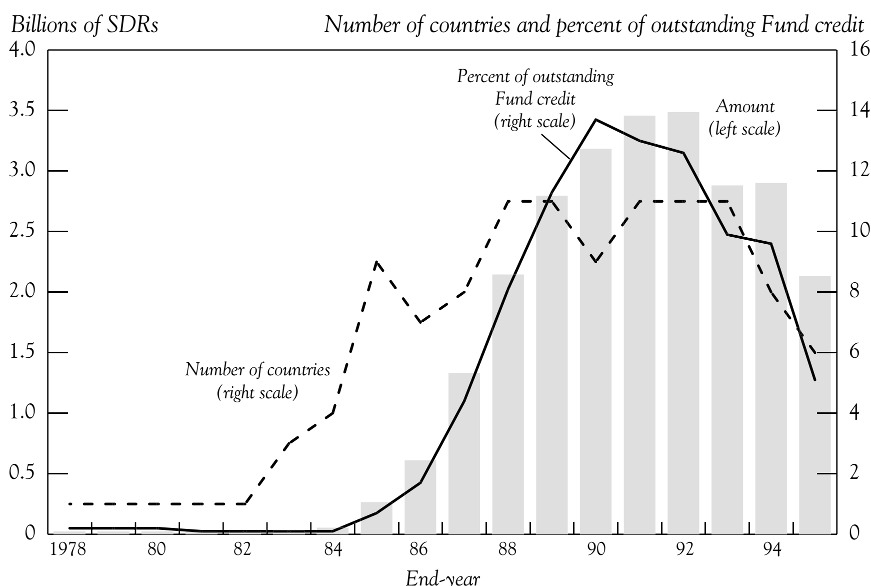
Sixth, and most controversial, should the staff negotiate terms for adjustment programs that could be supported by new stand-by arrangements once arrears were settled? The staff view was that entering into negotiations on acceptable policy conditions for the use of Fund resources was inappropriate as long as countries were in arrears. The Treasurer of the Fund, Walter O. Habermeier, argued before the Board that the staff's refusal to negotiate "had been one of the most effective instruments in persuading members to settle their overdue payments." That view was supported by the Managing Director, Jacques de Larosière, who added: "We are trying to strengthen this policy, not weaken it."[12] Several Executive Directors from developing countries worried that this policy was counterproductive and could even put indebted countries into a catch-22 situation. If a country could repay the Fund only by borrowing from other international creditors, and if such borrowing depended (as it usually did) on the country first agreeing on economic policies with the Fund, then the refusal to negotiate blocked any possibility of a solution. For the time being, that view was held only by a minority on the Board. Countries could repay if they were willing, the reasoning went, and the key was to create the right incentives.

When the arrears problem arose, the Fund had little available in the way of sanctions. After the initial review in 1984, as soon as a country developed arrears, it could not draw anymore on existing stand-by arrangements and could not even

[11]The Board's antipathy toward rescheduling was reiterated and strengthened on several occasions over the next few years, and no payments were rescheduled after 1982. For the evolution of the Fund's policies on rescheduling, see "Repurchase Obligations—Postponement (Article V, Section 7(g))," SM/87/226 (August 25, 1987).

[12]Minutes of EBM/84/54 (April 5, 1984), pp. 33 (Habermeier) and 38 (de Larosière).

Figure 16.1. Protracted Arrears to the Fund, 1978–95



negotiate terms for a new arrangement. Beyond that, all that the Fund could do—short of compelling the country to withdraw from membership—was to issue a series of declarations of increasing displeasure.[13] Typically, those declarations would begin with a suspension (formally, a "limitation") of access to Fund resources until arrears were cleared, and would lead ultimately to a declaration that the country was ineligible to use Fund resources. Neither decision greatly affected the country's immediate borrowing rights, which were already suspended.[14] Nonetheless, they attached an internationally endorsed stigma to the country's refusal to repay the Fund and thus sent a powerful signal to other official creditors. By mid-1985, those sanctions were augmented by the pressure of publicity, as the Fund began releasing information to the public on the most serious arrears cases.

[13]Authority to declare a member country ineligible to use the Fund's general resources and to require the country to withdraw from membership are both found in Article XXVI, Section 2. The Third Amendment, which became effective in November 1992, added an intermediate step under which the Fund could suspend the country's voting rights in the Fund. (See the Appendix.)

[14]The Executive Board decisions on arrears refer to a "limitation" with respect to the use of the Fund's general resources and to a "suspension" with respect to the use of SDRs. The term "restriction" is used here to refer to either action, both of which prevented the member from using the specified resources. Restriction on the use of general resources blocked access to any balances otherwise available under the first credit tranche and to credits for emergency assistance or through special facilities such as the CFF, in addition to the already blocked access to credits under the Fund's upper-tranche policies. The right to use SDRs was handled separately and was suspended only in cases where the country had overdue obligations in the SDR Department; see Chapter 18. Arrears on Trust Fund loans were not formally a cause for restriction, but the Board routinely informed countries with Trust Fund arrears that it would take them into account in evaluating requests to use Fund resources.

Table 16.1. Countries with Arrears to the IMF, 1978–89
(Millions of SDRs)

Country[a]	Date of Complaint	Date of Ineligibility	Ending Date	Amount of Settlement[b]	Outstanding End-April 1990	Amount in Percent of Quota
Cambodia	11/17/78	. . .	10/1/93	. . .	36.3	145
Chad	6/29/84	. . .	11/8/84	4.1	. . .	13
Gambia	3/25/85	. . .	4/25/85	3.7	. . .	22
	9//85	. . .	7/25/86	10.4	. . .	61
Guyana	3/9/84	5/15/85	6/20/90	. . .	104.8	213
Haiti	7/11/88	. . .	10/24/88	4.4	. . .	10
	1/13/89	. . .	9/8/89	9.4	. . .	21
Honduras	1/21/88	. . .	11/9/88	3.4	. . .	5
	1/30/89	11/30/89	6/28/90	. . .	25.7	38
Jamaica	6/20/86	. . .	1/13/87	118		81
Liberia	4/4/85	1/24/86		. . .	307.8	432
Nicaragua	3/9/84	. . .	4/26/85	7.5		11
Panama	3/3/88	6/30/89	2/5/92	. . .	181.5	178
Peru	12/13/85	8/15/86	3/18/93	. . .	626.2	189
Romania	8/29/86	. . .	11/21/86	83.5	. . .	16
Sierra Leone	4/30/85	. . .	9/18/86	25.1	. . .	43
	3/17/87	4/25/88	3/28/94	. . .	70.8	122
Somalia	10/25/85	. . .	4/22/86	21.9	. . .	50
	7/22/86	. . .	9/15/86	12.7	. . .	29
	2/2/87	. . .	6/26/87	21.5	. . .	49
	9/8/87	5/6/88	. . .	. . .	103.5	234
Sudan	12/12/84	2/3/86	. . .	. . .	889.4	524
Tanzania	6//85	. . .	7/30/86	22.9	. . .	21
Vietnam	6/29/84	1/15/85	10/6/93	. . .	104.6	59
Zaïre	9/2/88	. . .	5/17/89	115.0	. . .	40
Zambia	7/31/85	. . .	1/6/86	115.2	. . .	43
	7/18/86	9/30/87	12/6/95		800.6	296
Total					3,214.9	

[a]This table excludes cases in which arrears were settled without a formal complaint to Executive Directors, or in which a complaint was outstanding for less than 30 days. The latter category comprises Nicaragua in 1986 and 1987, for SDR charges only; and Uganda in 1987, 1988, and 1989 (see Chapter 14). In addition, a notice was issued in 1989 with respect to overdue Trust Fund repayments by El Salvador. ("Complaints" were issued with respect to overdue obligations in the General Resources Account or the SDR Department; "notices" were issued with respect to overdue Trust Fund obligations.)

[b]As arrears often were cleared in multiple installments, settlement amounts are to some extent arbitrary. The figures given here reflect amounts outstanding prior to the final payment or payments.

As shown in Figure 16.1 and Table 16.1, the arrears problem worsened substantially through the rest of the 1980s and began to taper off during the early 1990s. The origins of the problem, however, lay in the first half of the 1980s, when the Fund was lending heavily to developing countries that were struggling to cope with the international debt crisis, the widespread recession in industrial countries, and the associated withdrawal of commercial and bilateral official loans. The growth in the amount of arrears in the second half of the 1980s resulted primarily from the accumulation of arrears by countries already in difficulty, rather than from new lending. Typically, at the time that a country became overdue on payments to the

Fund, it had a string of future repayments to make. In addition, interest kept accumulating on the overdue balances. Until the country finally settled, the amount in arrears kept growing, often dramatically so.

By 1989, complaints had been issued to the Executive Board with respect to 21 countries, 12 of which had been or soon would be publicly identified as ineligible to use Fund resources. At the peak in 1990, protracted arrears (payments in arrears for six months or more) were equivalent to nearly 14 percent of outstanding Fund credits.[15] In the General Department (the Fund's own resources), total obligations of countries that had protracted arrears then accounted for 11½ percent of total outstanding obligations.

What accounted for the arrears problem? Conventional wisdom suggested that the Fund, under political pressure, was lax in controlling its lending in the early 1980s and that it then had to scramble out of a mess of its own making. (See the first section of Chapter 13.) Instances certainly can be cited where the Fund agreed to support weak or poorly designed adjustment programs that led to an unsustainable accumulation of debts, and some of those instances may have been influenced by political pressure. The prevalence of low-conditionality lending through special facilities in the 1970s certainly raised the magnitude of debts to the Fund by countries that could ill afford to service them; for example, all of the countries declared ineligible to use Fund resources in the 1980s had outstanding obligations deriving from the CFF. But the laxity scenario does not go very far toward explaining the magnitude of the problem. Overall, the reasons for countries failing to repay the Fund were complex, and they varied from case to case. No uniform pattern emerges from either an economic or a political perspective.[16]

In several instances, disastrous shifts in economic or political circumstances after the bulk of the Fund's lending had occurred made it difficult or even impossible for governments to meet the agreed repayment terms. Sudan and Zambia, for example, once had good economic prospects but later were hit by terrible shocks. In other cases, shifts in the political regime led either to a loss of external support or to a populist recalcitrance by the new government, or to both. Peru's arrears resulted largely from a populist governmental policy; Sudan, Somalia, Liberia, and Honduras all suffered significantly from reductions in donor support; Vietnam and Panama were hit by economic sanctions.

In some cases, governments tried to carry out adjustment programs but eventually concluded that the policies recommended by the Fund were either unrealistically austere or technically flawed. The latter argument was made with particular force in cases where a controlled exchange rate regime was replaced by a market-based auction system that resulted in a large and seemingly unstoppable depreciation. Sierra Leone and Somalia are notable examples in that regard. In both Sierra Leone and Zambia, governments tried for a time to undertake a

[15]This figure includes obligations that were overdue by less than six months but that were owed by countries that had other obligations overdue by six months or more.

[16]One geographic oddity stands out: no country outside the tropics developed protracted arrears to the Fund until the 1990s.

needed stabilization program but found that they lacked domestic political support.

In at least one case (Honduras), nearly all of these factors were at work to some degree. While no single development was especially severe, the combination created substantial difficulties.

The widespread collapse in commodity prices, the wild cycle in key-currency exchange rates, the debt crisis in Latin America, the final throes of the Cold War and of the efforts of many dictators to hang onto power: the 1980s brought a plague of obstacles to the orderly conduct of international finance. Curiously, however, only a few countries, such as Somalia, completely lacked the means to generate enough foreign exchange to meet their payments to the Fund. The more prevailing problem—most obviously in countries such as Vietnam where the roots of economic difficulties were nurtured in political waters—was that governments had higher priorities than repaying the IMF.

The Fund took a particularly hard line when countries were making payments to other creditors. In the Fund's view, member countries should give the highest priority to repaying the Fund. In other words, the Fund regarded itself as the preferred creditor and expected its member countries to recognize that position (see below, p. 820). Some indebted countries, however, gave preference to repaying creditors from whom a net increase in new lending could be expected. In most such cases, the Fund had already lent heavily, was limited by its policies on exposure relative to the country's quota, and in any case was not prepared to make any promises on new lending until after arrears were cleared. These differences in view created occasional conflicts that prolonged the growth of arrears.

The role of politics in Fund lending and in the evolution of the arrears problem was subtle and complex. Creditor countries occasionally discouraged the Fund, through their Executive Directors or through discreet contacts with management, from lending to countries with whom they were displeased for political reasons. Though perhaps less often, they also pushed the Fund toward lending to countries that were in political favor.[17] Even more subtly, staff judgments unquestionably were occasionally influenced by perceptions of whether countries were in international political favor. In most instances, however, political influences were limited, for three reasons. First, both management and most creditor-country officials placed a high value on the financial integrity and credibility of the Fund and were not willing to take major risks in compromising it. Second, the professional staff of the Fund had built up a very strong reputation for independent technical analysis, and the staff's recommendations therefore were nearly always accorded a dominant weight in the Fund's lending decisions. Third, unless creditor countries all agreed on a particular issue and were all prepared to take a stand on it, their views and votes would not have been decisive in the Executive Board.

[17]In 1987, C. David Finch resigned as Director of the Exchange and Trade Relations Department because of what he viewed as inappropriate political pressure on the Fund to lend to certain countries. See Chapter 20, pp. 1046–47.

The decisive role of political considerations in the emergence and settlement of external arrears, including arrears to the Fund, was in the provision or denial of bilateral official assistance to heavily indebted countries. In several cases, as noted above and detailed below, one factor cited by countries in arrears to the Fund was the reduction or withholding of economic assistance by major donors. To some extent, the declines in aid may have been motivated by concerns over whether the recipients were putting the money to effective use, but political factors also were important. Once a country developed arrears, especially when arrears remained outstanding and continued to accumulate for several years, a resumption of foreign aid (or, in less severe cases, a bridging loan) became the sine qua non for resolving the problem. Donor countries then had considerable leverage for affecting the conditions under which arrears might be settled. Such considerations did not directly involve the Fund, but they did set the environment within which the arrears problem was played out.

Digging the Hole: Loans That Went Bad

From 1985 through 1989, the Fund declared 10 countries ineligible to use its resources because of outstanding arrears. One other country, Zaïre, borrowed regularly during the 1980s and later proved unable to repay those debts; Zaïre was declared ineligible in September 1991. The first three cases to reach the stage of ineligibility were all small countries with intractable problems; all south of the Tropic of Cancer, though on three different continents: Vietnam, Guyana, and Liberia.

Vietnam

The Republic of Viet-Nam, as it was then called, became a member of the Fund on September 21, 1956. Under the terms of the July 1954 Geneva Agreements, Viet-Nam was a single political entity with a military demarcation line dividing north and south. The Republic government controlled the south but claimed sovereignty over the entire country. It never drew on Fund resources, although it attempted to do so in the final days before troops supported by the Democratic Republic of Viet-Nam (which controlled the north) captured Saigon (later Ho Chi Minh City) on April 30, 1975. That attempt failed because of fears in the Fund that officials fleeing Saigon would almost certainly abscond with the money. On receiving a request to draw the country's gold tranche, to use the full allocation of SDRs, and to borrow through the Oil Facility, the Managing Director (H. Johannes Witteveen) put the question to the Executive Board as to whether a proper request from a member could be denied. The Fund's Articles of Agreement did not provide for such a refusal, but the Fund's General Counsel (Joseph Gold) observed that the Articles did not cover a situation in which a danger existed that the member state might soon cease to exist. Although a substantial majority of the Board preferred to grant the requests for the gold tranche (SDR 15.5 million) and the use of SDRs (SDR 19.7 million; for a total of $43 million), the Board agreed to a compromise proposal by management to seek further clarification of the con-

tinued authenticity of the authorities in Saigon, as a means of buying a little time until the military and political situation became clearer. No response was received to the Managing Director's cables, and the request thus was not pursued.[18] Later that summer, the Fund recognized the Provisional Revolutionary Government as the representative of the renamed Republic of South Viet Nam. The country was formally reunified on July 2, 1976, and the Socialist Republic of Viet Nam succeeded to membership on September 15.

The Socialist Republic moved immediately to draw on the Fund. Within a few months, the authorities drew the country's reserve tranche and nearly all of their allocated SDRs from the Fund, and applied for a CFF drawing for export shortfalls. They obtained that credit (for 50 percent of quota) in January 1977, drew on the first credit tranche in July 1978 and again in January 1981, and got two loans from the Trust Fund, in August 1978 and in March 1981. The authorities also sought a stand-by arrangement, but negotiations dragged on for years without an agreement on the required policy adjustments.

When the Executive Board considered these various requests from Vietnam,[19] the question of whether the government had the financial capacity to service additional debts did not arise. The usual concerns were expressed about the extent of the proposed adjustment measures, and a few Directors raised questions about what they saw as a major waste of scarce resources resulting from Vietnam's military occupation of Democratic Kampuchea (Cambodia).[20] These various concerns probably would have sufficed to defeat a request to borrow in the upper credit tranches, but not the modest amounts that Vietnam requested.

Vietnam serviced its obligations with occasional difficulty through 1983 and then essentially stopped paying. At the end of 1983, Vietnam's obligations totaled approximately SDR 28 million (16 percent of quota; $29 million) to the GRA and SDR 61 million ($64 million) to the Trust Fund (Figure 16.2). Interest charges and rescheduled repayments on those obligations, plus charges due on the use of SDRs, would total a little over SDR 10 million during the first half of 1984.[21]

When the Fund complained about the arrears in February 1984, the authorities responded that they had asked their correspondent banks in the United States to transfer the required funds to the IMF, but that the U.S. government was blocking them from doing so. That blockage dated back nearly a decade, to the day of the capture of Saigon in 1975 and about a year before the Socialist Republic succeeded

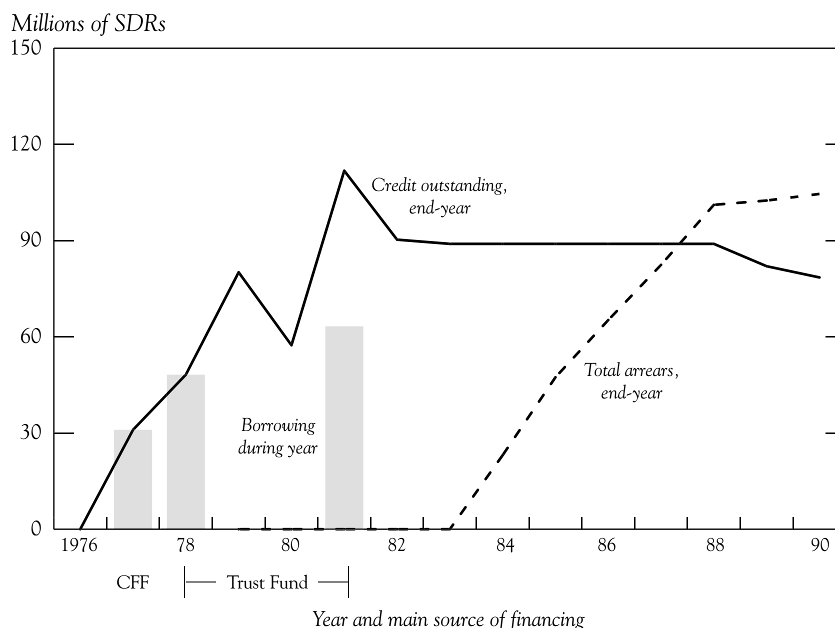
[18]See the Secretary's summary of the discussion in restricted session at EBM/75/63 (April 23, 1975) and EBM/75/64 (April 25); and "Special Drawing Account—Restricted Session," EBAP/75/199 (July 24, 1975). For a reasonably accurate contemporaneous account, see Rowan (1975).

[19]The single-word form, "Vietnam," was officially adopted in the Fund in 1995.

[20]See minutes of EBM/81/3 (January 7, 1981). Vietnam engaged in a war against the Khmer Rouge rulers of Cambodia in 1976–78, defeated the Khmer Rouge in 1978, and then ruled the country through a puppet government until September 1989. International opinion widely denounced the occupation, which contributed to Vietnam's difficulties in restoring normal relations with the IMF and other multilateral institutions.

[21]"Viet Nam—Overdue Financial Obligations to the Fund—Report and Complaints Under Rules K-1 and S-1 and Notice of Failure to Repay Trust Fund Loan," EBS/84/142 (June 29, 1984), p. 1.

Figure 16.2. Vietnam: Use of Fund Credit and Arrears, 1976–90



to membership.[22] The Fund could do nothing to resolve that political issue, but the Executive Board did note that Vietnam held more than enough unencumbered gold reserves to service its overdue obligations to the Fund without touching the blocked assets in U.S. banks.[23]

[22]Blocking the transfer of bank deposits abroad constitutes an exchange restriction that is subject to the jurisdiction of the Fund. If the restriction is imposed for reasons of national security, the member is required to notify the Fund of the restriction, and the Fund may decide that it is not satisfied with the explanation. (See Horsefield, 1969, Vol. 1, pp. 275–76, and Vol. 3, p. 257.) In July 1975, the U.S. authorities represented to the Fund (without objection from the Executive Board) that the restrictions on Vietnam had been imposed for national security purposes. "United States—Restrictions on Payments and Transfers—South Vietnam and Cambodia," EBD/75/173 (July 21, 1975).

[23]Minutes of EBM/84/115 (July 27, 1984). For background information, see "Viet Nam—Overdue Financial Obligations to the Fund—Report and Complaints Under Rules K-1 and S-1 and Notice of Failure to Repay Trust Fund Loan," EBS/84/142 (June 29, 1984) and "Viet Nam—Overdue Financial Obligations to the Fund—Report and Complaints Under Rules K-1 and S-1 and Notice of Failure to Settle Trust Fund Obligations," Sup. 1 (July 25). As of July 1984, when the Executive Board first reviewed Vietnam's arrears, the central bank held a minuscule level of usable foreign exchange reserves: $16 million, which was equivalent to about two weeks' worth of convertible currency imports. Net reserves were negative. The authorities also held $163 million of assets in blocked accounts in U.S. banks, and approximately 735,000 ounces of gold reserves. The portion of gold reserves that was not already pledged as collateral was worth approximately $150 million at the market price. Vietnam's overdue obligations to the Fund totaled only $14 million, but the discounted present value of future obligations was about $100 million. To avoid slipping back into arrears during the next few years while maintaining even a minimum level of reserves would have required either a drastic shift in policies and economic

The origin of Vietnam's arrears problem in 1984 appears to have been frustration by the authorities over their inability to get the Fund to approve a stand-by arrangement on terms that they could accept. The government had been seeking a stand-by arrangement without success since 1977, and since April 1981 had been repaying the Fund without getting any new credits. Beginning in late 1983, the central bank governor, Nguyen Duy Gia, began telling IMF officials that he was even wondering whether Fund membership was worthwhile if the country could not get a stand-by arrangement in the upper credit tranches.[24] The staff view, however, was that Vietnam needed to undertake a serious and comprehensive program of macroeconomic reforms to achieve a sustainable position in its balance of payments.

In April 1984, Gia indicated to the staff that the government was prepared to pay its arrears to the Fund if the Fund would promise to grant a stand-by arrangement soon afterward. Fund policies precluded management from making such a promise, because a stand-by arrangement could be approved only after agreement on an adjustment program and only upon review by the Executive Board. Since the staff was prepared to negotiate a program as soon as arrears were settled, and since the issues that remained outstanding after years of discussion were clearly understood, the distance between the authorities and the institution was not great. Whether the failure to bridge the gap was due to a misunderstanding, or to mutual distrust, or to substantive issues regarding the required degree of economic adjustment, is a matter of interpretation. What is clear is that during this brief period when arrears were small and Vietnam had the resources to settle the balance, the opportunity slipped away.

The Executive Board agreed in July 1984 that Vietnam could and should settle its arrears, and it established August 29 as the date on which it would restrict Vietnam's access to Fund resources if the arrears remained outstanding. Informing the authorities of the deadline, the Deputy Managing Director, Richard D. Erb, suggested that they use their gold holdings for the purpose. Gia ignored that suggestion and responded by stressing the extreme hardships being faced by the population and by requesting a rescheduling of the overdue obligations.[25]

The restriction took effect as scheduled in August 1984. When no further payments were made over the next few months, the Board then took action in December to declare Vietnam formally ineligible to use Fund resources as of January 15, 1985 (the first such declaration to take effect). The Board also considered Vietnam's request to reschedule its overdue obligations, but it declined to do so

---

circumstances, or access to both the gold and the blocked accounts. In the event, Vietnam sold most of its unencumbered gold before the end of 1984 to pay for imports and forfeited the gold that had been pledged as collateral.

[24]See, for example, memorandum of March 23, 1984, by the head of that year's Article IV mission to Vietnam, Willem G.L. Evers (Advisor in the Asian Department); in IMF/RD Managing Director file "Viet Nam" (Accession 85/231, Box 1, Section 177).

[25]See minutes of EBM/84/115 (July 27, 1984); and cables from Erb (August 15) and Gia (August 21 and 22), in IMF/CF (C/Viet Nam/750 "Obligations Under Fund Agreement January 1984–May 1986").

and instead reaffirmed its intention that such action should be held in reserve only for truly exceptional circumstances.[26]

Guyana

The seeds of Guyana's arrears to the Fund were planted in June 1979, when the Executive Board approved a three-year EFF arrangement for SDR 62.75 million (250 percent of quota; $80 million). Guyana had already borrowed heavily from the Fund in the previous three years, but this extended arrangement would be much larger.[27] The economy had been severely and adversely affected by weak international prices for sugar, the principal export crop, and no Executive Director objected to what in retrospect would appear to have been an unrealistic adjustment program.[28]

The economy continued to worsen. Output had declined in 1977 and 1978 but was projected by the authorities to rise by 4½ percent in 1979 as a result of the EFF-supported adjustment program. In the event, output declined again because of a combination of external shocks, poor policy implementation, and a deteriorating domestic political situation. After an initial drawing of SDR 10 million ($13 million) upon approval of the arrangement, Guyana's program quickly went off track.

A year later, the authorities came back to the Fund with a new program and (reflecting the quota increase that was about to take effect) a request to replace the original arrangement with a larger one, for SDR 100 million ($133 million): an amount that would have raised Guyana's obligations to the Fund to nearly 450 percent of the new quota if it had been fully drawn. Moreover, the staff acknowledged that even this amount was not expected to produce a sustainable external balance; a further augmentation would be requested once a better track record on adjustment had been established and the quota increase had taken effect. Guyana had very low foreign exchange reserves and was in arrears to some of its bilateral official creditors; the credit from the Fund would go in part to reduce those arrears. Despite the failure of the previous program, the unusually large scale of the arrangement, and the need to lend into external arrears, the new extended arrangement was approved without objection in July 1980.[29]

The 1980 program also was unrealistic, and the ceilings on domestic credit expansion were soon breached. Concerns on the Board began to escalate a little, es-

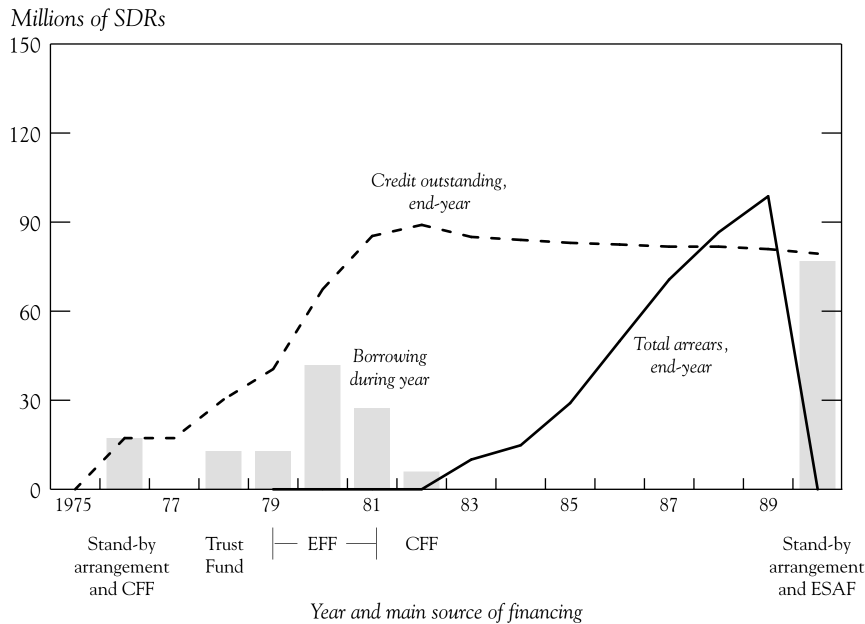
[26]See minutes of EBM/84/129 (August 29, 1984), on the request to postpone repayments, and EBM/84/173 (December 3, 1984), on the declaration of ineligibility.

[27]Guyana gained independence from the United Kingdom in May 1966 and became a member of the Fund four months later. The Fund approved 11 stand-by arrangements for Guyana from 1967 through 1978, but the government made drawings on only two of the first nine arrangements. Twelve-month arrangements approved in 1976 and 1978 were fully drawn. In June 1979, Guyana had outstanding obligations to the Fund of SDR 32.4 million (130 percent of quota; $41 million).

[28]Minutes of EBM/79/98 (June 25, 1979).

[29]Minutes of EBM/80/110–111 (July 25, 1980).

Figure 16.3. Guyana: Use of Fund Credit and Arrears, 1975–90



pecially from the Directors for the United States, the United Kingdom, Canada, and the Netherlands. Overall, however, the Board viewed Guyana as having been unlucky ("accident prone"), and most Directors were prepared to give the authorities the benefit of the doubt. A waiver was granted for the missed ceilings, and Guyana made a second drawing.[30]

The situation did not improve. Credit ceilings again were breached at the end of 1980, and no drawings were made during the first half of 1981. Nonetheless, the Board agreed in July to augment the arrangement to SDR 150 million ($170 million) and to allow an immediate drawing of SDR 16.1 million ($18 million), which raised Guyana's obligations to the Fund (Figure 16.3) to approximately SDR 78 million (208 percent of quota; $89 million). All of that, as Donald E. Syvrud (Alternate—United States) remarked with only a slight technical hyperbole, "without a single performance criterion having been met."[31] No further drawings were made under the extended arrangement, and it was canceled a year early, in July 1982.

The record is clear in this case that the Fund recognized (or acknowledged) too late the authorities' inability to carry out their policy intentions. The staff appraisal for the July 1981 review argued that "Guyana's economy has suffered severe setbacks since 1977, partly because of developments beyond the control of the

[30]Minutes of EBM/80/163 (November 7, 1980).
[31]Minutes of EBM/81/103 (July 10, 1981), p. 12.

Guyanese authorities."[32] Whatever policy failings were implied by that "partly" were left unspecified, and the report concluded that the "measures already adopted represent a substantial effort, and the authorities have indicated their willingness to consider additional steps should they prove to be necessary." Three years later, with the economy in a complete shambles, the staff reversed the emphasis: "While [external] factors were important, Guyana's poor economic performance is attributable in large measure to inappropriate policies followed over the past several years."[33]

The residue of the failure of Guyana's economic policies to cope with extraordinarily difficult circumstances was an inability to service the additional debts that had accumulated. Beginning in April 1983, the authorities began to fall behind in meeting their payments to the Fund. During the next year, they made a few small payments, but not enough to keep arrears from accumulating. By a year later, arrears (all to the GRA) totaled SDR 14 million ($15 million). The Executive Board then reviewed the situation and set a date in June 1984 to consider taking formal action to restrict Guyana's further access to Fund resources.

Following the April Board meeting, de Larosière wrote directly to the president of Guyana, L.F.S. (Forbes) Burnham, stressing the importance to Guyana of finding a means of settling with the Fund. Burnham, however, responded that "domestic adjustment alone" could not enable the government to repay its arrears, and he requested de Larosière's assistance in securing additional external resources.[34] Without a viable adjustment program in place, however, the Managing Director obviously could not comply with that request.

In taking up the Managing Director's complaint against Guyana under Rule K-1, the Executive Board had to search for the right approach, as this was the first such complaint to reach this stage since approval of the new procedures.[35] Options included (1) declaring Guyana to be ineligible to use Fund resources (in effect, ineligible to borrow), (2) deciding that Guyana may not use Fund resources until it becomes current in its payments on interest and principal, or (3) giving the authorities more time before taking any action. Failure to send a strong signal to the authorities on the essentiality of eliminating arrears could perpetuate the problem;

[32]Guyana's leading export was bauxite. Bauxite mining requires large amounts of fuel, virtually all of which had to be imported. Three conditions combined at the beginning of the 1980s to cause the net value added in this sector to plummet: the world price of oil rose sharply, world demand for bauxite dropped, and international competition in supplying bauxite intensified. The government's efforts to adjust to the shocks were hampered by widespread protests and work stoppages.

[33]"Guyana—Consultation Under Extended Arrangement," EBS/81/143 (June 29, 1981), pp. 13–14; and "Guyana—Staff Report for the 1984 Article IV Consultation," SM/84/158 (July 5, 1984), p. 2.

[34]The exchange of letters was circulated as "Guyana—Overdue Obligations," EBS/84/127 (June 4, 1984). On the decline in capital inflows, see "Guyana—Recent Economic Developments," SM/84/169 (July 20, 1984), pp. 45–46. Official development assistance to Guyana had been declining for several years, owing to the government's poor record of implementing projects financed with foreign assistance and to an increasingly objectionable record of human rights abuses. Private capital inflows had dropped sharply after an extensive nationalization program in the mid-1970s.

[35]As noted above, the complaint on Vietnam initially came to the Board the following month, in July 1984.

but without some flexibility and support from the Fund, it was difficult to see how the government could ever take the necessary steps to generate the resources to repay the Fund.[36]

Burnham underscored the seriousness of his own concern by sending his minister of finance, the governor of the central bank, and the ambassador to the United States to participate in the Executive Board meeting on June 6. The minister, Carl B. Greenidge, told the Board that the government "was willing to implement stringent measures" if it could get enough external financing to support them. He requested the "technical assistance" of the staff in designing an adjustment program. Since the Fund's policies prohibited the staff from negotiating a Fund-supported program with a country in arrears, this technical assistance option might offer a way to persuade other creditors and donors that Guyana was trying seriously to put its policies on the right track. Directors responded by taking the middle road and offering a carrot along with the stick. The Board decided that Guyana could not use Fund resources until it was current, offered to provide technical assistance on macroeconomic policies, and agreed to conduct a review within three months.[37]

When the Board reviewed the situation at the end of August 1984, Guyana had made some payments to the Fund, but less than the amount of new payments coming due. Thus the total amount in arrears had risen, from SDR 16 million in June to more than SDR 19 million (and approximately the same in U.S. dollars). Moreover, in the judgment of the staff, little effective change was evident in the conduct of economic policies. The outlook thus was even more bleak than before, but because the authorities were cooperating with the Fund and were actively seeking financial help from other sources, the Board agreed to give them another three months before considering taking stronger action.[38]

For several months, Guyana teetered between progress and relapse. Extremely heavy rains in October severely reduced the sugar harvest and further weakened the balance of payments. Nonetheless, the government paid enough to the Fund to reduce its arrears below SDR 15 million by end-November. With that in mind, the Board again agreed to postpone consideration of ineligibility for another 10 weeks.[39] By that time (mid-February 1985), arrears were rising again even though Guyana was continuing to make whatever payments it could out of its trickle of earnings. The Board accepted the authorities' argument that Guyana's circum-

[36]At the end of 1984, Guyana held $5 million in official reserves and had over $600 million in external payments arrears. Although arrears to the Fund were a relatively small portion of the total, the Fund was Guyana's single largest external creditor. See "Guyana—Staff Report for the 1985 Article IV Consultation," SM/85/287 (October 30, 1985), p. 7; and "Overdue Financial Obligations to the Fund—Further Review of the Decision on Complaint Under Rule K-1," EBS/85/36 (February 13, 1985), p. 5.

[37]Minutes of EBM/84/88 (June 6, 1984).

[38]Minutes of EBM/84/131 (August 31, 1984). Also see "Guyana—Review of Decision to Limit Use of the Fund's General Resources," EBS/84/47, Sup. 4 (August 29, 1984).

[39]Minutes of EBM/84/172 and 173 (December 3, 1984). Also see "Guyana—Overdue Financial Obligations to the Fund—Second Review of Decision on Complaint Under Rule K-1," EBS/84/244 (November 28, 1984).

stances were particularly serious at the moment because of a seasonal trough in export receipts, but most Directors also were convinced that Guyana had to make a much stronger effort to put its economic policies on a sustainable course. The Board again agreed to postpone declaring Guyana ineligible, but it tightened the language of its decision a bit.

Although it might seem that the Board was continually putting off the moment of decision on Guyana, it actually was moving inexorably toward it. The process may be seen by comparing the relevant language from these first three reviews of the June 6 decision to restrict access:[40]

- *August 1984*: "The Fund calls upon Guyana . . . to become current on its financial obligations to the Fund. . . . The Fund shall further review [the June 6 decision] not later than November 30, 1984."
- *December 1984*: "Unless [by February 15, 1985] Guyana is current in its financial obligations to the Fund, the Fund will consider the appropriateness of further steps, including the possibility of declaring Guyana ineligible to use the general resources of the Fund. . . ."
- *February 1985*: "It is expected that a decision to declare Guyana ineligible to use the Fund's general resources . . . will be taken, with effect on [May 15, 1985] . . . in the absence of full settlement . . . by that date."

Little changed during the next three months. Guyana continued to make small payments, and arrears continued to rise. Overall, in the 14 months since the Managing Director issued a formal complaint regarding Guyana's arrears, the authorities had paid more than SDR 15 million to the Fund, but arrears had risen from SDR 14 million to SDR 18.7 million. Although the Fund's Executive Directors clearly wanted to encourage Guyana to keep making whatever payments it could, several of them also expressed a need to apply the Fund's principles firmly and evenly and to send clear and proper signals on the need for countries to cooperate fully with the Fund. In a close vote on May 15, 1985, split almost cleanly between creditor and other countries, the Executive Board declared Guyana ineligible to use Fund resources.[41]

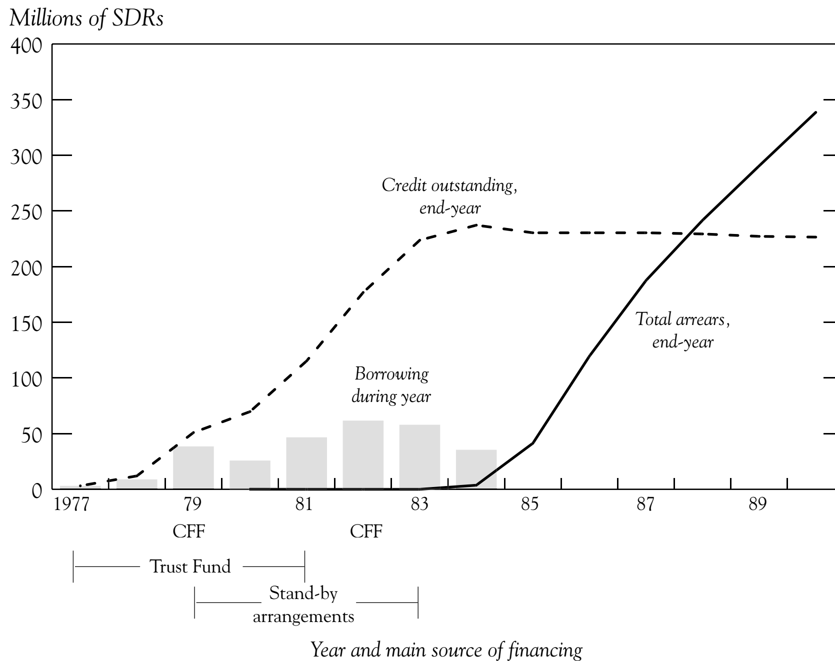
Liberia

Liberia's arrears resulted from a nexus of internal and external political difficulties. Although never a colony, Liberia had always had close linkages to the United States and depended heavily on it for financial support. When that support evaporated after 1984, the government was unable to put its policies on a sustainable course.

[40]Decision No. 7792-(84/131), adopted August 31, 1984; Decision No. 7854-(84/173), adopted December 3, 1984; and Decision No. 7906-(85/24), adopted February 15, 1985.

[41]All but one of the Directors from the Group of Ten (G-10) industrial countries (the exception being the Belgian chair), plus those from Australia and Saudi Arabia, voted in favor of declaring Guyana ineligible. The other nine Directors either opposed the proposal outright, or favored a further postponement, or supported a compromise proposal by Alexandre Kafka (whose constituency included Guyana) to negotiate a rescheduling of Guyana's obligations.

Figure 16.4. Liberia: Use of Fund Credit and Arrears, 1977–90



The Fund entered into 13 stand-by arrangements for Liberia between 1963 (one year after Liberia became a member) and 1979. Credits under those arrangements, however, were small, and by the end of 1978, Liberia's only outstanding debts to the Fund were for long-term Trust Fund loans. A new government, led by a young army sergeant, Samuel K. Doe, took power in a violent military coup in April 1980. The Fund then extended sizable credits to Liberia on a regular basis through the end of 1984. During those four and a half years, Liberia's indebtedness to the Fund rose from SDR 29 million ($37 million; 75 percent of quota) to SDR 213 million ($209 million; 298 percent).[42] Throughout, except for a few months in mid-1984, Liberia stayed current on its repayments (Figure 16.4).

The final stand-by arrangement for Liberia was approved by the Executive Board on December 7, 1984. The government made the initial drawing a week later, and on December 17 the Paris Club agreed to reschedule certain of Liberia's debts to official creditors. Two days later, Liberia failed to make a scheduled repayment to the Fund and started down the road to protracted arrears. The sudden shift from cooperation to defiance caught the Fund and other creditors completely by surprise and left them with few options for trying to get relations back on course.

[42]In addition, in 1977–81, Liberia borrowed SDR 28.3 million from the Trust Fund. By the end of 1980, Liberia also had used all of its allocated SDRs.

Liberia faced two major fiscal problems at the beginning of 1985. First, with presidential elections scheduled for October, the government was sharply increasing spending. The Fund staff later would estimate that spending was up 22 percent over the previous fiscal year despite a serious decline in revenues. Second, the U.S. government—reportedly upset both with the deterioration in economic management and even more with the dubious progress being made toward restoring democracy[43]—quietly withheld disbursing a substantial portion of an expected $60 million in grants, on which the government had been counting to cover some 17 percent of budgeted spending. Neither development had been anticipated by the staff during the negotiations on the stand-by arrangement, and together they destroyed any hope of either meeting the performance criteria for the arrangement or making the substantial repayments that were now coming due on the earlier Fund stand-by arrangements.

The Managing Director soon issued complaints to the Executive Board regarding Liberia's growing arrears to the GRA and the SDR Department, and a notice on arrears to the Trust Fund.[44] When the Board considered the complaints and notice in May, Liberia's financial situation was evidently hopeless: the central bank held some $2 million in reserves, while payments arrears to all external creditors totaled $58 million. The U.S. Executive Director, Charles H. Dallara, defended his country's withholding of aid on economic grounds, stating that "bilateral creditors could not be expected to provide additional financial support for an adjustment effort that they believed would not succeed." The Board accepted that Liberia's problems were attributable to the government's own failings, and it agreed to restrict the country's access to Fund resources until arrears were cleared.[45]

Three months later, in late August 1985, the Board conducted its first review of the restriction of Liberia's access. Although the Executive Director speaking for Liberia, E.I.M. Mtei (Tanzania), pleaded for flexibility on the grounds that the Fund was asking the government to commit political suicide,[46] that prospect was scarcely viewed with alarm around the table. Following a pattern and a schedule

[43]Doe agreed in 1981 to reestablish civilian rule by 1986. A new constitution was approved by plebiscite in 1984, and the initial elections were scheduled for October 1985. Doe announced his candidacy for the presidency in August 1984, and in the following months he sharply limited the number of parties eligible to participate. He won the election with just over 50 percent of the vote and was inaugurated as president on January 6, 1986. For a detailed history of the period, see Liebenow (1987), especially the discussion of the role of U.S. aid and other support (pp. 303–06). Liebenow stressed the limited nature of the U.S. withdrawal of aid, whereas the Fund staff and the authorities were particularly concerned about the delays in disbursing the anticipated aid. For the staff position, see memorandum from Goodall E. Gondwe (Deputy Director of the African Department) to the Managing Director (September 13, 1985); IMF/RD African Department file "Liberia—Correspondence, June 1985–" (Accession 87/051, Room 4843, Section 5-6-9).

[44]"Liberia—Overdue Financial Obligations to the Fund," EBS/85/17 (January 18, 1985).

[45]Minutes of EBM/85/80 (May 24, 1985), pp. 29 (data on reserves and arrears), 31 (Dallara), and 37–38 (decision to restrict access).

[46]Mtei calculated that to generate the required foreign exchange, the government would have to implement tax increases or spending cuts drastic enough to shift the fiscal balance from a deficit equal to 13 percent of GDP to a surplus during the next three months.

similar to that adopted in dealing with Guyana's arrears a few months earlier, Directors decided that they expected to declare Liberia to be ineligible in another three months if arrears to the Fund were not cleared.[47]

During the final few weeks before the elections, the government made two payments to the Fund, totaling SDR 17.7 million ($19 million), which reduced arrears by about one-third. After Doe was narrowly elected president and then fought off an attempted coup in November, he began implementing an adjustment program that included sharp cuts in public sector salaries. This strong and ongoing economic effort put the Executive Board in a bind. It had already decided that it would declare Liberia formally ineligible to use Fund resources if it did not totally clear its arrears by late November. That draconian demand had not been met, but the government clearly was again cooperating and probably was doing as much as it realistically could to contain the problem. So the Board took a Solomonesque stand that it would use in several other cases during the next few years: it declared Liberia ineligible but deferred the effective date to late January to give the authorities a little more time.

The declaration was to take effect on January 24, 1986 without any further action by the Board, unless either the Managing Director or an Executive Director called for a meeting. As the date approached, Liberia had made no further payments to the Fund, and arrears had risen to a new high of SDR 52 million ($58 million; 73 percent of quota). At Mtei's request, the Board did hold a meeting on the subject on January 24, but not a single other Director spoke up on Liberia's behalf. The earlier decision was allowed to stand, and Liberia became ineligible to use Fund resources as of that date.

Sudan

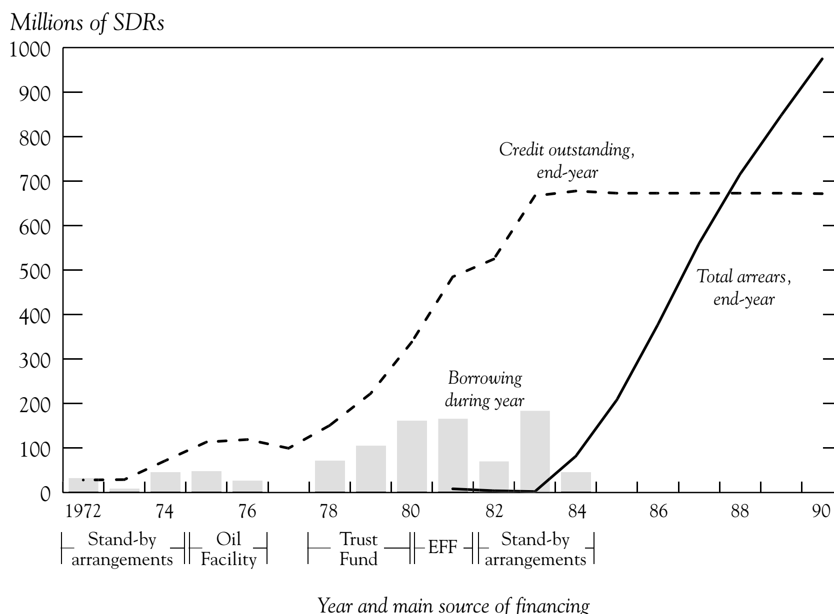
The fourth country to be declared ineligible to borrow involved much larger sums of money than the first three. Sudan's arrears to the Fund ultimately would exceed a billion SDRs and would be larger than those of any other country.

For most of the 1970s, Sudan's economic prospects looked reasonably good. The world market for the major export crop—cotton—was strong and fairly stable, and Sudan had large undeveloped petroleum reserves that became more valuable as the decade progressed. The government undertook three successive one-year stand-by arrangements in 1972–74 and made most of the scheduled drawings. It continued to borrow, through the oil facilities and the CFF, during the next two years, by which point it had outstanding debts of SDR 134 million ($154 million; 186 percent of quota). Those claims initially were serviced without difficulty, and in 1977 and 1978, the Fund's exposure in Sudan was gradually reduced and stabilized (Figure 16.5).

Commercial banks, no doubt eager to gain a foothold in anticipation of future oil production, also lent heavily to Sudan in the 1970s. The ready availability of

[47]Minutes of EBM/85/126 (August 26, 1985), pp. 28 (Mtei) and 33 (decision).

Figure 16.5. Sudan: Use of Fund Credit, 1972–90



both official and commercial loans induced the government to increase outlays sharply, much of it for current expenditure rather than capital investment. Consequently, loan repayments began to slip as early as 1976, and the banks began to show more caution in increasing their exposure. All external creditors, however, were hamstrung in trying to analyze the extent of the debt problem, because recorded budgetary appropriations covered only the debts incurred directly by the ministry of finance. Government agencies were borrowing independently and without any comprehensive record keeping. Total public sector debts were much larger than anyone realized, and the extent of the underreporting would not become fully known for several more years.[48]

Heavy flooding in this often parched country devastated the cotton harvest in 1978, just as the supply of bank credit was drying up. The Fund tried to help Sudan cope with the natural disaster by negotiating an adjustment program and providing a total of SDR 71 million ($89 million; 81 percent of quota) in credits through the first credit tranche, the CFF, and the Trust Fund. Even that combination of adjustment and financing proved inadequate, and Sudan was unable to eliminate its arrears to the banks. As gradually became apparent over the next several years, a good part of the problem was that cotton production was being weak-

[48]The uncovering of the extent of external debt is summarized in an August 16, 1982 memorandum to the Managing Director from A. Shakour Shaalan (Director of the Middle Eastern Department); IMF/RD Managing Director file "Sudan, 1982—Vol. II" (Accession 84/21, Box 5, Section 168).

ened by poor administration, disincentives arising from controls, and other internal problems, not just by unusually bad weather.

In May 1979, the Fund approved a three-year EFF arrangement for Sudan for SDR 200 million ($254 million; 227 percent of quota), under which the government was expected to eliminate its external arrears. (Throughout this period, Sudan was frequently late in making payments to the Fund, but those arrears were settled within several weeks of the due dates.) For the next year and a half, Sudan adhered (with occasional lapses) to the general thrust of its policy intentions, but the settlement of arrears with commercial creditors remained elusive.

During the summer and fall of 1979, the authorities opened negotiations with a group of creditor banks and applied for a rescheduling of official debts through the Paris Club. The latter effort succeeded in November, but negotiations with the banks dragged on for two more years. Meanwhile, the World Bank provided assistance to rehabilitate the agricultural sector and improve export performance, and the Fund granted additional Trust Fund loans. Moreover, in anticipation of the general quota increase that was about to take effect, the Fund augmented the amount of the extended arrangement in November 1980 and supplemented it by a further CFF purchase. Throughout this period, the staff—still working with underestimated debt figures—was led to believe that the financing gap was manageable with a reasonable adjustment effort.

At the beginning of 1981, the economic program went off track, owing to excessive growth of net domestic credit and the authorities' failure to settle arrears that had arisen on official debts rescheduled by the Paris Club.[49] One more drawing on the EFF arrangement was allowed, in June 1981, after Saudi Arabia lent Sudan enough money to settle its arrears to official creditors. Efforts to negotiate the third year of the program then failed, and a second Paris Club rescheduling was repeatedly postponed. In September, Sudan again went into arrears to the Fund, when the authorities failed to make a scheduled repayment for a drawing under the Oil Facility. For the first time, Sudan was unable to settle in a reasonable time, and arrears continued to mount for the next few months. The Managing Director notified the Executive Board in December that Sudan had

[49]The efficacy of Fund-supported adjustment programs in Sudan has been much debated. A central element in the programs of the late 1970s and early 1980s was depreciation of the exchange rate, aimed at strengthening international competitiveness of key sectors of the economy. The supply-side elements of the strategy were explained by Nashashibi (1980) and were subsequently criticized by several outside analysts, such as Hussain and Thirwall (1984), Ali (1985), Diwan and Hu (1986), and Branson and Macedo (1989). Brown (1992, pp. 205–207) summarized the criticisms, which dealt both with the likelihood of nominal devaluation depreciating the real exchange rate and with the uncertain linkages between a change in the real exchange rate and competitiveness in the particular markets that were relevant for Sudan. Doubts about the strategy were prevalent in Khartoum and no doubt contributed to the authorities' failure to implement the agreed programs. For an example of the authorities' reluctance to implement the Fund's recommendations, see memorandum from Shaalan to the Managing Director, February 5, 1985; IMF/RD Managing Director file "Sudan" (Accession 87/27, Box 5, Section 535).

some SDR 8 million ($9.3 billion) in overdue obligations, but the authorities brought their payments up to date in February 1982 and no formal complaint was issued.[50]

During the first quarter of 1982, the Fund and other external creditors took an unduly sanguine view of Sudan's prospects. After commercial banks and Paris Club creditors provided enough support to enable Sudan to settle its arrears to the Fund, the Board approved a stand-by arrangement in February for SDR 198 million ($224 million; 150 percent of quota). The Executive Board broke new ground (and qualified its optimism) by requiring the authorities to promise, as a condition for approval of the arrangement, that they would not make any drawings if they had any overdue obligations to the Fund.[51] The practical effect of that prohibition, however, was limited because the stand-by arrangement was unusually front-loaded: Sudan was able to draw SDR 70 million (35 percent of the total) immediately.

Optimism was still being fueled by the prospects for cotton and petroleum exports, by a lack of knowledge about the extent of external debts, and (for bilateral creditors) by respect for Sudan's strategic role in the region. A further Paris Club rescheduling was completed in March, but the apparent equilibrium then quickly came unglued. The adjustment program was not carried out, and no additional drawings could be allowed under the stand-by arrangement; commercial creditors became increasingly wary of maintaining their exposure; and donors became reluctant to provide aid in the absence of supplementary financing from creditors. Without adjustment or external support, Sudan again fell into arrears to the Fund on three separate occasions before the end of the year.[52]

By the time of the Annual Fund-Bank meetings in Toronto in September 1982—the meetings that focused so intently on the debt crisis in Latin America—the full extent of Sudan's external debt had become known. It was now clear that Sudan could not solve its problems through adjustment alone; a broad international program of debt relief would be required if Sudan was to have any hope of servicing all of its debts. De Larosière arranged for André de Lattre, a distinguished French official and banker, to coordinate that effort on behalf of the Fund and the World Bank, while the staff set out to negotiate an economic program that could be supported by yet another Fund stand-by arrangement.

Both the aid coordination and the program negotiations went smoothly, and by early 1983, economic policies and conditions seemed to be getting back on course.

[50]See "Sudan—Overdue Financial Obligations to the Fund," EBS/81/244 (December 10, 1981) and "Text of Stand-by Arrangement—EBM/82/19 (2/18/82)," EBS/82/7, Sup. 2 (February 23, 1982).

[51]A similar condition was included in some later stand-by arrangements, and in 1984 it became a routine practice until the Board adopted a general policy prohibiting drawings by countries in arrears. See Chapter 13, footnote 114, p. 603.

[52]"Sudan—Overdue Financial Obligations," EBS/82/147 (August 18, 1982) and "Settlement of Overdue Financial Obligations," Sup. 2 (October 12, 1982); and cables in IMF/CF (C/Sudan/1750 "Repurchase Obligations, 1979–1984").

In February, the Board approved a stand-by arrangement that would turn out to be the only one that was fully drawn by the Sudanese.[53]

The economy was temporarily improving in 1983 in response to a strengthening of structural policies: a new incentive system for farmers that produced a record cotton crop, liberalization of the exchange regime, elimination of many subsidies, and development of infrastructure including the transportation network. This progress, however, was short-lived. A drop in rainfall developed into a major drought that severely reduced agricultural output and exports for the next several years. Chronic disagreements between the dominant Islamic groups in the north and non-Islamic groups in the south erupted in violence in the spring and intensified into civil war in the fall following the imposition of Islamic law across the country.[54] With incomes falling and civil order breaking down, achievement of the political consensus needed to sustain adjustment became all but impossible.

Despite these setbacks and distractions, the authorities completed the 1983 program and entered into one more stand-by arrangement, approved by the Fund in April 1984. Unfortunately, the initial drawing under that arrangement would be Sudan's last from the Fund.[55]

All semblance of stability collapsed in the second half of 1984. In July, Sudan missed another due date and began accumulating what would eventually become the largest stock of arrears to the Fund. Economic conditions deteriorated rapidly, owing to the drought, a lack of foreign exchange to buy essential inputs for production and transportation, falling commodity prices, domestic strife (including a large flow of refugees from the civil war in the south), and budgetary excesses including subsidies effected through an artificial exchange regime. Staff discussions with major donors during the autumn revealed reluctance to provide assistance on the increasing scale that was required, and discussions with the authorities revealed unwillingness to undertake the required policy adjustments.

Until this point, although Sudan had experienced several lapses in paying the Fund on time, the Managing Director had avoided issuing a formal complaint, and the authorities had always found a way to settle arrears within a few months. Time had now run out. A complaint was issued in December 1984, noting that Sudan

[53]As discussed in Chapter 9, the Board initially approved the arrangement in principle, pending completion of the financing arrangements by the Paris Club, donor countries, and commercial banks that de Lattre was coordinating. The arrangement was for SDR 170 million ($185 million; 129 percent of quota); when fully drawn, it raised Sudan's overall indebtedness to the Fund to a peak level of 678 million ($720 million; 400 percent of quota).

[54]After Sudan gained its independence from joint British and Egyptian rule in 1956, it had a series of military and coalition governments until Colonel Gaafar Muhhamad al-Nimeiri seized power in a coup in 1969. Ethnic and religious strife quieted down after the southern region was granted partial autonomy in 1972, until it broke out again in 1983. Various efforts at national reconciliation after Nimeiri was overthrown in a 1985 coup were essentially unsuccessful. Brown (1992, Chapter 3) provides a good overview on the sociopolitical background to the economic problems of the 1980s.

[55]The arrangement was approved in principle in April and became effective in June after outside financing agreements were completed. The July drawing raised Sudan's outstanding obligations back to the peak level of SDR 678 million (see Figure 16.5).

already had arrears totaling more than SDR 80 million (approximately 45 percent of quota) and would owe the Fund more than SDR 900 million by 1991 if no further payments were made. The next month, the Director of the Middle Eastern Department, A. Shakour Shaalan, met with President Nimeiri in Khartoum, and tried to make a case for more effective economic management as an essential step toward restoring aid flows and regaining solvency. The president rejected Shaalan's arguments, blamed the Fund for adding to Sudan's problems by increasing the difficulty of obtaining foreign aid, and refused to undertake additional adjustment measures that might raise prices and lead to further social unrest.[56] A week later, on February 8, 1985, the Board restricted Sudan's access to Fund resources.

A military coup in April overthrew Nimeiri while he was en route to Khartoum from meetings with de Larosière and others in Washington. Despite the circumstances, the installation of a new government and a new economic team gave donor countries[57] a new reason for optimism. A resurgence of aid flows then gave the Fund a basis for resuming negotiations on a new adjustment program. When the Managing Director met with the new finance minister, Awad Abdel Magied, at the Annual Meetings in Seoul, Korea, in October 1985, it seemed possible to hope for success. Donor countries, led by the United States, were at least discussing ways to settle Sudan's arrears (which then amounted to SDR 167 million) and to close a massive $3 billion financing gap for the coming year, and Magied was ready to agree to a substantial strengthening of macroeconomic and structural policies. Suddenly, it then all fell apart again.

Although the final collapse came as the culmination of a long and depressing litany of shocks and mistakes, the critical period—the last slight chance to turn the economy around—came in October–November 1985. Magied went from Seoul to Washington for further meetings with the staff and management to put the final touches on a program that could be supported by a new stand-by arrangement in 1986. The Managing Director held two meetings with senior officials from donor countries to secure additional financing pledges. The prime minister, El-Gizouli Dafalla, went to Washington in late October for meetings with U.S. aid officials and with the Managing Director. On October 25, the Executive Board expressed a sense of urgency by giving Sudan only until January 3, 1986, to settle its arrears or to face a possible declaration of ineligibility.[58] The Managing Director,

[56]Memorandum from Shaalan to the Managing Director (February 5, 1985); IMF/RD Managing Director file "Sudan" (Accession 87/27, Box 5, Section 535). Also see statement by Shaalan at EBM/85/20 (February 8, 1985), pp. 29–31.

[57]Official aid to Sudan came primarily from the largest industrial countries and from Middle Eastern countries.

[58]Although the decision was widely supported by Executive Directors, different motivations were expressed. The staff had suggested two options: giving the authorities three months to clear arrears, but stating an expectation that the Fund would declare Sudan ineligible at that time if arrears were not cleared; or giving them just over two months (January 3 being the first date when the Board would meet after the elapse of two months on December 25) but stating only that a declaration of ineligibility might be considered at the end of that period. Which option was more severe was open to interpretation. "Sudan—Further Review of Decision to Limit Use of the Fund's General Resources," EBS/85/233 (October 21, 1985), and minutes of EBM/85/156 (October 25, 1985).

though, was anxious to avoid that outcome.[59] To give up on Sudan, with its economic and political importance and the sheer size of its obligations to the Fund, could have disastrous systemic consequences.

By the end of October, two difficulties were beginning to overshadow the progress of the preceding weeks. First, Dafalla did not share Magied's views on adjustment and was reluctant to endorse the package that had been carefully negotiated by the finance minister. Second, a combination of skepticism about economic reforms and concerns about Sudan's international political stance were causing some donors to back away from their plans to provide additional aid.[60] In early December, the cabinet in Khartoum rejected Magied's proposed policy package. Magied promptly resigned in protest, leaving his successor just four weeks to find an exit from a now-hopeless situation.

The Executive Board met as scheduled on January 3, 1986, and decided to give Sudan one more opportunity. Directors declared Sudan ineligible but—as it had for Liberia—deferred the effective date by a month.[61] Negotiations continued both in Khartoum and Washington, but the best that the government could do was to pay SDR 9.1 million ($10 million) out of the SDR 235 million that was then overdue and to propose several policy changes that, in the staff's judgment, fell "far short of" the program negotiated in October.[62] On February 3, at the end of a discussion in which Directors expressed much sympathy for the extreme difficulties faced by Sudan but found no realistic basis for further delay, the declaration of ineligibility took effect.[63]

Peru

The Fund lent heavily to Peru in the late 1970s, when three successive standby arrangements and other credits raised Peru's indebtedness to the Fund from zero at the beginning of 1976 to SDR 426 million in mid-1980 ($564 million; 260 percent of the 1980 quota). Under an extended arrangement and a subsequent standby arrangement that were active for two years from June 1982, outstanding obligations rose further (Figure 16.6), to SDR 726 million ($750 million; 219 percent of the 1984 quota). By then, however, economic conditions in Peru were badly deteriorating.

---

[59]See memorandum of November 20, 1985, to the Managing Director from Robert M.G. Brown (Personal Assistant to the Managing Director) in IMF/RD Managing Director file "Sudan II" (Accession 87/136, Box 3, Section 168).

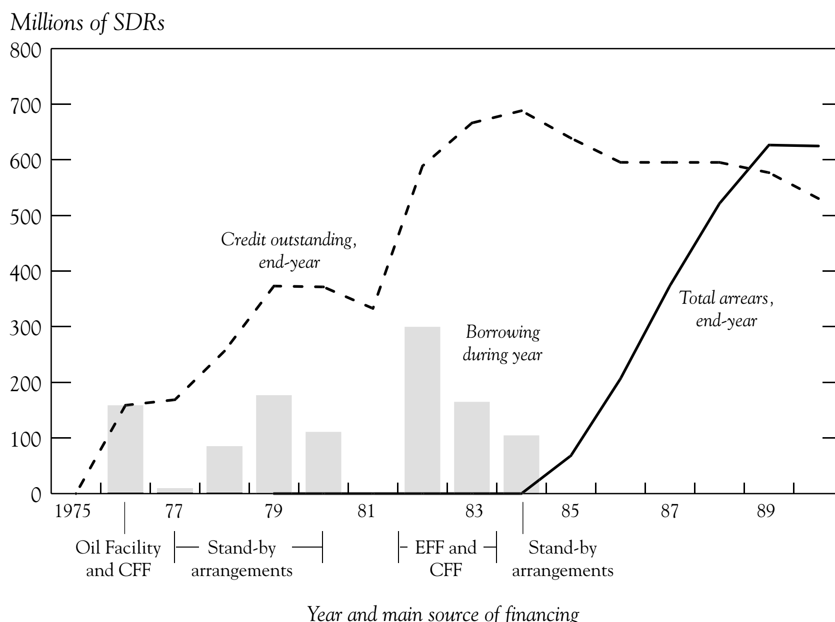
[60]During the second half of 1985, Sudan moved to strengthen its relations with certain countries that Nimeiri had shunned, including Libya. The U.S. government accused Sudan of harboring Libyan terrorists, issued a series of warnings, and in November sharply reduced the size of its embassy staff in Khartoum in protest. That response, however, was muted, and the main argument given for restricting aid was the inadequacy of economic policies.

[61]Minutes of EBM/86/1 (January 3, 1986).

[62]The quotation is from a January 31, 1986, memorandum to management from Shaalan; in IMF/RD Managing Director file "Sudan II" (Accession 87/136 , Box 3, Section 168).

[63]Minutes of EBM/86/20 (February 3, 1986).

Figure 16.6. Peru: Use of Fund Credit and Arrears, 1975–90



Without question, a large measure of Peru's difficulties derived from natural disasters and other events beyond government control. In 1983 alone, Peru was hit hard by both a drought and severe flooding, communications and manufacturing were disrupted by massive mud slides, and much of the fishing industry was wiped out by the capriciousness of the ocean current known as "el Niño." World market prices for Peruvian mineral exports, particularly petroleum, declined in 1982 and 1983. And the cost and availability of international bank loans deteriorated after the outbreak of the international debt crisis in the second half of 1982.

While acknowledging those factors, the staff nonetheless placed the blame squarely on the government's lax fiscal policy. The March 1984 staff report on the requested stand-by arrangement concluded that "the major factor behind the imbalances in the Peruvian economy and deviations from the economic program during 1982 and 1983 was the large deficit of the nonfinancial public sector."[64] The new arrangement therefore was built around "major tax increases and adjustments of controlled prices" and a "strict public spending policy," aimed at cutting the fiscal deficit from 10 percent of GDP in 1983 to 2 percent in 1985.[65]

[64]"Peru—Request for Stand-by Arrangement," EBS/84/57 (March 16, 1984), p. 24. As Webb (1988, p. 251) noted, an abbreviated version of this sentence was included in the Fund's April 26 press release announcing approval of the stand-by arrangement.

[65]"Peru—Request for Stand-by Arrangement," EBS/84/57 (March 16, 1984), pp. 24–25 (the quoted phrases) and 13 (the fiscal target).

The central difficulty with this program was that it required such a severe fiscal contraction that neither the officials who were supposed to implement nor the public at large could fully support it. At first, most government officials disagreed with the strategy and feared that the required fiscal cuts would be counterproductive. Even the central bank governor, Richard C. Webb, who was one of the most diligent in trying to make the program work, later argued that attempting to cut the overall deficit when real spending had already been reduced sharply in real terms was "highly inefficient." It "could not have prevented the eventual breakdown of normal debt service," he argued, and it should have been eschewed in favor of a "more selective approach to adjustment" (Webb, 1988, p. 252). The Fund staff, however, strongly opposed introducing any heterodox elements into the program, such as dual exchange rates, nontariff import barriers, or new controls on wages and prices. Which economic argument was more nearly correct was less important than the fact that a stark austerity program could not possibly be carried out successfully without strong domestic support. The 1984–85 program quickly went off track, and Peru made only two small drawings in April and June 1984. The authorities made a substantial effort to get back on course starting around the end of 1984, but by then Peru was in the midst of a tight presidential election, and they could not recover in time.

When Alan García was elected president of Peru in July 1985, he immediately declared a state of emergency and announced that for the time being Peru would spend no more than 10 percent of its foreign exchange earnings on external debt service. Since scheduled debt service for 1985 exceeded 50 percent of expected export revenues, that declaration was tantamount to a plan to default on a substantial portion of outstanding debts. Priority was to be given to servicing debts to creditors that were willing to reciprocate with new loans or to continue disbursements on existing loans. That policy put obligations to the Fund on a low standing, and by September Peru was in arrears.

The Peruvian case was the clearest one in which arrears to the Fund arose because of unwillingness, rather than inability, to repay the institution. At the end of 1985, Peru's net international reserves, excluding external arrears, totaled about $1.4 billion, and arrears to all external creditors totaled $1.5 billion. Peru could not immediately eliminate all of its arrears without substantial sacrifice,[66] but it could have substantially reduced the total, and it could easily have repaid all of the SDR 68 million ($75 million) that was overdue to the Fund. The government faced a choice between (1) repaying the Fund and then negotiating and implementing a new adjustment program aimed at putting the balance of payments on a sustainable course, and (2) making some repayments to other selected creditors, maintaining existing economic policies, and counting on the continued availability of commercial credits to prevent a ruinous collapse in international trade.

[66]For a review and analysis of the economic context of Garcia's populism, see Sachs (1990). Although critical of the overall program, Sachs concludes (p. 167) that "Garcia's declaration in 1985 that Peru needed debt relief, and that the choice for Peru was 'debt or democracy,' was accurate."

Because Peru had the capacity to service its debts to the Fund, de Larosière chose to move cautiously and with the goal of inducing the authorities to cooperate. He issued a formal complaint in mid-December, and the Executive Board held an initial meeting on January 10, 1986, to decide how to proceed. In an unusual gambit for this preliminary stage, Peru was represented at the meeting by its ambassador to the United States, César G. Atala, and by Webb, who now was an advisor to the prime minister. Webb made a lengthy and generally conciliatory statement to the effect that Peru intended to continue to service its debts as best it could and that the government wanted to normalize its relations with the Fund. That desire conflicted with the goal of giving preference to those creditors that were continuing to finance Peruvian investment projects, and Webb was not able to promise much beyond broad intentions. The Board concluded by giving Peru one month to settle arrears before it would consider restricting access to Fund resources.[67]

For the next few months, Peru managed to stave off a formal declaration of ineligibility by making occasional payments and by offering assurances that full settlement was forthcoming. On February 10, the Board restricted Peru's access and set April 16 as the date by which it expected to declare Peru ineligible. This unusually tight deadline (the staff had made a routine recommendation, for a further review in 90 days) reflected a widespread view among Executive Directors from creditor countries that a government that refused to repay the Fund should be dealt with more firmly than those that were willing but unable.[68] Despite an escalation of verbal attacks on the Fund in speeches by García, the authorities made a substantial payment (SDR 30 million) on April 14, and the Board extended the deadline by a few weeks. On May 6, Jaysuño Abramovich (Alternate—Peru) stated on behalf of the government that the "authorities intended to pay the arrears to the Fund by August 15, 1986," that being the deadline suggested earlier by the Managing Director. The Board then declared that Peru would become ineligible on August 15 unless arrears were completely settled. The government continued to make payments, but not enough even to stabilize the level of arrears, and the declaration of ineligibility took effect in August as scheduled.[69]

---

[67]"Peru—Overdue Financial Obligations to the Fund—Report and Complaints Under Rule K-1 and Rule S-1," EBS/85/279 (December 13, 1985); and minutes of EBM/86/5 (January 10, 1986), pp. 29–35 (Webb), and EBM/86/6 (same date), p. 14 (Board decision).

[68]The 45-day deadline for a declaration of ineligibility was requested by Jobarah E. Suraisry (Alternate—Saudi Arabia) and was supported by all of the Directors from G-10 countries. See minutes of EBM/86/22 (February 10, 1986). As a general principle, the staff of the Fund strongly resisted relying on distinctions between willingness and ability to pay. The prevailing staff view was that in most circumstances, any country could gain the ability to pay if it was willing to undertake appropriate adjustment policies. See "Overdue Financial Obligations to the Fund—Six-Monthly Report," EBS/88/243 (November 30, 1988), pp. 3–6.

[69]Minutes of EBM/86/22 (February 10, 1986), EBM/86/62 (April 14), EBM/86/76 (May 6), and EBM/86/135 (August 15). Between the Managing Director's initial complaint in December 1985 and the declaration of ineligibility in August 1986, Peru paid $75 million (SDR 63 million) to the Fund, but an additional SDR 127 million in payments became due. Hence overdue obligations nearly doubled, from SDR 68 million to SDR 132 million.

Zambia

Zambia's arrears to the Fund resulted from a horrific reversal of economic fortunes that cut real incomes by nearly two-thirds in a few years. At times in the 1970s and early 1980s, it appeared that Zambia's mineral wealth—concentrated heavily in copper—could provide a solid base for sustained growth. When copper crashed, this middle-income country (with per capita GNP of $720 in 1981) slipped back into the depths of misery ($250 per capita in 1986) from which no easy path could be climbed.

Zambia gained its independence from Britain in 1964 and joined the IMF the following year. The government of President Kenneth D. Kaunda (who served as head of state from 1964 until 1991) took out its first stand-by arrangement with the Fund in 1973 after its commercial transportation system was severely disrupted by the closing of the border with its southern neighbor, Rhodesia.[70] Foreign currency earnings were heavily dependent on copper exports, and the government took out two more stand-by arrangements, in 1976 and 1978, at times when export prices were weak. By far the largest of those arrangements was approved in April 1978, for SDR 250 million ($310 million), which was fully used over the next two years. That use of Fund credits was the largest ever by a developing country under a single arrangement up to that time.[71] Four more arrangements followed, in 1981, 1983, 1984, and 1986, raising Zambia's total indebtedness to the Fund (Figure 16.7) to about SDR 710 million ($800 million; 263 percent of quota).[72]

With copper prices declining further, Zambia began to have trouble meeting its payments obligations to the Fund in 1982, but the authorities managed to keep the delays short. Then at the end of April 1985, Zambia slipped into more prolonged arrears. Management notified the Executive Board in June, and the Board formally restricted Zambia's access to Fund resources at a meeting held in Seoul, at the end of the Annual Meetings in October.[73]

Oddly enough, by the time of the restriction decision, Zambia was already well on its way toward resolving the problem. For some time, the Fund had been urging the government to replace the pegging arrangement for the exchange rate with an auction system for allocating and pricing foreign currency, as a way of correcting the overvaluation that had crept in after years of deteriorating economic conditions. Fearing a ruinous depreciation, the government had long resisted that ad-

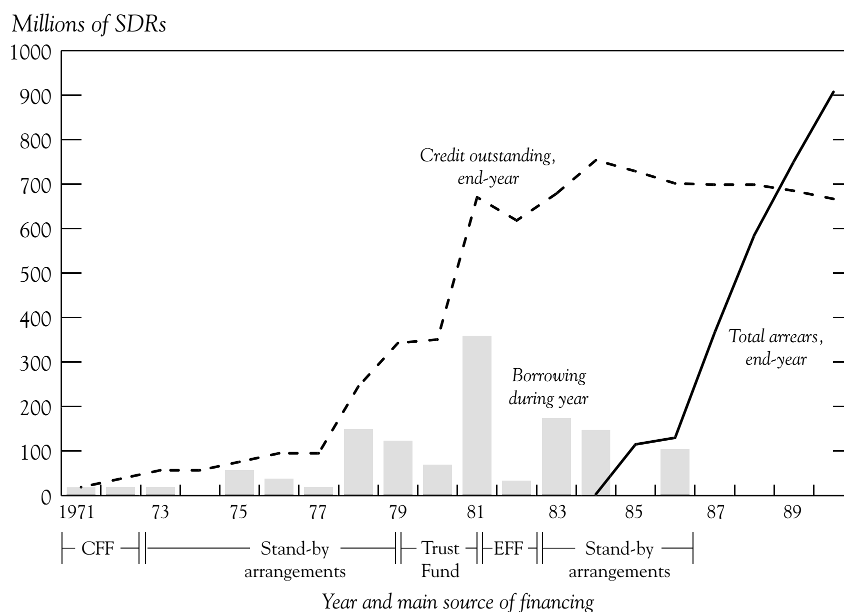
[70]Rhodesia (formerly Southern Rhodesia and later Zimbabwe) and Zambia (formerly Northern Rhodesia) battled periodically after the government of Ian Smith attempted to perpetuate minority rule by unilaterally declaring Rhodesia's independence from Britain in 1965.

[71]The 1976–77 stand-by arrangement for Argentina totaled SDR 260 million, but only SDR 160 million of it was drawn. Similarly, the 1977–79 EFF arrangement for Mexico totaled SDR 518 million, but only SDR 100 million was drawn.

[72]Those obligations stemmed both from the stand-by arrangements and from CFF drawings for export shortfalls. In addition, Zambia took out SDR 43 million in Trust Fund loans in 1978–81, of which SDR 27 million remained outstanding at the end of 1986.

[73]See "Zambia—Overdue Financial Obligations to the Fund—Report and Complaints Under Rule K-1 and Rule S-1 and Notice of Failure to Settle Trust Fund Obligations," EBS/85/180 (July 31, 1985) and minutes of EBM/85/153 (October 10, 1985).

Figure 16.7. Zambia: Use of Fund Credit and Arrears, 1971–90



vice, but it finally yielded and implemented the scheme at the beginning of October. Along with some stabilization measures taken around the same time, this move represented a radical break with earlier piecemeal efforts at reform. Under the circumstances, the Board's unfortunate decision to restrict access was dictated primarily by the need to preserve consistency with the way the Fund had handled the other cases discussed above.

On the strength of its planned adjustment in economic policies, Zambia persuaded donor countries in December 1985 to provide enough additional aid to enable it to pay off its arrears to the Fund, which then amounted to SDR 115 million ($126 million; 43 percent of quota). Arrears were cleared on January 3, 1986, and on February 21 the Board approved a new stand-by arrangement and a CFF drawing to compensate for a shortfall in export earnings associated with the continued weakness of copper prices.

The improvement was short-lived: by the end of April 1986, Zambia again was in arrears. Disbursements under the stand-by arrangement were halted, and in August—with arrears totaling SDR 88 million ($106 million)—the Board restricted Zambia's access to Fund resources for the second time in ten months. For the next few months, however, the situation did not seem on the surface to be deteriorating further. The authorities made a few payments and kept the overdue amount from rising. A meeting of official donors in Paris in December produced some new aid commitments, albeit not enough to make much of a dent in Zambia's arrears. By this point, however, the government's scheduled external debt-service payments amounted to more than two-thirds of the country's export earnings, and

domestic opposition to the government's economic policies was turning violent. Riots erupted in December 1986 after Kaunda announced a sharp reduction in subsidies for maize, the mainstay of the diet of many Zambians. Kaunda had to be evacuated from one riot center by helicopter, and unofficial reports placed the death total at about 100 people.[74] (Also see Chapter 14, on the broader context of the riots in Zambia.)

After the riots and the partial failure of the donors' meeting, the government's adherence to the policy program began to waver (for example, the maize subsidy was quickly restored), and arrears began to accumulate more quickly.[75] By March 1987 arrears had more than doubled, to SDR 170 million ($216 million), and the government had stopped making even token payments. The Board then put Zambia on notice that it expected to issue a declaration of ineligibility on May 22 if arrears were not cleared by that date. That prompted a positive response, and the prime minister (who also served as minister of finance), Kebby S.K. Musokotwane, led a delegation to Washington in April to discuss possible reforms.

The April negotiations were successful enough that the Managing Director, Michel Camdessus, agreed to send a mission to Lusaka in May to finalize plans for a new stand-by arrangement, conditional on a successful outcome to an anticipated donors' meeting aimed at settling arrears. He also made a personal appeal for financial support to the G-7 finance ministers and their deputies, during their regular spring meetings.[76]

By all accounts, Zambia's economic troubles resulted from a combination of disastrous external conditions and misguided economic policies. The authorities, of course, stressed the importance of external shocks, while the Fund staff placed greater weight on the policy mistakes. From 1973 (at the height of a worldwide boom in commodity prices) to 1985, Zambia's terms of trade declined by nearly 75 percent, largely because of weakness in the international copper market. Throughout the first half of the 1980s, both the staff and the authorities erred on the high side in forecasting copper prices, which repeatedly left the economic program underfinanced and forced the government to accept greater austerity. Failures by donor countries to disburse aid that they had committed in multilateral meetings further aggravated the decline. For understandable political reasons but with quite predictable and disastrous economic consequences, the government resisted going as far as circumstances demanded.

Throughout the long downward slide, both the Fund and the World Bank offered a range of suggestions on structural reforms aimed at softening the blow and

[74]Memorandum for files by Joseph G. Keyes, the Fund's Resident Representative in Lusaka (April 28, 1987); in IMF/RD Managing Director file "Zambia, November 1985–August 1987 (Vol. I)" (Accession 89/164, Box 1, Section 263).

[75]At the time, the maize subsidy was equivalent to nearly 4 percent of the value of annual GDP, so it was large enough by itself to make the difference on whether the fiscal deficit could be financed.

[76]Memorandum for files; in IMF/RD Managing Director file "Zambia, November 1985—August 1987 (Vol. I)" (Accession 89/164, Box 1, Section 263).

restoring long-term growth, but few of those reforms were accepted and implemented. As Kaunda later acknowledged, the government regarded much of the Fund's advice with a "wide and deep skepticism." The gloomy history of the Zambian economy throughout this period was nonetheless punctuated by occasional serious efforts to put policies and thus performance on a more favorable and sustainable track.[77]

The April 1987 effort turned out to be the last one of that troubled decade. On May 1, Kaunda suddenly and unexpectedly broke off negotiations and announced that Zambia was rejecting "the way of the IMF" and henceforth would "determine our own destiny."[78] As part of the new program, Zambia (like Peru two years earlier) would limit its debt-service payments to external creditors to 10 percent of export earnings plus certain exceptional payments.[79] In addition, the exchange rate would be pegged to the dollar at a vastly appreciated rate, and scarce foreign currency would be allocated by a government committee rather than by auction.[80] Although Kaunda and other officials privately reassured the Fund that the government wanted to maintain good and full relations, both their public rhetoric and their actions suggested a new hard-line stance.[81]

Kaunda's breakaway placed the Fund in an awkward position. If the Board proceeded as scheduled on May 22 to declare Zambia ineligible to use Fund resources

---

[77]See "Zambia—Request for Stand-by Arrangement," EBS/86/24 (February 3, 1986).

[78]"New Economic Recovery Programme," nationwide radio and television broadcast by President Kaunda, May 1, 1987 (official transcript); IMF/CF (C/Zambia/818 "Staff Assignment, Keyes, Joseph G., November 1985–"). This address is also the source for the "skepticism" quotation in the preceding paragraph.

[79]The 10 percent ceiling excluded payments to service the debts of four key companies: the national airline, the copper company, and the importers of petroleum and fertilizer. Kaunda also indicated that the government would service all new debts on the agreed terms.

[80]The exchange rate was pegged at 8 kwacha per dollar, compared with a market rate that had been around 21 in late April. "Zambia—Exchange Arrangements," EBS/87/117 (May 28, 1987).

[81]In addition to breaking off negotiations on an adjustment program and canceling the existing stand-by arrangement, the government ordered the Fund's Resident Representative in Lusaka, Joseph G. Keyes (Advisor in the African Department), to vacate his office immediately; see memorandum for files by Keyes (May 7, 1987), in IMF/CF (C/Zambia/818 "Staff Assignment, Keyes, Joseph G., November 1985–"). A few days later, the new finance minister, G.G. Chigaga, wrote to the Managing Director, saying "it is my country's intention to continue to participate fully in the affairs of the Fund and that Zambia will continue to play its role as a full member of the Fund as well as respect the rules of membership under the Articles of Agreement." Cable from Chigaga dated May 16, 1987, in IMF/CF (C/Zambia/1760 "Stand-by Arrangements, 1986–"). Publicly, however, Chigaga addressed the June 1987 Annual Meeting of the African Development Bank in Cairo by saying that "the IMF programme [in Zambia] became an instrument of oppression and destruction of human life." Attachment to memorandum from Alassane Ouattara (Director of the African Department) to the Managing Director (June 12, 1987); in IMF/RD Managing Director file "Zambia, November 1985 to August 1987 (Vol. I)" (Accession 89/164, Box 1, Section 263). Kaunda himself reportedly told a group of foreign diplomats that the Fund was waging a "smear campaign" against Zambia and that the Fund's programs had led directly to increased deaths from malnutrition; Zambian newspaper report (undated but received in the Fund on May 6, 1987), in IMF/CF (C/Zambia/818 "Staff Assignment, Keyes, Joseph G., November 1985–").

(which would entail issuing a press release), the move would inevitably be interpreted as a reprisal. Both Zambia and the Fund would suffer, and restoring normal relations would be made that much more difficult. Not to proceed, however, could be interpreted as special treatment: as greasing the squeaky wheel. Consequently, the Board approved a tortuous declaration to the effect that Zambia would automatically be declared ineligible at the end of July unless the Managing Director decided that enough progress had been made to reopen the matter:

> Unless by July 31, 1987, Zambia is current in its financial obligations to the Fund in the General Resources Account, or the Managing Director will have called for further Board consideration of the matter of Zambia's overdue financial obligations, on the basis of contacts with the Zambian authorities that he will initiate and of subsequent progress by Zambia toward the adoption of comprehensive economic adjustment measures, with effect from that date Zambia will be ineligible pursuant to Article XXVI, Section 2(a) to use the general resources of the Fund.[82]

Although intensive high-level discussions took place throughout June and July 1987 (including lengthy meetings in Lusaka between Goodall E. Gondwe, Deputy Director of the African Department, and President Kaunda), the Managing Director concluded at the end of July that not enough progress had been made to warrant reopening the issue. At the last minute, however, the Fund's management decided to accommodate a request from the Alternate Executive Director for Zambia, El Tayeb El Kogali (Sudan), to make a plea directly to his colleagues on the Board. With the reluctant but ultimately unanimous consent of Executive Directors at the regular Board meeting on July 31, El Kogali was permitted to request a deferral of the ineligibility declaration even though Zambia was not on the agenda. Deputy Managing Director Richard Erb, the Acting Chairman, explained why management had decided not to recommend a deferral, and a half-dozen Directors from industrial countries spoke up to support that decision. Two G-7 Directors, however, abstained, and the other 13 Directors indicated their support for El Kogali's request. The motion carried on a rare vote, with 47 percent of the voting power in favor and 42 percent opposed. Zambia thus was given two months' reprieve, to the end of September.[83]

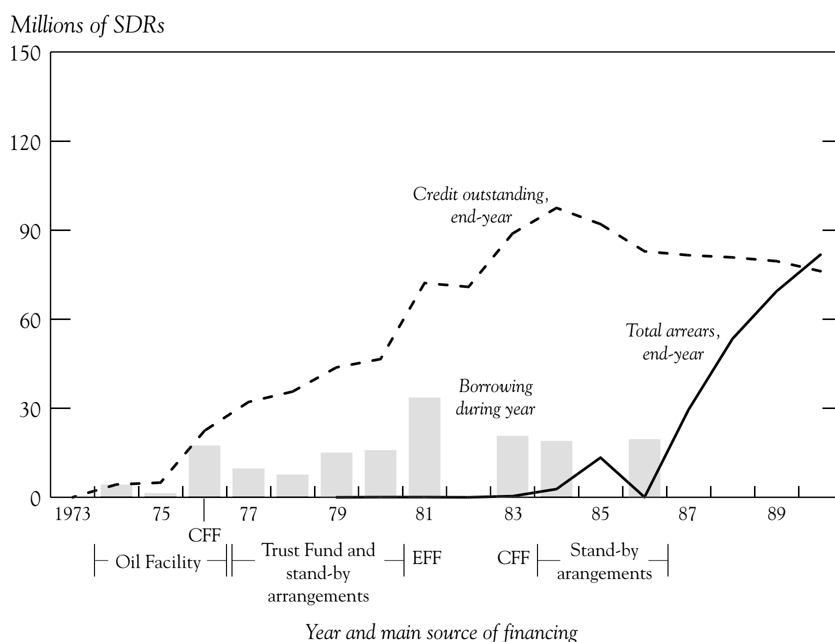
Unfortunately, little changed during those two months, except that arrears continued to accumulate, to more than SDR 290 million ($370 million; 108 percent of quota). Without further ado, the declaration of ineligibility went into effect on September 30. The following week, Kaunda went to Washington and met with Camdessus. Both sides pledged to work cooperatively toward a resolution, but by that time the problem was beyond the reach of the tools at their disposal.

---

[82]Decision No. 8597-(87/78), adopted May 22, 1987, para. 4. Minutes of EBM/87/78, pp. 35–36.

[83]Those opposed (i.e., those favoring management's recommendation to declare Zambia ineligible with immediate effect) were Dallara, Bernd Goos (Alternate—Germany), G.P.J. Hogeweg (Alternate—Netherlands), Charles R. Rye (Australia), Masahiro Sugita (Alternate—Japan), and Luc Hubloue (Temporary Alternate—Belgium). Michael Foot (Alternate—United Kingdom) abstained, and Salvatore Zecchini (Italy) did not speak on the matter. Minutes of EBM/87/114 (July 31, 1987).

Figure 16.8. Sierra Leone: Use of Fund Credit and Arrears, 1973–90



Sierra Leone

The story of Sierra Leone's arrears to the Fund is relatively straightforward. Sierra Leone—a potentially rich country with abundant agricultural and mineral (principally diamonds, rutile, and bauxite) resources—borrowed fairly regularly from the Fund from the mid-1970s through the mid-1980s (Figure 16.8),[84] but the government ran into increasing difficulties in conducting its economic policies. From 1984 on, the government's control over economic activity had deteriorated so badly that it could not prevent smuggling, tax evasion, and black market activity from siphoning off the bulk of potential government revenues.[85] Despite the best of intentions and much goodwill from the international community, the government was unable to muster the resources to pay its bills to the Fund or other ex-

[84]Sierra Leone became a member of the Fund on September 20, 1962, about a year and a half after becoming an independent parliamentary republic within the British Commonwealth. The Fund approved three stand-by arrangements in the 1960s, and all of the resulting indebtedness was repaid by 1970. New borrowing commenced in 1974, with drawings on the oil facilities (1974–76) and the CFF (1976 and 1983), Trust Fund loans (1977–81), stand-by arrangements (1977, 1979, and 1984) and an extended arrangement that was approved in 1981 but canceled the following year. Obligations to the GRA peaked in April 1984 at SDR 81.6 million ($86 million; 141 percent of quota), at which time Sierra Leone also had SDR 22.7 million in Trust Fund loans outstanding.

[85]For a detailed study of the pervasiveness of corruption in Sierra Leone in the 1980s, see Reno (1995).

ternal creditors. Nonetheless, it did manage to delay the inevitable declaration of ineligibility until well into 1988.

Serious economic deterioration began in late 1984, several months into an adjustment program supported by a stand-by arrangement with the Fund. In approving the arrangement in February, several industrial country Directors had expressed reservations about the government's ability to manage the economy, though everyone seemed impressed by what Tom de Vries (Alternate—Netherlands) called "the strong sense of commitment on the part of the authorities" to make a major break from the weak policies of the recent past. Costa P. Caranicas (Alternate—Greece) put his reservations most succinctly: "It was an act of faith on the part of management to bring the paper before the Board, and in the final analysis the Executive Board would have to give the member the benefit of the doubt."[86] In less than six months, the program was off track, and the arrangement was abandoned because the authorities were unwilling to accept the staff's recommendations for freeing up the exchange rate to let it reflect market forces. Sierra Leone then fell behind in making payments to the Fund.[87]

Throughout 1985 and the first half of 1986, the Fund responded along the now-standard two tracks. While the staff met regularly with the authorities to devise a strategy for strengthening economic performance, the Executive Board issued a series of escalating decisions. The Managing Director issued a formal complaint in late April 1985, and the Board restricted access to Fund resources at the end of June. In January 1986, the Board put the authorities on notice that it expected to issue a declaration of ineligibility in March if arrears were not cleared by then. Meanwhile, technical discussions were focusing heavily on exchange rate policy, because a major part of the problem was that very little of the foreign currency being earned from exports was reaching the government or even the banking system. In mid-February, the government agreed to switch to a floating rate for the currency (the leone), effective in mid-March. On that basis, the Board agreed to postpone until May its plan to declare the country ineligible to use Fund resources. The government, however, then postponed its own plan to float the leone, until after parliamentary elections scheduled for the end of May,[88] but it compensated partially by making a $3 million payment to the Fund just before the March 12 Board meeting.[89]

Two months later, on May 6, 1986, Sierra Leone won another reprieve, partly because Directors accepted the political necessity of waiting for the new parlia-

[86]Minutes of EBM/84/18 (February 3, 1984), pp. 25 (de Vries) and 36 (Caranicas).

[87]See "Sierra Leone—Staff Report for the 1986 Article IV Consultation and Requests for Stand-by Arrangement and for Arrangement Under the Structural Adjustment Facility," EBS/86/243 (November 3, 1986), pp. 1–2.

[88]Sierra Leone introduced a one-party constitution in 1978, with Siaka Stevens continuing as head of state. Stevens, who initially became prime minister in 1967, retired in the fall of 1985 and was replaced by Major General Joseph Saidu Momoh. Momoh then scheduled the election of a new parliament, still under the one-party system.

[89]As of March 12, after the $3 million (SDR 2.6 million) payment, Sierra Leone's arrears to the Fund totaled SDR 14.4 million.

ment to be elected and take office. Floating the currency would result in a large depreciation, which would sharply raise import prices. Without a fresh political mandate, the government expected to be confronted by massive discontent and unrest. Better to wait a few months than to risk a disastrous failure. Furthermore, the finance minister, Joe Amara-Bangali, promised the Fund that the government would make a new payment within a few days, amounting to $4.8 million from the proceeds of an anticipated sale of diamonds in the Antwerp market. That promise also was broken, and arrears continued to mount.[90]

Remarkably, the situation did begin to improve after the elections. In June, the new parliament approved a budget that was in line with the Fund staff's recommendations. The deficit would be curtailed, the leone would finally be floated, import restrictions would be substantially liberalized, and several major subsidies would be reduced or eliminated (most notably on petroleum). Although the Executive Board had already declared Sierra Leone ineligible effective July 16 if it were not current on its payments to the Fund by that date, it now took the unprecedented step of suspending that decision for two months (to September 19) to give the authorities time to negotiate a new adjustment program and to arrange temporary (bridging) financing from commercial banks.[91]

Negotiations proceeded smoothly and succeeded just ahead of the deadline. On September 18, Sierra Leone settled its arrears in full (SDR 25.1 million; $32.5 million), and on November 14 the Fund approved both a new stand-by arrangement for SDR 23.2 million ($31.5 million; 40 percent of quota, of which SDR 8 million would be available at once) and a structural adjustment facility (SAF) loan with an immediate disbursement of SDR 11.6 million ($15.7 million; 20 percent of quota). Sadly, the reform effort then quickly ran out of steam, largely because the government lacked both the political support and the administrative capability to rein in the rampant black market. Virtually no foreign exchange was offered at the official auctions, and the authorities had to fall back on determining the exchange rate administratively.[92] The most pressing consequence of that failure was that the government again could not meet its obligations to foreign creditors. By January 1987, Sierra Leone again was in arrears to the Fund.

In April 1987, the Executive Board restricted Sierra Leone's access for a second time.[93] In the months that followed, the Fund continued to show sympathy and

[90]The Alternate Director for Sierra Leone (Ahmed Abdallah—Kenya) later explained that the finance minister had made his promise without approval of the government and that the proceeds had already been committed elsewhere. The nature of the alternative commitment was not explained, and the government made a scapegoat of the minister by sacking him. Minutes of EBM/86/118 (July 16, 1986), p. 28.

[91]Minutes of EBM/86/118 (July 16, 1986).

[92]Weeks (1992), pp. 125–245, argues that the floating rate policy in Sierra Leone was fundamentally flawed, partly because participation in the auctions was limited and more fundamentally because floating was bound to lead to a precipitous and destabilizing depreciation of the currency. He concludes that a crawling peg would have led to greater stability. That solution did not at the time appear feasible to the Fund staff, in view of the government's weak administrative record.

[93]No disbursements were made to Sierra Leone under either the stand-by arrangement or the SAF arrangement after the initial drawings in November 1986.

understanding for the difficult circumstances facing the government, and the inexorable drive toward ineligibility proceeded in as low a gear as possible. In November 1987, shortly after the Board declared its intention to declare Sierra Leone ineligible within three months, the government enacted a state of emergency that included administrative and penal measures aimed at discouraging smuggling. That policy proved ineffective, as the risk of penalty was outweighed by the economic incentive to flout it. Nonetheless, the Board continued to give the authorities the benefit of the doubt. Negotiations on a new adjustment program continued for several more months, but in April 1988—with arrears of SDR 39 million ($54 million; 68 percent of quota)—Sierra Leone was finally declared ineligible to use Fund resources.

Somalia

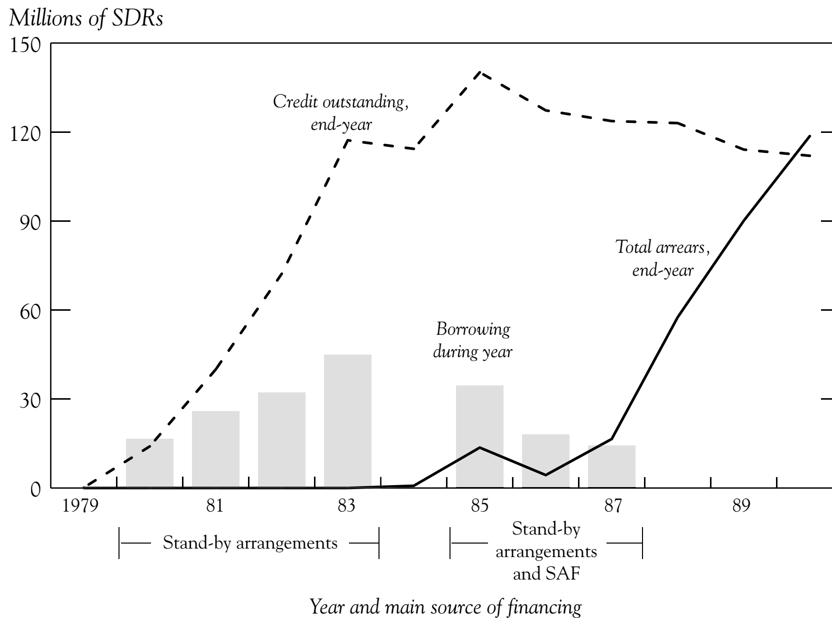
Somalia developed an adjustment program in late 1984 that depended heavily on foreign aid financing from official donors. In February 1985, the Fund approved a stand-by arrangement to support the program. Everyone knew at the time that the financing was extremely tight and that there was no margin at all for slippages. When slippages did occur, Somalia simply ran out of money. The government tried valiantly to stay current with the Fund, but it lacked the means to do so. Without significant exaggeration, the Executive Director for Somalia, Mohamed Finaish (Libya), reminded his colleagues in April 1986 that the government had used "every last penny of foreign exchange available" to repay the Fund, and he asked for "flexibility and understanding" in handling this difficult case.[94]

For those who remember the political and economic chaos into which Somalia descended in the 1990s, it may be difficult to recall as well that Somalia's economic performance until the mid-1980s was not so bad. After struggling under the effects of several exogenous shocks in the late 1970s (ranging from severe droughts to an invasion by Ethiopian-based insurgents), the government undertook a generally successful adjustment program from 1981 through 1983 that was supported by two fully utilized Fund stand-by arrangements. Those credits raised Somalia's obligations to the Fund from near zero to SDR 116 million ($121 million; 241 percent of quota) by the end of 1983 (Figure 16.9).[95] The success of the adjustment effort up to that point led de Larosière, in a speech to a banking group in Belgium,

[94]Minutes of EBM/86/68 (April 23, 1986), p. 26.

[95]Somalia became a member of the Fund in August 1962, two years after becoming an independent and unified republic. (During the 1950s, the territory had been administered partly as British Somaliland and partly—in the southern region once known as Italian Somaliland—as the UN Trust Territory of Somalia under Italian control.) The Fund approved seven consecutive stand-by arrangements from 1964 through 1970. No drawings were made under the last two of those arrangements, and Somalia had no outstanding debts to the Fund from 1969 until a new government took office in 1980. (Major General Mohamed Siad Barre, who had ruled Somalia since taking power in a coup in 1969, was named president in January 1980 by a legislature that had been elected under the terms of a newly drafted constitution.) Only one drawing was made under a relatively small 1980 stand-by arrangement.

Figure 16.9. Somalia: Use of Fund Credit and Arrears, 1979–90



to cite Somalia as a "striking example" of what strong adjustment with Fund support could achieve: agriculture was booming, the growth rate was approaching 10 percent, and all external payments arrears had been eliminated.[96]

Even before that speech, Somalia was encountering a new series of shocks, starting in May 1983 when Saudi Arabia responded to reports of contaminated beef by banning imports of cattle from East Africa. Although the offending parasite was never confirmed to have been present in Somali cattle, the ban closed off the primary market for Somalia's main export for the rest of the decade and beyond. Total exports, measured in U.S. dollars, fell by more than half from 1982 to 1984 before beginning to recover.

The loss in exports was compounded in 1984 by a growing burden of external debt service, as a number of grace periods on official credits began to expire and the government found it difficult to get the major donor countries to provide additional new assistance. The authorities negotiated an ambitious program of liberalizing reforms and macroeconomic stabilization with the Fund staff in late 1984, setting the stage for a new stand-by arrangement if the program could be fully financed. Approval by the Executive Board, however, depended on getting commitments from bilateral donors.

[96]"Adjustment Programs Supported by the Fund: Their Logic, Objectives, and Results in the Light of Recent Experience," remarks by Jacques de Larosière before the Centre d'études financières in Brussels (February 6, 1984); in IMF/RD Managing Director file "Centre d'études financières (Bruxelles), February 1984" (Accession 85/231, Box 3, Section 177).

The staff estimated that Somalia would need, in addition to an anticipated $64 million in Fund credits and $33 million in expected debt relief from Paris Club creditors, another $100 million in external assistance to close the financing gap for 1985.[97] A January 1985 meeting of official donors in Paris resulted in just $80 million in pledges, and most of that was to be in the form of commodities rather than cash and was likely to be subjected to lengthy delays before being disbursed. The staff assumed that no more than $55 million of that total would be forthcoming during 1985, which left a gap of some $45 million. By late February, enough pledges of grants and debt relief had been made by Middle Eastern countries to just fill that gap. On that basis, the Executive Board approved the stand-by arrangement and a CFF drawing on February 23, 1985.[98]

Although the program was fully financed on paper, the final commitments gave Somalia far less foreign exchange than had been envisaged during the negotiations. As 1985 unfolded, the cash shortage was compounded by a slowdown in the economies of major Middle Eastern oil producers, which reduced the flow of remittances from Somali workers in that region. By midyear, Somalia was slipping further and further behind in its payments to the Fund.

The Managing Director issued a formal complaint on Somalia's arrears in October, and the Executive Board restricted Somalia's access to Fund resources on December 27, 1985.[99] That restriction was short-lived, but it was quickly followed by new problems. Somalia's official creditors made fresh financing commitments in the first months of 1986, and a group of commercial banks in the United States and Italy provided short-term bridging loans. Somalia repaid all of its arrears in April 1986 with the proceeds from those loans; in May the Fund approved the resumption of drawings under the stand-by arrangement; and on May 16, Somalia borrowed SDR 9.7 million ($11.3 million). That drawing, however, had to be applied immediately to repay the bridge loans, so it did nothing to improve Somalia's cash flow. On the same day, the central bank was scheduled to pay the Fund SDR 0.8 million that was due on the 1981 and 1982 stand-by credits. As it lacked the money, the country immediately went back into the red without so much as a day's respite.[100]

[97]The stand-by arrangement was for SDR 22.1 million (50 percent of quota); Somalia also requested a CFF drawing of SDR 33 million (75 percent of quota) to compensate for the shortfall in export revenues.

[98]The Board approved the arrangement in principle on January 25, pending completion of financing commitments. The staff's subsequent finding that financing was sufficient was approved on a lapse-of-time basis. See minutes of EBM/85/11–12 (January 25, 1985); "Somalia—Request for Stand-by Arrangement," EBS/85/1 (January 2, 1985); and "Stand-by Arrangement—Effective Date—Arrangement with Respect to the Financing of 1985 Balance of Payments Deficits," Sup. 2 (February 22, 1985). The Fund's use of "approval in principle" in that period is reviewed in Chapter 9.

[99]"Somalia—Overdue Financial Obligations to the Fund—Report and Complaints under Rule K-1 and Rule S-1," EBS/85/235 (October 25, 1985) and minutes of EBM/85/188 (December 27, 1985).

[100]Minutes of EBM/86/81 (May 12, 1986) and "Somalia—Overdue Financial Obligations to the Fund," EBS/86/136 (June 24, 1986).

Twice more, Somalia managed to settle its arrears to the Fund, using new bridge loans from banks plus grants from the Italian government. After settling in September 1986, Somalia fell behind again the next month. After settling in June 1987 and getting the Fund's approval for a new stand-by arrangement and SAF loan, it fell behind a week later, in early July.[101] As frustrating as this pattern had become, it no longer surprised anyone. The staff report that proposed the new credits projected explicitly that Somalia would continue to go into arrears to the Fund "from time to time,"[102] and the Executive Board approved the arrangement in full understanding of that prospect. The fundamental and chronic shortage of cash was now being aggravated by a weakening of the authorities' ability to govern. Military insurgencies in the northern part of the country were intensifying, and the government itself was torn by reports of internal coup attempts. The prevailing judgment at the Fund was that the country needed and deserved support.

The authorities adhered remarkably well to their economic program throughout 1985–86, despite the interruption of Fund financing and lags in donor support. As a main element of reform, the exchange market was gradually liberalized during those two years, and by the end of 1986 the exchange rate was being determined freely through government-sponsored auctions. Not surprisingly, as economic conditions deteriorated, the rate depreciated sharply. By mid-1987, the government became convinced that it needed greater stability, and in September, it reverted to the earlier practice of determining the rate administratively. What worried the staff and some donors was not so much this technical issue but the possibility that "adjustment fatigue" was setting in. With external assistance continuing to erode, the difficulty of implementing restrictive policies was becoming even greater.

Somalia's economic performance deteriorated rapidly in late 1987 and early 1988. A major reorganization of the government in December 1987 brought in a new finance minister who initially showed little interest in working with the Fund or other external creditors. Financial policies slipped out of control, the exchange rate became increasingly unrealistic, and official aid virtually ceased. By the spring of 1988, the new economic team was beginning to regroup and adopt more constructive policies, but by then what little opportunity might have existed for recovery had been lost. On May 6, 1988, with arrears of SDR 27 million ($33 million; 54 percent of quota) and no prospects for a settlement in sight, the Executive Board declared Somalia ineligible to use Fund resources.

[101]Approval of the SDR 33.2 million stand-by arrangement enabled Somalia to draw SDR 5.5 million at once. The SAF loan, for a total of SDR 20.8 million, provided for an immediate disbursement of SDR 8.8 million. All of that and more was needed to repay short-term bank credits. Scheduled repayments to the Fund in July and August totaled SDR 7.4 million, none of which was paid. See "Somalia—Settlement of Overdue Financial Obligations to the Fund and Withdrawal of Complaint Under Rule K-1," EBS/87/113, Sup. 5 (June 26, 1987), and "Somalia—Overdue Obligations to the Fund—Report and Complaint Under Rule K-1," EBS/87/194 (September 8, 1987).

[102]"Somalia—Request for Stand-by Arrangement and Requests for Arrangements Under the Structural Adjustment Facility," EBS/87/122 (June 5, 1987), p. 35.

Panama

Panama's economic problems derived from a political upheaval that erupted in the second half of 1987. An original member of the Fund, Panama had a long series of stand-by arrangements starting in 1965, but it had no difficulty either conducting stable economic policies or servicing its obligations to the Fund until the end of 1987. Over the following months, the economy largely collapsed.

The problem began when the U.S. government turned against the commander in chief of Panama's armed forces, General Manuel Antonio Noriega Morena. Through grand jury and U.S. Senate investigations, charges were raised that Noriega was involved in drug trafficking and a wide range of other serious crimes. Noriega was generally thought to have served previously as an agent of U.S. security interests in Central America and to have amassed both his political power and a considerable personal fortune as a result, and the legal case against him was widely assumed to be part of a concerted effort to oust him from that power and terminate an embarrassing symbiosis.[103] In any event, this development generated substantial political unrest and effectively immobilized the government from formulating economic policies. The indictment of Noriega in the United States in February 1988 was followed by U.S. economic sanctions against Panama, an effective general strike in Panama, a complete shutdown of the banking system for two months, and an escalating degree of economic and political chaos. That situation continued until after U.S. military forces invaded Panama in December 1989, captured Noriega, and eventually restored normal economic relations.[104]

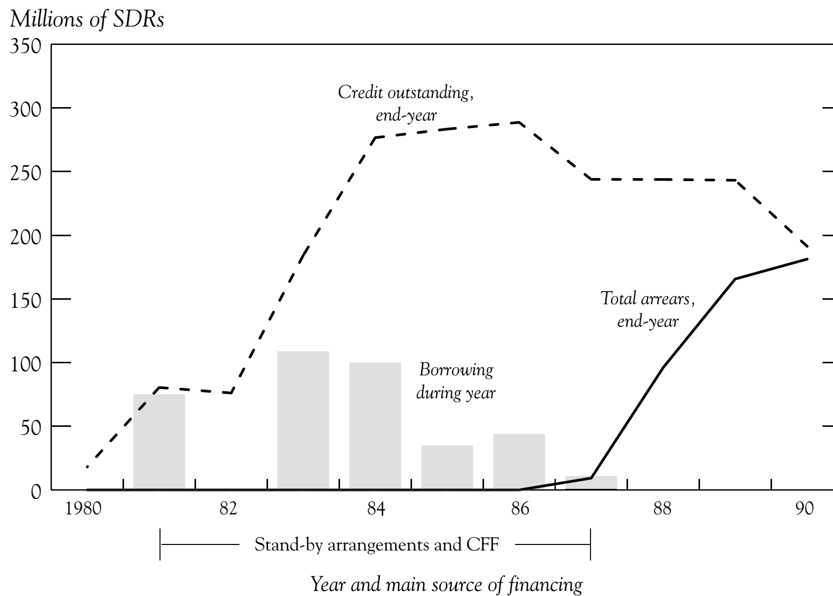
Before the crisis, Panama successfully completed an adjustment program supported by a Fund stand-by arrangement in 1985–87. That arrangement raised Panama's indebtedness to the Fund (Figure 16.10) to SDR 284 million ($360 million; 278 percent of quota). The staff began negotiating terms for a new stand-by arrangement (which would have been the 18th arrangement in 23 years), but the government was unable to formulate a credible program while the economy was crumbling, and the negotiations were postponed.

Panama missed its first payment to the Fund on December 28, 1987. With both its assets in the United States and payments due from U.S. companies frozen, the government soon was unable to make any further payments to the Fund or other external creditors. It was obvious that the government could not surmount this barrier through any shift in economic policies, and it placed the Fund awkwardly in the middle of a noneconomic dispute between two member countries. To tell Panama to take the actions necessary to settle its arrears was, in effect, to tell the government to acquiesce to the United States in the political dispute over the status of General

[103]The U.S. secretary of state at that time, James A. Baker, III, hinted at Noriega's earlier role in supporting U.S. interests by describing him as an "erstwhile ally" who had "become increasingly dangerous as his collusion with international drug trafficking deepened" (Baker, 1995, p. 177). For an exploration of the depth of that relationship, see Weeks and Gunson (1991).

[104]Noriega, who functioned as de facto head of state for much of 1988 and 1989, was convicted in the United States on drug trafficking charges in 1992 and was later convicted *in absentia* in Panama for ordering assassinations.

Figure 16.10. Panama: Use of Fund Credit and Arrears, 1980–90



Noriega. To give Panama more lenient treatment than other countries in arrears would open the door to consideration of political excuses in other cases. In the words of the Managing Director, "the Fund was being taken hostage in a conflict in which it had no part."[105] The Executive Board accordingly moved cautiously in responding to the Managing Director's standard complaint on arrears (issued on March 3, 1988) and postponed discussion of the matter until June 8. By that time, the United States had notified the Fund that its restrictions on transfers to Panama constituted an exchange restriction imposed for national security purposes, and the Fund had implicitly approved that restriction by not objecting to it within the allowed time.[106]

The Board discussion was brief, as most Directors chose to stay out of the dispute. The Executive Director for Panama (Alexandre Kafka—Brazil) asked for but did not get a formal vote on the question of whether the Board should find that Panama had failed to fulfill its obligations to the Fund. Leonor Filardo (Venezuela) supported Kafka, Dallara and Guenter Grosche (Germany) spoke in favor of making such a finding, and the Managing Director determined that the sense of the meeting was to approve the decision to restrict Panama's access to Fund resources as long as the country was in arrears.[107]

[105]Minutes of EBM/88/126 (August 24, 1988), p. 14.

[106]"Notification Under Executive Board Decision No. 144-(51/52) of Restrictions Relating to Panama," EBD/88/126 (May 9, 1988) and minutes of EBM/88/91 (June 8, 1988), pp. 3–5. For other cases illustrating the Fund's policy on exchange restrictions imposed for national security, see the discussion of Vietnam, pp. 766–70, and Chapter 2, footnote 116, p. 120.

[107]Minutes of EBM/88/91 (June 8, 1988).

When the Board first met to review the restriction decision, in August 1988, Grosche and Charles S. Warner (Alternate—United States) asked for a declaration that Panama would be declared ineligible to use Fund resources if it did not settle its arrears within three months. A consensus of other Directors, however, preferred to wait to see how events unfolded. The decision therefore merely noted that within three months the Fund would "consider the appropriateness of further steps" if arrears were still outstanding.[108]

Three months later, in November 1988, Panama's minister of planning and economic policy, Gustavo R. González, participated in the Board meeting. He impressed Directors by stressing the government's willingness to cooperate with the Fund and by recognizing the Fund's status as a preferred creditor. (Panama had made a token payment to the Fund the day before the meeting and had made no payments to other external creditors since the imposition of sanctions by the United States.) The Board responded by adding an unusually positive sentence to its conclusions: "The Fund welcomes the commitment of the authorities to pursue the adjustment process begun several years ago and to adopt policies aimed at restoring external and internal balance and normalizing Panama's relations with the international financial community."[109] Moreover, since the August review, the Interim Committee—at its Berlin meeting—had "welcomed the intention of the Executive Board to pursue a multifaceted approach to [the arrears] problem involving . . . intensified collaboration where members with overdue obligations are cooperating with the Fund" (communiqué of September 26, 1988, para. 5). With that in mind, the Board agreed merely to repeat the August warning that it would consider unspecified further steps within another three months.[110]

Little changed during that interval. When the next review was held in February 1989, the Board accepted the staff's judgment that Panama should be treated as a special case, owing both to the strong record of performance and cooperation before 1988 and the perception that the authorities were doing about all that they could under present circumstances. The November 1988 decision was repeated word for word.[111] Then in May 1989, the political situation really began to unravel. Presidential elections were internationally denounced as fraudulent, and a prolonged struggle ensued between factions loyal to Noriega and those supporting the apparent winner, Guillermo Endara Galimany. A few weeks later, the Fund finally decided that it could no longer ignore the consequences of Panama's rapidly growing arrears (which then totaled SDR 121 million, or $150 million). The Board accepted a staff suggestion that "Panama could have made more active efforts to settle its overdue obligations," and it gave the

[108]Minutes of EBM/88/126 (August 24, 1988).

[109]In drafting this sentence, Directors explicitly rejected a more conventional alternative that would have commended the authorities' commitment to implement an adjustment program; that alternative would have implied a rejection of existing economic policies.

[110]Minutes of EBM/88/171 (November 23, 1988).

[111]Minutes of EBM/89/21 (February 22, 1989).

authorities just one more month to settle their arrears or face a declaration of ineligibility.[112]

The imposed deadline could not possibly be met, and little progress could be reported when the Board met again at the end of June. Kafka again asked for a formal vote on the proposal to declare Panama ineligible, but as had been the rule all along, most Directors declined to express a view. Only two chairs—the United States and Germany—voted in favor, but only four—the constituency that included Panama, the two African constituencies, and China—voted against. The motion carried with 25 percent of the voting power in favor and 10 percent against.[113]

Honduras

The last country to face a declaration of ineligibility in the 1980s was Honduras. An oddity in this case was that Honduras had not borrowed from the Fund for several years and had repaid most of the money it had borrowed in the early 1980s (Figure 16.11).[114] That Honduras fell into arrears to the Fund in the last quarter of 1987 is attributable to several unrelated and coincidental developments. First, the economy suffered from a poorly diversified export base (concentrated in coffee and bananas) that left it heavily dependent on a few international commodity markets. The coffee market weakened severely in 1987; the export price of Honduran coffee fell by 43 percent, and the overall terms of trade fell by 18 percent. Second, foreign assistance declined in 1987, largely as a byproduct of a falloff in covert U.S. support for the Contra rebels based in Honduras.[115] Third, the grace periods expired on many of the loans from official creditors taken out in the early 1980s, resulting in large net outflows to the Fund, other multilateral institutions, and bilateral creditors. Although the amounts coming due to the Fund were a small part of the total, the government adopted a strategy to restrict payments to all external creditors until a coordinated solution to the country's growing payments difficulties could be arranged.

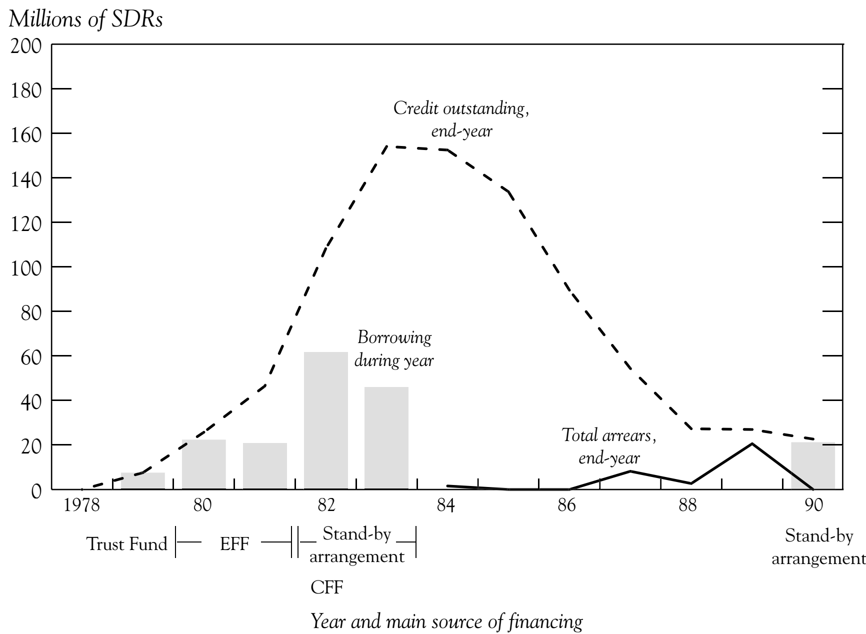
[112]Minutes of EBM/89/68 (May 31, 1989). The quotation is from "Panama—Overdue Financial Obligations to the Fund—Further Review of Decisions on Complaints Under Rule K-1 and Rule S-1," EBS/89/109 (May 26, 1989), p. 8.

[113]Minutes of EBM/89/85 (June 30, 1989).

[114]Honduras, an original member of the Fund, began the 1980s with no outstanding debts to the Fund other than a small amount in Trust Fund loans. It then borrowed SDR 140 million in 1980–83 (206 percent of quota; $163 million) from the GRA, mostly under the terms of an extended arrangement, a follow-up stand-by arrangement, and two CFF drawings for export shortfalls. By August 1989, all but SDR 23.3 million had been repaid. Of the SDR 14 million in Trust Fund loans disbursed in 1978–81, all but SDR 3.7 million had been repaid.

[115]The Contras were guerrillas fighting to overthrow the Sandinista government in Nicaragua. In December 1986, it became known that Honduras-based Contras had been financed in part by U.S. government funds diverted from the proceeds of the covert sale of arms to Iran. Following that revelation, U.S. official aid (which accounted for about three-fourths of all official transfers received by Honduras) fell from $108 million in 1986 to $81 million in 1987 and $80 million in 1988.

Figure 16.11. Honduras: Use of Fund Credit and Arrears, 1978–90



Throughout 1988, Honduras did make several payments to the Fund to limit the rise in arrears, and the authorities negotiated extensively with the staff over the terms of an adjustment program that could be supported by new credits from the Fund once arrears were cleared. The main point of contention in those talks concerned exchange rate policy. The value of the currency had been pegged at two lempira per U.S. dollar for more than half a century, and in recent years the government had been forced to resort increasingly to a variety of restrictions to maintain the exchange rate at that level. The staff argued that action to depreciate the official rate was needed, both to eliminate the restrictions and to create incentives for the expansion of nontraditional exports. The authorities resisted on the grounds that they faced inelastic demand for their products and thus could not realistically expect depreciation to increase export volumes, and that the fixed rate promoted more general economic and social stability.[116]

Although these technical discussions were inconclusive, Honduras managed to obtain fresh loans from the United States and Mexico in August 1988. The authorities used the proceeds from those loans to make a partial payment on their arrears to the Fund and to pay off their arrears to the World Bank completely. The Bank then approved disbursement of a Structural Adjustment Loan to Honduras, which raised an outcry from several Executive Directors at the Fund who felt that the Bank should refuse to lend to countries that were still in arrears to the Fund.

[116]Minutes of EBM/88/83 (May 23, 1988).

The Fund's management, however, supported the Bank's action, both because it ultimately was likely to help Honduras repay the Fund and because imposing cross-conditionality between the two institutions seemed inappropriate.[117]

Honduras did settle its arrears, which then amounted to SDR 4.2 million, in November 1988. Although the authorities managed to stay current only for five days, that development succeeded in restarting the clock on the procedures for declaring them ineligible to use Fund resources. Unfortunately, circumstances made it impossible to take advantage of the delay. A tightly contested presidential and legislative election was to be held in November 1989, and for the whole year leading up to it the government felt itself to be incapable of enacting the policy changes that clearly were needed to put the balance of payments on a sustainable course. The Executive Board met three times during 1989, and by the last meeting (on August 30), Directors had run out of patience. Analía Napky (Temporary Alternate—Honduras) explained that the government had agreed to propose fiscal measures, but that the congress would not approve them until after the new government took office in January 1990. Meanwhile, she asked for the forbearance of her colleagues on the Board. A majority, however, insisted that to wait would mean giving Honduras an unwarranted special treatment over other countries in arrears. The Board therefore decided that Honduras would be declared ineligible effective November 30 if arrears were not cleared by that date. Honduras made no more payments that year, and the final ineligibility declaration of the decade took effect as scheduled.[118]

Zaïre

Zaïre[119] borrowed steadily from the Fund for a decade starting in the mid-1970s and was frequently late in repaying those debts when they fell due in the 1980s. Protracted arrears began in 1988 and eventually led to a declaration of ineligibility in 1991. More than in any other case, a persistent subtheme to the growing economic difficulties in Zaïre was the pervasiveness of official corruption and its crushing effect on political and economic activity in the country.

Zaïre's problems began in 1975, when a two-year boom in the world copper market came to an abrupt halt. The price for Zaïre's principal export fell by more than 40 percent that year and remained depressed for the rest of the decade. The government had badly overspent the extra revenues from the boom period and had failed to resolve long-standing problems of inefficient administration and political corruption. These problems were aggravated by sporadic insurgencies against President Mobutu Sese Seko that seriously disrupted mining operations in the Shaba

[117]Minutes of EBM/88/138 (September 2, 1988).

[118]The new government quickly adopted a comprehensive adjustment program and allowed the exchange rate to depreciate. Honduras cleared its arrears in June 1990.

[119]The Democratic Republic of Congo, formerly the Belgian Congo, became independent in 1960. It was known as the Republic of Congo during 1960–64 and as the Republic of Zaïre from October 1971 until May 1997.

province for several years. The authorities determined to implement stabilizing policies and to undertake administrative reforms (the "Mobutu Plan"), and they turned to the Fund and other external creditors for help. The Fund responded in 1975–78 with SDR 255 million ($305 million; 226 percent of quota) in mostly low-conditionality credits: from the Oil Facility (SDR 78 million in 1975–76) to compensate for the high cost of importing oil, from the CFF (SDR 84 million in 1976–77) to compensate for the drop in export revenues, low-interest and longer-term loans from the Trust Fund (SDR 47 million in 1977–78), and two higher-conditionality stand-by arrangements (SDR 46 million drawn in 1976–77, out of a total commitment of SDR 86 million).[120] The Fund also assisted in negotiations with bank creditors and in an effort initiated by the Belgian government to improve transparency and reduce official corruption. For the latter effort, the Fund provided technical assistance and nominated external candidates (initially Erwin Blumenthal, a former Bundesbank official, who served in 1978–79, and then a series of successors) to oversee the operations of the central bank.

The reform effort foundered in 1979–80 when a second copper boom weakened the authorities' resolve. World copper prices were cycling wildly: they averaged 57 U.S. cents a pound in 1968–72, 87 cents in 1973–74, 60 cents in 1975–78, 94 cents in 1979–80, and 68 cents in 1981–86. One difficulty, hardly peculiar to Zaïre, was that the authorities treated the peaks as if they were permanent and the troughs as temporary aberrations, so that the fiscal deficit crept up to unsustainable levels. A second and more indigenous difficulty was that inefficient management, lack of oversight, and widespread official corruption devoured much of the potential revenue before it reached the official accounts.

By the late 1970s, the Fund staff was aware of the pervasiveness of corruption and was reasonably knowledgeable on the extent of the drain on the government treasury from what were euphemistically called "the spending habits of the President." In addition to information gleaned directly by staff missions to Zaïre, the Fund received inside reports from Blumenthal and his successors managing the central bank. Blumenthal's role was especially important and has been much discussed and often misinterpreted in the literature on the uncovering of corruption in Mobutu's Zaïre.[121] When appointed by the Fund, Blumenthal was known as an expert on the country and had already worked there briefly in 1964 on behalf of Prime Minister Moïse Tschombe, before Tschombe was overthrown by Mobutu. Although various published reports later claimed that he quit in disgust over the corruption that he found there in 1978–79 and that his reports should have alerted the international community to a pervasive problem, in fact he was personally per-

[120]Prior to 1975, Zaïre's only borrowing from the Fund was a CFF drawing of SDR 28.3 million (25 percent of quota) in 1972. A 1967 stand-by arrangement was not drawn upon.

[121]See "Zaïre: Can the IMF Succeed?" *Africa Confidential*, Vol. 20 (January 3, 1979), pp. 1–5; testimony before the Subcommittee on Africa of the Committee on Foreign Affairs, U.S. House of Representatives, by Nguza Karl-I-Bond (a former prime minister of Zaïre), September 15, 1981; interview with Mobutu in *Newsweek* magazine (August 23, 1983, p. 56); Lissakers (1991), p. 106; Callaghy (1993), p. 107; and articles in the *Financial Times*, May 12, 1997, pp. 1 and 2.

suaded by Mobutu to complete his one-year appointment. None of his contemporaneous reports to the Fund raised objections about the activities of the president, who "had always backed [him] up" in his battles with the management of the central bank and who had always shown him "generosity and kindness." Blumenthal did, however, struggle to reduce the extent of corruption at the central bank, of which he understood that the president and his associates were the major beneficiaries. Three years later, in 1982, he prepared a highly critical report, apparently at the request of the Belgian government, that detailed examples of the diversion of central bank assets for Mobutu's personal use.[122]

The Fund's concerns about these problems, however, were outweighed by two factors. First, the Fund in that era scrupulously avoided making judgments about economic or administrative problems that could be construed as deriving from a country's "domestic social and political policies" (in the language of Article IV). Second, Mobutu enjoyed widespread international political support, because of European economic participation in the exploitation of Zaïre's vast mineral wealth, because of the country's strategic importance in the Cold War, and because of a perception that there were no viable alternatives to Mobutu's rule. The staff and management of the Fund repeatedly stressed to the authorities (including Mobutu) the importance of improving transparency and efficiency of the government and of the state-owned mining and trading companies, but the institution had little real influence over the outcome.[123]

A stand-by arrangement (for 78 percent of quota over 18 months) was negotiated laboriously in 1978–79 in the midst of policy slippages and an increasing reluctance by bank creditors to provide new loans. The program twice went off track,

[122]For Blumenthal's reports to the Fund from Kinshasa, see correspondence in IMF/CF (S 872 "Zaïre, Blumenthal, Erwin, Principal Manager, 1978–"). For his 1982 report and a letter from Mobutu accusing Blumenthal of waging "a vast campaign of denigration and defamation against Zaïre" (both in French), see IMF/RD Managing Director file "1985—Zaïre I" (Accession 87/136, Box 3, Section 168). For an early example of relevant staff reports to management on the economic and political effects of corruption in Zaïre, see IMF/RD African Department file "Zaire—Correspondence, 1978" (Accession 81/51, Box 1, Section 117): June 9, 1978, memorandum from Justin B. Zulu (Director of the African Department); the "spending habits" quotation given in the text is from that memorandum. Also see IMF/RD Managing Director file "Zaire, 1981" (Accession 83/108, Box 4, Section 376): September 14, 1981, memorandum from Evangelos A. Calamitsis (Senior Advisor in the African Department); September 15, 1981, memorandum from Leif Mutén (also Senior Advisor in the African Department); and November 19, 1981, memorandum from Zulu. Blumenthal also wrote a letter to *Newsweek* (September 7, 1983), challenging claims made against him by Mobutu in the interview cited above, but the magazine apparently did not print it. A copy, attached to a letter (September 20, 1983) sent by Blumenthal to Roland Tenconi (Director of the Administration Department), is in IMF/RD African Department file "Zaire—Correspondence, January–September 1983" (Room 4827, Section 5, Shelf 6, Bin 8).

[123]Mobutu frequently met with Fund missions in Zaïre, and on at least two occasions (in 1979 and 1981) met with the Managing Director in Washington. In addition, he had regular contacts with the Executive Director in the Fund for Belgium, Jacques de Groote, who was also serving on a personal basis as "an expert in the service of Zaïre" and was helping Zaïre design adjustment programs acceptable to the Fund. See note from de Groote to de Larosière (September 11, 1979); IMF/RD African Department file "Zaire—Correspondence, July–December 1979" (Accession 82/13, Box 2, Section 211).

but the authorities made additional efforts. With some modifications, the program was completed, and the stand-by arrangement was fully drawn. The Fund then approved a three-year EFF arrangement in June 1981, on the strength of promises to institute major reforms aimed at making the government's accounts more transparent. When export prices dropped, the government made little effort to restrain spending, and that program was abandoned.

In November 1981, Mobutu went to Washington and asked de Larosière to meet with him at his suite in the Madison Hotel. In response to a request for flexibility in applying the conditionality in the stand-by arrangement, the Managing Director told the president that the Fund would give "no leeway" in assessing compliance and that the finances of the principal state-owned exporting companies would have to be cleaned up and made more transparent if the Fund was to continue to provide financial support.[124] Despite assurances given by Mobutu, little was done on that score. The authorities made no more drawings on the EFF arrangement after that month, and they canceled the arrangement in mid-1982. By then, external arrears (mostly to commercial banks) were beginning to mount.[125] Beginning in the second half of the year, Zaïre also developed short-term arrears to the Fund, and in March 1983 some payments were delayed long enough to warrant a notification to the Executive Board, but the authorities managed to clear the arrears (temporarily) in April without a formal complaint being issued.[126]

For the first half of 1983, Zaïre carried out a "shadow program," with which the authorities complied well enough to lay the groundwork for negotiations on a new stand-by arrangement. A central element in the Fund's strategy was to eliminate the flourishing black market in foreign exchange and reduce the pervasiveness of smuggling by persuading the authorities to dismantle the elaborate system of exchange controls and correct the enormous overvaluation in the exchange rate. That last step, the staff argued, required abandoning the peg against the SDR in favor of a floating rate. The authorities resisted, but the Managing Director—drawing on personal knowledge of the difficulties of operating a system of dual exchange rates, based on his own experience in France—finally convinced them. In September 1983, the official exchange rate of the zaïre was devalued by 78 percent against the SDR (from 6.3 to 28.2 per SDR), a temporary dual rate was established, and plans were made to unify the rate by February 1984. Based on that policy and a wide range of supporting fiscal and structural measures, the Fund approved a 15-month stand-by arrangement in December 1983. That arrangement was almost fully utilized, as Zaïre entered a rare period of economic calm.[127]

[124]Memorandum for files by de Larosière (November 30, 1981); IMF/RD Managing Director file "Zaire, 1981" (Accession 83/108, Box 4, Section 376).

[125]For an account of Zaïre's negotiations with external creditors, see Callaghy (1993).

[126]"Zaire—Overdue Financial Obligations," EBS/83/61 (March 22, 1983) and "Zaire—Settlement of Overdue Financial Obligations," Sup. 1 (April 20, 1983).

[127]The 1984–85 stand-by arrangement was for SDR 228 million ($240 million), which was 100 percent of the quota in effect until December 1983 (78 percent of the new quota). Of that, the authorities drew all but SDR 30 million.

The next stand-by arrangement (SDR 162 million) was fully drawn over 12 months in 1985–86, but the economy then turned sour again. Zaïre's terms of trade dropped by 24 percent in 1986, primarily from a 58 percent drop in the price of cobalt, the number two export commodity. The authorities again resisted tightening economic policies commensurately, and the program (supported by yet another stand-by arrangement) quickly went off track.[128] Of the SDR 214 million that was to have been lent to Zaïre through March 1988, only SDR 48 million was drawn.

Once the 1986 program was abandoned, the staff negotiated what has to be seen as an unusually weak program for 1987–88, on the basis of which the Executive Board approved a new stand-by arrangement, a three-year SAF arrangement, and a CFF drawing, for a total additional commitment of SDR 282 million ($367 million; 97 percent of quota).[129] When the program was presented to the Executive Board in May 1987, three Directors (from the United Kingdom, Sweden, and Australia) abstained, and three others (from Ireland, Greece, and the Netherlands) stressed strong concerns over the weakness of the program, but the rest of the Board spoke favorably. Zaïre still enjoyed the goodwill of much of the international community, and that fact formed the basis of the staff's endorsement as well as the Board's. The staff's own appraisal concluded with uncharacteristic bluntness that the program was "unlikely to lead to external viability within the medium term." The staff nonetheless recommended approval, principally on the strength of indications by donor and creditor countries that foreign aid to Zaïre would rise by enough to finance the payments deficit.[130] Unfortunately, that increase did not materialize, and Zaïre was saddled with an ever-increasing burden of external debts over the next few years.

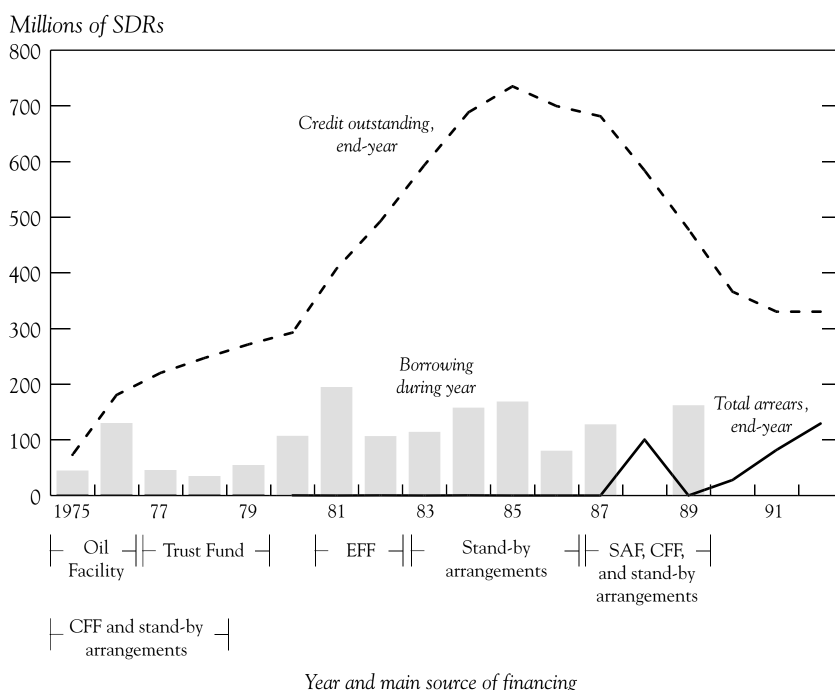
The staff and management continued to express concerns about corruption, but they still lacked an effective means of dealing with it. A 1989 staff report, for ex-

[128]On May 30, the same day that Zaïre made the initial drawing on the stand-by arrangement, the government announced a 35 percent increase in public sector wages. The Fund had not been consulted on this policy change, which made observance of the fiscal ceilings extremely unlikely. The Managing Director then called for a "special consultation" under the standard terms of the arrangement, during which the authorities promised to take fiscal measures sufficient to observe the ceilings. The ceilings were not observed, but the Executive Board granted a qualified waiver in September and permitted a delayed second drawing. No further drawings were permitted. "Zaire—Staff Report on the Special Consultation," EBS/86/181 (August 8, 1986) and minutes of EBM/86/137 (August 25, 1986); "Zaire—Request for Waiver and Modification Under Stand-by Arrangement," EBS/86/221 (September 19, 1986) and minutes of EBM/86/162 (September 24, 1986).

[129]The stand-by arrangement provided for SDR 100 million to be drawn over 12 months, of which only SDR 5 million was available immediately. A CFF drawing of SDR 45 million was available immediately, as was a SAF loan of SDR 58 million. The SAF arrangement approved in 1987 provided for an additional SDR 79 million in disbursements through 1990, conditional upon approval of appropriate adjustment programs and structural reforms. The total SAF arrangement was eventually raised to SDR 204 million.

[130]"Zaire—Staff Report for the 1987 Article IV Consultation, Requests for Stand-by Arrangement, and for Arrangement Under the Structural Adjustment Facility," EBS/87/86 (April 22, 1987), p. 42.

Figure 16.12. Zaïre: Use of Fund Credit and Arrears, 1975–92



ample, noted that a "key aspect" of the adjustment program that was being supported by a stand-by arrangement with the Fund (the ninth arrangement since 1976) was "the strengthening of expenditure control procedure and monitoring." All expenditures were to be included in the budget and properly accounted for, and controls on overall spending were to be strengthened.[131] Implementation of those intentions, however, was not a condition for drawing under the arrangement, and the Fund had not yet solved the problem of how to refuse to lend to corrupt governments without interfering in domestic politics.[132]

The Fund's lending to Zaïre after 1985 was more than offset by repayments on the earlier credits, and Zaïre's indebtedness fell gradually from a peak of about SDR 750 million ($875 million) in May 1986 to less than SDR 500 million ($700 million) at the end of 1989 (Figure 16.12). In 1988, the government fell seriously behind in making those payments, even though the central bank had sufficient

[131]"Zaire—Staff Report for the 1989 Article IV Consultation and Review Under Stand-by Arrangement," EBS/89/211 (November 2, 1989), p. 15.

[132]In August 1997, the Executive Board adopted a set of guidelines for dealing directly with "governance" problems. Those guidelines provided that "[f]inancial assistance from the IMF . . . could be suspended or delayed on account of poor governance, if there is reason to believe it could have significant macroeconomic implications that threaten the successful implementation of the program, or if it puts in doubt the purpose of the use of Fund resources." *IMF Survey*, Vol. 26 (August 5, 1997), p. 237.

foreign exchange reserves. Zaïre was staying current with some other creditors, including the World Bank, following an announced policy of giving "preferential treatment to creditors that are providing a positive net transfer of resources." Mobutu complained to Fund staff and management that in the first half of the year, Zaïre had paid more than $100 million to the Fund and had received nothing in return. The Fund responded that Zaïre was receiving a substantial net inflow of grants and loans from other official sources, which was possible only by maintaining relations with the Fund.[133] Mobutu rejected that view, publicly accused Camdessus of plotting with the Belgians against Zaïre, and refused to make further payments.[134] In September 1988, the Managing Director issued the first complaint on Zaïre's arrears to the Fund, which then totaled SDR 66 million ($85 million; 23 percent of quota).[135]

The Board met twice to consider the complaint against Zaïre, but Directors were willing to await the outcome of intensive discussions with the authorities that were taking place in Kinshasa, in Berlin (during the Annual Meetings), and in Washington. Finally, a meeting to consider restricting Zaïre's access to Fund resources was scheduled for mid-May 1989, but the authorities obtained a bridge loan from commercial banks and settled their arrears (which then totaled SDR 115 million) in full the day before the meeting was to have been held.[136]

After the 1989–90 stand-by arrangement was approved in June, the longstanding pattern of late payments resumed. Around the same time, the delicate political fabric in Zaïre began to unravel. Mobutu came under increasing pressure from opposition parties to maintain living standards in the face of dwindling international support, pressure from the Fund for stabilization and reform, and continuing weakness in both domestic output and world export markets. The currency collapsed in a hyperinflationary binge, and the central bank could no longer service the country's external debts. In November 1990, the authorities slipped into arrears for the last time. From then on, only limited payments were made to the Fund, and events followed their usual course toward a declaration of ineligibility, which took effect in September 1991.

[133]A midyear estimate by the staff (before the break in normal relations) projected net resource transfers to Zaïre totaling SDR 138 million for 1988. That total reflected SDR 544 million in official grants and credits and an anticipated SDR 87 million SAF loan disbursement, less repayments to the Fund of SDR 220 million and SDR 273 million in debt-service payments to other creditors.

[134]See "Mobutu: 'Nous ne céderons pas aux diktats du FMI'," *Jeune Afrique,* No. 1447 (September 28, 1988), pp. 4–9. Also see IMF/RD African Department file "Zaire—Correspondence, 1988" (Accession 91/031, Box 5, Section 526): memorandums of August 29 and October 31, 1988, from John Calvin Williams (IMF Resident Representative in Kinshasa) to Grant B. Taplin (Assistant Director, African Department); and memorandum of June 27, 1988, from Gondwe to the Managing Director.

[135]"Zaire—Overdue Financial Obligations to the Fund—Report and Complaint Under Rule K-1 and Notice of Failure to Settle Trust Fund Obligations," EBS/88/189 (September 2, 1988).

[136]"Zaire—Settlement of Overdue Financial Obligations to the Fund and Withdrawal of Complaint Under Rule K-1," EBS/89/103 (May 17, 1989).

Filling It In: Development of the Arrears Strategy

Balancing the Books

The persistence of arrears had serious financial implications for the Fund. When the Fund began deducting seriously overdue payments from accrued income in 1985, it had to report a net loss for that fiscal year: the first loss in eight years, and a setback for an ongoing effort to strengthen and stabilize the institution's financial position (see Chapter 17). To avoid a further loss in the next year, the Board's standard procedures required it to raise the interest rate charged on outstanding obligations (the "rate of charge") and thereby pass the full cost of arrears onto indebted countries. Those countries that were current—or were trying to stay current—in their payments to the Fund would bear the burden unless a new policy could be adopted. The first step toward a comprehensive strategy for dealing with arrears was thus to develop a means of spreading the burden more equitably.

A mild and not particularly effective attempt was initiated later in 1985 to shift the burden more directly onto the countries that were in arrears, by imposing "special charges" on overdue obligations. Although the imposition of financial penalties was not an appealing or practical proposition in the Fund, a consensus for some such action gradually took hold as the arrears problem worsened during the year. Few Directors were under any illusions about the idea: unless penalty charges were quite steep, they would have little effect on recalcitrant countries (i.e., those that were able but unwilling to repay the Fund), and steep charges could have seriously counterproductive effects on countries that were already in desperate economic straits. For a variety of reasons, the Board rejected the idea of "penalty" charges, but it did support the idea of imposing "special" charges aimed at (eventually) recovering costs.

The stated objective of the special charges was to ensure that the costs of arrears would be borne chiefly by the countries that incurred them and not by the membership at large. Those costs, as viewed by the Fund, arose principally because the standard rate of charge was below the market SDR interest rate and thus included a concessional element. More generally, the cost of arrears could be measured in many ways, but discussions in the Fund focused on this one element.[137] Assuming that the obligations eventually will be settled in full, the cost can be measured most directly as the difference between the institution's cost of funds and the return on the overdue claims. At the margin, that gap is the difference between the SDR interest rate and the rate of charge; the gap times the average overdue balance gives an approximation of the total cost to the institution and thus to its member countries. For given levels of target income, lending activity, and remuneration rate, that cost would normally be allocated among all indebted countries through appropriate adjustments to the rate of charge.

[137]Commercial bank loan contracts, including those with sovereign borrowers, typically include clauses requiring the borrower to repay the administrative costs to creditors of rescheduling or otherwise recovering overdue payments. The Fund explicitly rejected the inclusion of administrative costs in this context.

Introduction of a system of special charges required a 70 percent majority of the voting power in the Executive Board, which implied that the indebted countries as a bloc could have vetoed the proposal. Some indebted countries, however, held that countries in arrears should bear the costs themselves and not pass them onto those that stayed current. A preliminary discussion on December 6, 1985, revealed that 14 Executive Directors, holding 76 percent of the votes, were in favor, while the other eight were opposed.[138] After further consideration of several specific options, the Board settled on an approach based on making the total rate of charge on overdue obligations (i.e., the regular plus the special rate of charge) equal to the SDR interest rate. That system had the virtues of simplicity and of fairness, because the effect was to eliminate the concessional element in the interest rate charged on overdue obligations and eventually to recover the increased costs to the membership associated with those arrears.[139]

While the adoption of special charges was effective for its stated purpose of eventually shifting the direct costs of arrears onto the countries incurring them, it had little immediate effect on either recovering those costs or inducing countries to settle arrears more quickly.[140] The system might have been more effective if the special charges had been higher (on an annualized basis, they seldom reached 100 basis points) and if they had been targeted on the most egregious cases instead of being levied routinely on all overdue obligations. Executive Directors, however, were reluctant to approve any scheme that would aggravate the problems of some of the world's poorest countries or, alternatively, would require drawing a line between countries that were unwilling to pay and those that were unable. Consequently, the system of special charges did not evolve into a set of true penalties.[141]

Burden Sharing

The more general question of who should bear the burden of arrears was tackled in 1986. Faced with the prospect of a sudden large increase in the cost of bor-

[138]Those voting against were Tariq Alhaimus (Alternate—Iraq), Jiang Hai (Alternate—China), Alexandre Kafka (Brazil), Mawakani Samba (Alternate—Zaïre), E.I.M. Mtei (Tanzania), Fernando L. Nebbia (Argentina), Ghassem Salehkhou (Iran), and Arjun K. Sengupta (India). Minutes of EBM/85/175 (December 6, 1985).

[139]The decision, which took effect on February 1, 1986, and is reproduced in the Appendix, also provided for a separate system of special charges on overdue repayments on Trust Fund loans. Similar charges were imposed on arrears on SAF loans, beginning in 1987.

[140]Through FY 1989, the Fund imposed special charges totaling SDR 87.2 million ($110 million) on 36 countries with overdue obligations; of that total, SDR 4.5 million ($6 million) had been paid as of May 1989. The collection rate improved in FY 1990, when SDR 71.2 million was assessed and SDR 11.7 million was collected (approximately $15 million out of $93 million). The overdue special charges were all owed by the 10 countries that had been declared ineligible. "Overdue Financial Obligations to the Fund—Six-Monthly Report," EBS/89/133 (June 29, 1989), pp. 11–14 and Table 11; and "Review of the Fund's Income Position—Actual Outcome for FY 1990 and the Basic Rate of Charge for FY 1991—And Review of Special Charges and the Interest Rate of the SDR," EBS/90/98 (May 29, 1990), pp. 7–8 and Table 4.

[141]See, for example, minutes of EBM/88/19 (February 10, 1988). A proposal for imposing penalty charges was set out in "Overdue Financial Obligations to the Fund—Six-Monthly Report," EBS/87/252 (December 2, 1987), pp. 11–14.

rowing from the Fund, developing countries objected strenuously. As E.I.M. Mtei (Tanzania) observed during a Board discussion in December 1985, the entire membership had approved the arrangements that had subsequently gone wrong, and equity required that all members share in the cost. Moreover, the indebted countries were the least able to bear the burden, and a sharp increase in the rate of charge could force even more countries into arrears.[142] That argument prevailed, but agreement on an equitable formula did not come easily.

After several months of discussion, a consensus emerged at an informal meeting of Executive Directors on July 17, 1986, and an agreement was formalized in regular Board meetings later that month.[143] The guiding principle for this "burden-sharing" compact (see the Appendix) was that the cost of arrears would be shared equally between debtor and creditor countries through "symmetric and simultaneous" adjustments to the rate of charge to borrowers and the rate of remuneration to creditors. Subject to certain limitations, this policy provided that in each quarter, the rate of charge would be increased, and the rate of remuneration decreased, by amounts sufficient to generate income to the Fund equivalent to the income lost through countries' failure to pay charges when due. When the charges eventually were paid, then these extra amounts were to be returned to the countries that contributed them.[144]

Over the next four fiscal years, nearly SDR 800 million ($1 billion) in charges went uncollected, was treated as deferred income, and was subject to burden sharing. As discussed in more detail in Chapter 17, the rate of charge was raised, and the rate of remuneration lowered, by an average of about 80 basis points to generate an equivalent amount of net income. By the end of FY 1990, about 6 percent (SDR 45 million, or $57 million) of the deferred charges had been paid, and an equivalent amount had been refunded to contributors.[145]

Provisioning

The External Audit Committee, starting in 1985, encouraged the Fund to adopt some formal procedure for accounting for probable losses on overdue obligations.

[142]Minutes of EBM/85/180 (December 13, 1985), p. 3.

[143]Minutes of EBM/86/122 (July 25, 1986) and EBM/86/124 (July 30). No record was made of the discussion at IS/86/9 (July 17) except for a summing up by the Chairman, which was attached as an Annex to the minutes of EBM/86/122.

[144]The burden-sharing decision implicitly assumed that the deferred income eventually would be made up, and it did not allow explicitly for the possibility that the overdue charges would be written off. Because the Articles of Agreement make no allowance for writing off claims against a member of the Fund, the only way the Fund could realize a loss on an outstanding obligation (other than liquidating the Fund itself) would be for the country to withdraw from membership. Following withdrawal, the Fund could then attempt to sell its holding of the country's currency, which would almost certainly result in a loss relative to the Fund's claim on the member (denominated in SDRs). That circumstance had never arisen; the four countries that had withdrawn—Poland in 1950, Czechoslovakia in 1954, Cuba in 1964, and Indonesia in 1965—had settled their financial obligations in full.

[145]"Income Position—Burden Sharing—Implementation of FY 1992; and Extended Burden Sharing—Review," EBS/91/47 (March 19, 1991), Attachment I, Tables 1 and 2.

The 1986 audit raised the possibility that the next one might have to be qualified if the Fund did not take clear steps to recognize and acknowledge the poor quality of certain of its assets and claims.[146] Until then, the Fund had resisted taking any actions that might acknowledge the possibility of a permanent loss; it was a cooperative organization, and its membership of sovereign states was expected to fulfill its obligations. When the World Bank decided to introduce procedures for loan-loss provisions in the spring of 1986, the pressure on the Fund to take corresponding measures was increased.

When the Executive Board first formally discussed the idea of provisioning, in April and May 1986, only three chairs (the United States, Germany, and Saudi Arabia) favored it, although several others signaled a willingness to consider it further. (Altogether, 66 percent of the votes and half the chairs were either in favor or willing to consider.) Because of the need to respond positively to the suggestions of the auditors, a revised proposal was taken up again in June 1987. It picked up some additional support (from the constituencies led by the Netherlands, Australia, and Indonesia), but the Board majority still rejected it.[147]

Provisioning against specific probable losses would have raised several problems for the Fund, besides the general anathema mentioned above. First, it could have raised a moral hazard by weakening countries' incentives to repay their debts. Second, it could have sent an unhelpful signal to commercial bank creditors and weakened their determination to work with problem countries to resolve difficulties. Third, because Fund credits are technically and legally distinct from loan contracts, and the Articles do not provide for the recognition of losses on credits to members, provisioning against losses would have raised difficult legal issues.[148] If the general idea made economic and financial sense, the preferred route was to find an alternative to conventional provisioning.

When the Board rejected provisioning, the Managing Director (Camdessus) held open the possibility of establishing a "special reserve" account as a more general way to meet the concerns of the auditors and others. A follow-up meeting of the Executive Board just five days later produced a consensus for that proposal, and the Board agreed to establish a Special Contingent Account (SCA).[149] The SCA was created by transferring SDR 26.5 million ($34 million)—the amount of net in-

[146]The primary reporting requirement for the Fund, as for any financial institution in similar circumstances, was to adopt practices consistent with the code known as Generally Accepted Accounting Principles (GAAP). If the auditors of an institution's accounts were to conclude that the financial statements were inconsistent with GAAP, they would be required to qualify their certification. The opinion of the External Audit Committee accompanies the financial statements in each year's *Annual Report.*

[147]Minutes of EBM/86/73–74 (April 30, 1986), EBM/86/84–85 (May 19, 1986), and EBM/87/86–87 (June 12, 1987). Also see "Provisioning Against Loan Losses in the Context of the Fund," EBS/86/82 (April 15, 1986); and "Provisioning in the Context of the Fund—Further Aspects," EBS/87/97 (May 6, 1987).

[148]See "Valuation of Assets in the General Resources Account—Provisioning and Write-Off—Legal Considerations," SM/86/106 (May 16, 1986).

[149]See minutes of EBM/87/89–90 (June 17, 1987).

come for FY 1987 that exceeded the target level for the year—from the Fund's general accounts. The establishing decision provided that the money would be distributed to creditors and debtors in accordance with burden-sharing principles, "when the need for this account disappears." Some months later, that phrase was made more precise: the money in the SCA would be distributed according to specified burden-sharing formulas when all outstanding arrears to the Fund had been settled, unless the Board decided to distribute the funds earlier (see the Appendix).

At the end of each of the next three financial years (through FY 1990), the Fund transferred between SDR 60 million and SDR 65 million to the SCA, and the total balance in the account amounted to SDR 214.8 million ($279 million). The SCA plus the Fund's other reserves (SDR 1.4 billion) then covered about 63 percent of the total credit outstanding to the 11 countries that were overdue by six months or more. That ratio was higher than in the preceding three years, but it was still well below what the staff and the Board felt was comfortable. Additional transfers in fiscal years 1991 and 1992, coupled with the first signs of a resolution of the arrears problem, finally raised the Fund's overall precautionary balances back to a level close to the stock of credit outstanding to countries in protracted arrears (Figure 16.13). Overall, the combined effect of increasing the income target, imposing additional charges, lowering the rate of remuneration, and establishing the SCA was to limit the deterioration in the cover for possible losses during the 1980s and to reverse it in the early 1990s.

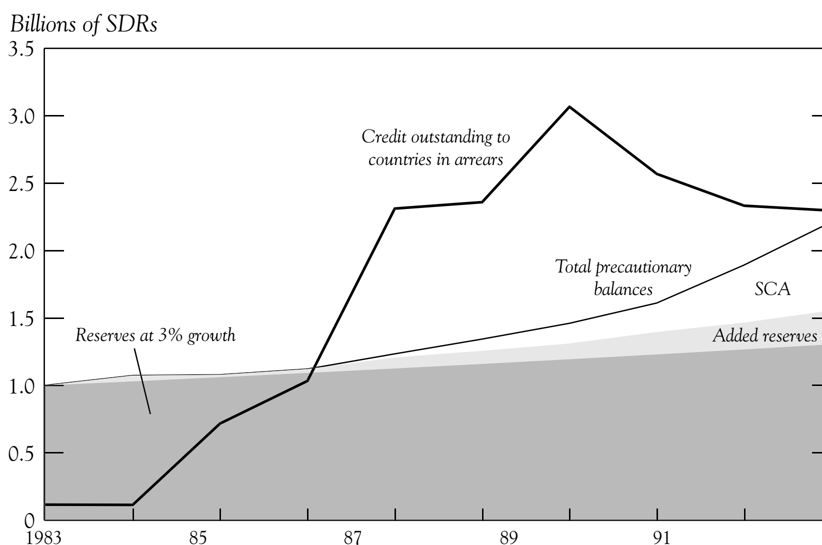
Toward a Comprehensive Strategy

In addition to taking these various financial measures, the Fund struggled to develop a comprehensive strategy for eliminating and avoiding arrears. Initially, that effort focused on devising appropriate penalties—financial and nonfinancial—on countries that failed to meet their obligations. Later, it broadened to include cooperative measures to help countries return to a more sustainable course.

The most potent sanction available to the Fund was compulsory withdrawal from membership, but in practice that step could be taken only in hopeless cases. If a country withdrew from membership, whatever chance remained for settling arrears and restoring normal relations with the international community would be lost, perhaps for many years. The Fund could nonetheless take a series of steps in that direction to try to apply pressure for settlement. As described in each of the case studies in the preceding section, the Fund developed a standard path for those steps: preventing the country from drawing on any active stand-by or other arrangements, restricting access to the Fund's resources pending settlement of arrears, and declaring the country ineligible to use the Fund's resources until the Executive Board restored eligibility. Beginning with the *Annual Report* for 1985, declarations of ineligibility were published, and press releases were issued in subsequent cases.[150]

[150]The decision to begin publicizing declarations of ineligibility was adopted in March 1985; see the Appendix.

Figure 16.13. Credit to Countries in Protracted Arrears, and Precautionary Balances, 1983–92



Note: The bottom portion of the reserves plotted in this figure shows the hypothetical level of reserves if the net income target had stayed at 3 percent. The second portion shows the difference between actual reserves and that hypothetical level; that is, the line at the top of that portion represents actual reserves. Transfers to the original SCA continued in the 1990s and were supplemented by a second account (SCA-2) beginning in 1991. Both accounts are included in the plotted data.

On several occasions from 1986 on, Executive Directors from creditor countries asked for consideration of ways to introduce extra steps short of compulsory withdrawal that might continue to tighten the pressure. Most of those suggestions foundered on the obstacle that the Fund did not have the legal power to suspend a member's rights within the institution, such as its voting rights, other than its right to borrow. In June 1986, Yusuf A. Nimatallah (Saudi Arabia) suggested that the Articles of Agreement should be amended to allow the Fund to suspend a country's rights of membership and to prevent participation in quota increases.[151] No action was taken then, but the motion resurfaced a few years later and led to the Third Amendment in 1992.[152] Nimatallah also suggested that the Fund could notify other multilateral lenders when countries were in arrears and should ask the

[151]Minutes of EBM/86/92 (June 6, 1986), pp. 8–11.

[152]The Third Amendment of the Articles of Agreement, which became effective in November 1992, authorized the Executive Board to suspend a country's voting rights in the Fund and its participation in the Executive Board and the Board of Governors, as an intermediate step between a declaration of ineligibility and compulsory withdrawal. In 1988, the staff devised a means within the terms of the existing Articles for preventing countries in arrears from participating in quota increases; see below, p. 821.

World Bank to take parallel actions when the Fund restricted a member's access. That and similar proposals were rejected or postponed on the grounds that avoidance of cross-conditionality was too important a principle to compromise for this purpose.

During a February 1989 discussion on ways to make the arrears strategy more effective, Dallara joined Nimatallah in calling for a way to censure recalcitrant debtors more forcefully. Nimatallah argued that the Fund had a right to expect countries in arrears to "come forward and establish an understanding with the Fund on how it intended to resolve its problems." If a country failed to do so, then the Fund should publicly declare the country to be "unwilling to cooperate," take actions to "decatalyze" the flow of funds from other creditors by asking them to stop supporting the country, and initiate steps toward forcing the country to withdraw from the Fund. Dallara suggested issuing a "resolution of censure" in extreme cases and broadening the publicity given to protracted arrears.[153] The staff responded by developing some proposals for "remedial" (pointedly not "punitive") measures, and in July the Managing Director added his voice to the movement. Recalling his personal experiences in dealing regularly with heads of state, Camdessus observed that political leaders were often unaware that their failure to repay the Fund imposed direct costs on other developing countries and threatened their own ability to obtain foreign aid. Publicity was "one of the few instruments available to the Fund" for alerting leaders at the highest level.[154]

Proposals for censure and publicity were bitterly opposed by many on the Board, including a few creditors. Both Hélène Ploix (France) and Johann Prader (Alternate—Austria) argued that a declaration of censure would add nothing by itself to a declaration of ineligibility, and if the Fund failed to follow it up with a move to suspend or terminate the country's membership rights, the institution would appear weak and irresolute. The majority view, however, was that the Fund had to take what measures it could. Several meetings were held throughout July to try to forge a consensus, but Directors' positions barely budged. In the end, over the objections of about half the chairs, the Board agreed to consider issuing and publicizing "declarations of noncooperation" and to authorize the Managing Director to write about arrears problems directly to the Fund's governors and to the heads of certain international financial institutions.[155]

[153]Minutes of EBM/89/18 (February 17, 1989), pp. 9 (Nimatallah) and 26 (Dallara).

[154]Minutes of IS/89/15 (July 5, 1989), p. 23.

[155]No vote was taken, and the extent and nature of the opposition varied among speakers. The Acting Chairman (the Deputy Managing Director, Richard Erb) characterized the sense of the Board as follows: "Many Directors had expressed skepticism about the overall approach but at the same time a willingness to go along with it. The opposition to specific parts of the procedures on the part of many Directors had been stated for the record. It could not therefore be said that a consensus had emerged." Minutes of IS/89/15–16 (July 5, 1989), EBM/89/93–94 (July 19), and EBM/89/100–101 (July 27); the quotation from Erb is from meeting 89/101, p. 17. The procedures adopted on July 27, 1989, are reproduced in the Appendix.

During the next few years, the Board declared three countries to be failing to cooperate: Liberia (in March 1990), Sudan (in September 1990), and Zaïre (in February 1992). Four other countries remained ineligible, but they all appeared to be cooperating toward resolving their problems.

Throughout the second half of the 1980s, the Fund came under criticism for focusing more on penalties than assistance. As early as 1986, leaders of developing countries asked the Fund to develop a more cooperative approach, founded on the assumption that countries fell into arrears primarily because of conditions beyond their control. In March of that year, a ministerial meeting of the Group of Twenty-Four (G-24) developing countries called on the Fund and other multilateral institutions to "develop new mechanisms to help those countries which, because of adverse exogenous factors, are not able to repay their obligations to these institutions according to a fixed schedule" (*IMF Survey*, March 17, 1986, p. 91). When the Fund declared Peru ineligible a few months later, the 25 member states of the Latin American Economic System (SELA) complained that the Fund was "causing serious harm to a member state" that was "making intense efforts to meet its financial obligations . . . within an extremely unfavourable international economic climate," and they declared their "complete solidarity with Peru."[156]

Many within the institution also held reservations about the wisdom of prohibiting assistance to countries with overdue obligations. If a country simply was not cooperating, this approach made sense; but if a country needed help in devising an adjustment program and in regaining credibility with donors and creditors, then the Fund's refusal to discuss program requirements became part of the problem rather than part of the solution. Frank Cassell (Executive Director for the United Kingdom) put the issue succinctly: "Where there is full commitment, the Fund must offer a lifeline."[157]

A second, and growing, difficulty with the existing strategy was that the essential level of financing from creditor and donor countries was seldom being attained, even for those indebted countries that were making heroic adjustment efforts. In addition to a widespread deterioration in the willingness of industrial countries to provide foreign aid for economic development, bilateral creditors seemed particularly cool to the idea of providing aid to repay multilateral institutions. Camdessus found that reluctance to be especially galling, and he complained to the Executive Board that "great detriment was done to the Fund's efforts [to resolve the arrears problem] whenever aspersions were cast on major financing arrangements for member countries on the grounds that they were designed to obtain repayment of arrears to the Fund."[158]

[156]The quotation is from a statement approved at a preparatory meeting in Caracas (August 18–22, 1986) for the Twelfth Latin American Council that was held in Lima, Peru, in September. Cable from Sebastian Alegrett (Permanent Secretary of SELA) to the Managing Director (September 1, 1986); in IMF/CF (C/Peru/750 "Obligations Under Fund Agreement, 1985–1986").

[157]Minutes of EBM/88/107 (July 19, 1988), p. 4.

[158]Minutes of EBM/88/39 (March 16, 1988), p. 19.

Efforts to find a way out of these impasses began to take hold in 1988, spurred on by concerns expressed by officials from several creditor countries, including the Chairman of the Interim Committee, H. Onno Ruding. At Ruding's suggestion, the Interim Committee held an informal discussion on the arrears strategy over lunch on April 14, 1988, after which it issued a communiqué calling on the Executive Board to prepare a report "on measures to reduce and eventually eliminate arrears" (*IMF Survey*, April 18, 1988, p. 117). Responding to that request in June, the staff bluntly acknowledged the extent of the problem. The existing strategy had kept the problem from worsening but it had "not been adequate to resolve the existing cases of protracted arrears. . . . It is therefore apparent that present measures need to be reconsidered. . . ."[159]

Specifically, the staff report recommended that the Fund's remedial measures be supplemented by an "intensified collaboration" aimed at restoring payments viability for countries that were prepared to cooperate. That collaboration would have three elements. First, the country would show its willingness to implement a comprehensive program of adjustment and reform and establish a track record of sound economic policies. The staff would help the authorities design this "shadow" program, and the Executive Board would approve it. The Fund, however, would not provide financial support until arrears were cleared in full. Second, the country would be expected to pay enough to the Fund during the adjustment period to keep its arrears from increasing. Third, bilateral donors and other creditors would provide enough financial support "to meet the minimum foreign exchange requirements of the adjustment program," including the prevention of additional arrears. To coordinate that assistance, the Fund would help set up a "support group" of creditors and donors. Ultimately, the support group, assisted by a task force of Executive Directors from participating countries, would be expected to provide much of the money for settling the debtor's arrears and clearing the way for renewed financing from the Fund.[160]

The Board readily accepted the general thrust of these recommendations, but it plunged into a summer of marathon meetings before it was prepared to endorse a formal report to the Interim Committee. Establishing a full consensus required detailed attention to the nuances of blame, credit, and responsibilities for both the onset and the resolution of arrears. Much of the debate involved drafting rather than policy. In addition, two substantive issues occupied the floor.

First, since most of the countries in protracted arrears would be eligible for concessional loans from the ESAF Trust once they cleared their arrears, concerns were raised about risks to the Trust.[161] Some ESAF creditors worried that if a country cleared its arrears using funds provided by the proposed support groups, and the Fund then resumed lending by approving a fast-disbursing ESAF arrangement, low-quality assets would simply be transferred from the Fund's own accounts to

[159]"Overdue Financial Obligations to the Fund," EBS/88/123 (June 27, 1988), pp. 2–3.

[160]Ibid, pp. 3–7. Also see statement by David Williams (Deputy Treasurer), minutes of EBM/88/107 (July 19, 1988), pp. 3–4.

[161]In the summer of 1988, 13 countries had protracted arrears to the Fund. All but two (Panama and Peru) were otherwise eligible for ESAF loans. (For the eligibility criteria, see Chapter 14.)

those of the Trust.[162] The likely transfer of claims was undeniable, but the prevailing view was that the Fund would retain control over the risks, since the Board would have to approve the country's medium-term adjustment program before any funds could be disbursed.[163]

Second, should countries be expected to treat the Fund as a preferred creditor as a condition for approval of a shadow program? Although it has been argued that the Fund does not have a legal or contractual status as a preferred creditor (see Martha, 1990), the institution had long been accorded a preferred status by most creditors and most indebted countries. Creditor countries agreed as a matter of course not to require or expect the Fund to participate in multilateral Paris Club debt reschedulings and instead made such reschedulings contingent on Fund approval of a stand-by arrangement or similar arrangement. Most debtor countries regarded staying current with the Fund as of primary importance, if only because it was a prerequisite for maintaining normal relations with other creditors and with donors. Nevertheless, as noted in several of the case studies above, some countries with protracted arrears had concluded that the national interest lay in repaying those creditors (including, in some cases, the World Bank) that were willing to provide a positive net flow of resources.

The Managing Director and most Executive Directors were eager to have a clear acknowledgment of the Fund's preferred creditor status placed on the record. Ghassem Salehkhou (Iran) argued persistently against it, on the grounds that many other creditors could be considered preferred and that indebted countries should not be treated less favorably if they chose to repay one rather than the other out of their scarce resources. That view did not prevail, and the final report included the following statement: "Executive Directors have stressed the . . . need for all members, creditors and debtors alike, in practice, to treat the Fund as a preferred creditor."[164]

---

[162]The U.K. Chancellor of the Exchequer, Nigel Lawson, proposed to the Development Committee in April 1988 that ESAF loans be made retroactive for countries that implemented shadow programs prior to clearing arrears. Specifically, under the British proposal, once an ESAF loan was approved for a country that had cleared its arrears, it would be disbursed on a schedule determined as if the loan had been approved at the beginning of implementation of the shadow program. More generally, the June staff report suggested consideration of "some acceleration of disbursements" in such cases.

[163]For the full discussion, see minutes of IS/88/9 (July 12, 1988), EBM/88/107–108 (July 19), EBM/88/110 (July 21), EBM/88/132 (August 30, 1988), and EBM/88/140 (September 6). Also see EBS/88/166 (August 10), Rev. 1 (September 2), and Rev. 2 (September 9). On the Lawson proposal on retroactive ESAF access, see "Retroactive Access to the Enhanced Structural Adjustment Facility (ESAF)," EBD/88/177 (June 28, 1988), statement by Frank Cassell (United Kingdom) at EBM/88/107 (July 19), p. 5, and the related staff suggestion in "Overdue Financial Obligations to the Fund," EBS/88/123 (June 27, 1988), p. 6.

[164]Minutes of EBM/88/132 (August 30, 1988), pp. 9–10, and "Report of the Executive Board to the Interim Committee of the Board of Governors on Overdue Financial Obligations to the Fund," EBS/88/166, Rev. 2 (September 9, 1988), p. 3. This policy was not intended to place the Fund in a preferred position vis-à-vis the World Bank, but only to ensure that countries would not favor the Bank over the Fund. In March 1989, the Managing Director and the World Bank President jointly agreed not to support requests for financial assistance to countries in arrears to the other institution, "when arrears to the Bank [or the Fund] were an indication that the resources of the [other] would not be safeguarded." See Chapter 20, on relations with the World Bank, pp. 995–1005.

In September 1988, the Interim Committee endorsed that position and "urged all members, within the limits of their laws, to treat the Fund as a preferred creditor and to lend their active and tangible support to [the strengthened arrears strategy], so as to bring countries with overdue obligations back into the mainstream of international economic relations" (*IMF Survey*, October 17, 1988, p. 326).

The Committee also endorsed the shift to a three-pronged strategy, combining preventive, remedial, and the collaborative measures described above to reduce and eventually eliminate arrears to the Fund. Measures to prevent countries from getting into situations where arrears might develop were a little vague: better analysis by the Fund of economic conditions before approving lending arrangements, better design of adjustment and reform programs, better cash management by indebted countries. New measures to deter countries from incurring arrears were more specific: withdrawal of technical assistance to countries with protracted arrears, more extensive publicity on specific arrears cases, notification of other creditors, and a prohibition against such countries participating in quota increases.[165]

This "intensified collaborative approach," as it came to be called, became the new standard for the 1990s.[166] Preventive measures gradually were made more specific. Remedial measures, including a tightening of the timetable for the Fund's responses, led also to the Third Amendment of the Articles of Agreement, which enabled the Fund to suspend a country's voting rights after a declaration of noncooperation. Collaborative measures included the "rights accumulation programs," through which countries that were in arrears at the end of 1989 could accrue rights to resume borrowing from the Fund by successfully implementing shadow programs. Despite the generally inhospitable environment for official aid to developing countries—and the consequent difficulty that countries faced in obtaining enough assistance to repay arrears even after completing a shadow program—the adoption of a formal multilateral approach for coordinating assistance to countries that were struggling to implement reforms and settle arrears succeeded in several cases.[167] Indeed, in almost every case in which a country cleared its arrears and regained eligibility to use Fund resources, bridge loans from other creditors made an indispensable contribution to the process.

The first country to normalize its relations with the international community under the new approach was Guyana. Efforts to resolve Guyana's problem had

[165]Although a quota increase might be approved as part of a general review of quotas, a country in arrears would be required to discharge its obligations to the GRA before it could pay for the increase. In the absence of payment within the prescribed time, the increase would lapse. See "Report . . . on Overdue Financial Obligations to the Fund," September 14, 1988; in the Appendix.

[166]Because many of these developments took place after the period covered by this History, they are summarized only briefly here. For more detail, see IMF Treasurer's Department (1998), Chapter VI.

[167]The benefits of this coordination effort were particularly evident for contributions from Japan, where legal and institutional barriers prevented the government from providing bilateral assistance to countries with outstanding arrears to the Fund. In March 1989, the Fund established an administered account to receive contributions from Japan and make disbursements for the purpose of clearing arrears. See "The Intensified Collaborative Approach—Establishment of Administered Account—Japan," EBS/89/25 (February 17, 1989) and minutes of EBM/89/16 (February 15) and EBM/89/27 (March 3).

been under way for some months in 1988, without much financial success. During the first half of the year, the authorities negotiated a Policy Framework Paper (PFP) for a medium-term adjustment program with the staffs of the Fund and the World Bank. The Executive Board endorsed that agreement in July, and the Fund transmitted the PFP to Guyana's major official creditors. The initial objective of that exercise was to try to mobilize enough financial support from the donor community to clear arrears, restore balance of payments viability, and enable the Fund to approve an ESAF loan. Fund and World Bank staff and representatives of the Guyanese government then visited most of the large industrial countries but failed to generate anywhere near enough commitments.

After the new arrears strategy was approved by the Interim Committee, the staff set out to negotiate a shadow program for 1989, to be monitored by the Fund, as a means of establishing a track record and regaining credibility. On that basis, the Canadian government agreed to chair an international support group to raise money for debt relief for Guyana. The shadow program was carried out successfully, and the support group finally managed to scrape together the necessary financing in June 1990. By then Guyana's arrears—which had amounted to less than SDR 19 million when the Fund declared the country ineligible in May 1985—had accumulated to more than SDR 107 million ($140 million; 218 percent of quota). To settle arrears to multilateral institutions (the Fund, the World Bank, and the Caribbean Development Bank), the support group obtained just under $50 million in grants from the governments of the G-7 countries, plus a bridge loan through the Bank for International Settlements (BIS) for the remainder. Guyana then used that money (plus a token amount of its own resources) to settle its arrears, and the multilaterals in turn approved new credits that Guyana could use to repay the bridge loan.[168]

Over the next several years, the Fund continued to whittle away at the arrears problem. By December 1998, 8 of the 11 countries that were ineligible at the end of 1989 had cleared their arrears.[169] Four new cases had arisen, of which one—Zaïre (Democratic Republic of Congo)—was particularly serious.[170] That

[168]The Executive Board approved a combination of ESAF and stand-by arrangements for Guyana in July 1990. The stand-by arrangement was heavily front-loaded, and immediate disbursements totaled nearly SDR 77 million ($105 million).

[169]As noted above, Honduras cleared its arrears in June 1990, just a week after Guyana. The return of political normalcy to Panama, Vietnam, and (temporarily) Cambodia enabled those countries to settle their arrears in 1992–93. (As a technicality, Cambodia was never formally declared ineligible, because of the lack of an established channel of communication with the Fund from 1975 to 1992.) In the case of Vietnam, economic progress also was an important factor; see Dodsworth and others (1996). Peru, Sierra Leone, and Zambia successfully carried out rights accumulation programs and cleared arrears in 1993–95. Liberia, Somalia, and Sudan made little progress; Liberia and Sudan were declared by the Fund to be noncooperating, as was Zaïre. After the adoption of the Third Amendment, the voting rights of Sudan and Zaïre were suspended, and procedures were initiated toward compulsory withdrawal for Sudan.

[170]Afghanistan, Iraq, the Federal Republic of Yugoslavia (Serbia and Montenegro), and Zaïre developed arrears after 1989 that remained outstanding at the end of 1998. Bosnia and Herzegovina, the Central African Republic, and Haiti also developed protracted arrears temporarily in the early 1990s.

left seven countries in protracted arrears, of which three had been declared to be noncooperating and three others to be ineligible to use Fund resources. Those cases, of course, were the most severe and the most seemingly intractable. Although the total amount of arrears had been greatly reduced and the threat to the institution had been averted, solutions for the remainder were still being developed.

Appendix: Rules and Decisions on Arrears to the Fund

Basic Documents

The Articles of Agreement authorized the Fund, under specified conditions, to declare a member country that was in arrears to be ineligible to use Fund Resources, to suspend the country's right to use SDRs, and to compel it to withdraw from membership:

Article V
Operations and Transactions of the Fund

. . . Section 5. *Ineligibility to use the Fund's general resources*

Whenever the Fund is of the opinion that any member is using the general resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its general resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the general resources of the Fund or may, after giving reasonable notice to the member, declare it ineligible to use the general resources of the Fund.

Article XXIII
Suspension of Operations and Transactions in Special Drawing Rights

. . . Section 2. *Failure to fulfill obligations*

(*a*) If the Fund finds that a participant has failed to fulfill its obligations under Article XIX, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise decides.

(*b*) If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

(*c*) Regulations shall be adopted to ensure that before action is taken against any participant under (*a*) or (*b*) above, the participant shall be informed immediately of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing. Whenever the participant is thus informed of a complaint relating to (*a*) above, it shall not use special drawing rights pending the disposition of the complaint.

(*d*) Suspension under (*a*) or (*b*) above or limitation under (*c*) above shall not affect a participant's obligation to provide currency in accordance with Article XIX, Section 4.

(*e*) The Fund may at any time terminate a suspension under (*a*) or (*b*) above, provided that a suspension imposed on a participant under (*b*) above for failure to fulfill the obligations under Article XIX, Section 6(*a*) shall not be terminated until one hundred eighty days

after the end of the first calendar quarter during which the participant complies with the rules for reconstitution.

(*f*) The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund's general resources under Article V, Section 5, Article VI, Section 1, or Article XXVI, Section 2(*a*). Article XXVI, Section 2 shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

Article XXVI
Withdrawal from Membership

. . . Section 2. *Compulsory withdrawal*

(*a*) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5, or Article VI, Section 1.

(*b*) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having eighty-five percent of the total voting power.

(c) Regulations shall be adopted to ensure that before action is taken against any member under (*a*) or (*b*) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Until 1984, the only procedure governing the Fund's response to arrears was that the Managing Director had to notify the Executive Board if he determined that a member country was not in compliance with the Articles. In case of arrears, two sets of rules applied, depending on whether payments were overdue to the General or the SDR Department:

Rules and Regulations of the International Monetary Fund
. . . K—Limatation, Ineligibility, and Suspension of Voting Rights

K-1. The Managing Director shall report to the Executive Board any case in which it appears to him that a member is not fulfilling obligations under the Articles other than obligations referred to in Rule S-1.

Adopted September 25, 1946, amended September 18, 1969, and April 1, 1978

K-2. Whenever the Executive Board is authorized by the Articles to declare a member ineligible to use the general resources of the Fund it may refrain from making the declaration and indicate the circumstances under which, and the extent to which, the member may make use of the general resources.

Adopted September 25, 1946, amended April 1, 1978

K-3. Before any member is declared ineligible to use the general resources of the Fund pursuant to Article XVI, Section 2(*a*), the matter shall be considered by the Executive Board, which shall inform the member in reasonable time of the complaint against it and allow the member an adequate opportunity for stating its case both orally and in writing.

Adopted September 25, 1946, amended April 1, 1978

K-4. When any member that is ineligible to use the general resources of the Fund, or whose use of the general resources has been limited according to Rule K-2 above, requests the Executive Board to permit the resumption of the use of the general resources with or without special limitations and the Executive Board decides not to permit such resumption, a written report shall be presented to the member stating what further action is required before such resumption will be permitted.

Adopted September 25, 1946, corrected October 18, 1950, amended April 1, 1978

K-5. When it is decided to use assets held in the Special Disbursement Account to make a distribution to developing members in accordance with Article V, Section 12(*f*) (*iii*), the Executive Board shall consider whether to permit a member that has been declared ineligible to use the general resources of the Fund under Article V, Section 5 to participate in the distribution before the ineligibility of the member has ceased.

Adopted April 1, 1978

S—Suspension of Use of SDRs

S-1. The Managing Director shall report to the Executive Board any facts on the basis of which it appears to him that a participant is not fulfilling obligations under the Articles that could lead to suspension under Article XXIII, Section 2, and may include a complaint in his report.

Adopted September 18, 1969, amended April 1, 1978

S-2. A participant may complain that another participant is not fulfilling obligations under the Articles that could lead to suspension under Article XXIII, Section 2, and the Managing Director shall transmit the complaint to the Executive Board with his comments. Any complaint shall be made in writing or by any rapid means of communication, and it shall be accompanied by a statement of the facts on which the participant bases its complaint.

Adopted September 18, 1969, amended April 1, 1978

S-3. The Managing Director shall immediately inform a participant of any complaint against it and the statement of the facts on which the complaint is based.

Adopted September 18, 1969

S-4. If the complaint is that the participant has failed to fulfill its obligations under Article XIX, Section 4, the participant shall not use SDRs and this limitation shall continue pending the disposition of the complaint.

Adopted September 18, 1969, amended April 1, 1978, and July 26, 1983

S-5. A participant against which a complaint has been made under Rule S-1 or Rule S-2, the Managing Director, or an Executive Director may request the Executive Board to dismiss the complaint. The Executive Board shall consider the request forthwith.

Adopted September 18, 1969, amended April 1, 1978

S-6. If the right of a participant to use SDRs has been limited under Rule S-4, and a request under Rule S-5 has been made by a participant, the complaint shall be deemed to have been dismissed at the end of ten business days after the request, or at the end of such longer period as the participant states in the request, unless within this time the Executive Board has taken a decision disposing of the complaint.

Adopted September 18, 1969, amended April 1, 1978, and July 26, 1983

S-7. If the right of a participant to use its SDRs has been suspended under Article XXIII, Section 2, the participant may request the Executive Board to terminate the suspension. If the Executive Board decides not to terminate the suspension, a written report shall be made to the participant stating the circumstances under which the suspension would be terminated.

Adopted September 18, 1969, amended April 1, 1978, and July 26, 1983

S-8. All procedures under Rules S-1 through S-7 shall be conducted as expeditiously as possible, and shall allow the participant an adequate opportunity to state its case both orally and in writing.

Adopted September 18, 1969, amended April 1, 1978

Executive Board Decisions, 1984–88

Following notification by the Managing Director under Rule K-1, the Executive Board could prevent the country from drawing on an active stand-by or extended arrangement. In 1984, the Board adopted a general policy:

1. Paragraph 4(*d*) of the form of the stand-by arrangement in Attachment A to Decision No. 6838-(81/70), adopted April 29, 1981, shall be amended to read as follows:

> "during the entire period of this stand-by arrangement, while (member) has any overdue financial obligation to the Fund, or if (member)
> (i) imposes [or intensifies] restrictions on payments and transfers for current international transactions, or
> (ii) introduces [or modifies] multiple currency practices, or
> (iii) concludes bilateral payments agreements which are consistent with Article VIII, or
> (iv) imposes [or intensifies] import restrictions for balance of payments reasons."

2. Paragraph 4(*d*) of the form of the extended arrangement in Attachment B to Decision No. 6838-(81/70), adopted April 29, 1981, shall be amended to read as follows:

> "throughout the duration of the extended arrangement, while (member) has any overdue financial obligation to the Fund, or if (member)
> (i) imposes [or intensifies] restrictions on payments and transfers for current international transactions, or
> (ii) introduces [or modifies] multiple currency practices, or
> (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
> (iv) imposes [or intensifies] import restrictions for balance of payments reasons."

3. Other stand-by arrangements involving the use of the Fund's resources in the upper credit tranches and other extended arrangements granted by the Fund after the date of this decision shall also include the provision in 1 or 2 above.

4. The provision in 1 or 2 above shall also be included in an existing stand-by or extended arrangement when the Fund and the member reach understandings regarding the circumstances in which further purchases may be made under the arrangement. (SM/84/82, 4/18/84)

Decision No. 7678-(84/62), adopted April 20, 1984

Ten months later, the Board replaced that decision with a general condition that obviated the need to include a specific clause on arrears in Fund arrangements.

a. Stand-By and Extended Arrangements

1. The following paragraph shall be included, as paragraph 5, in the form of the stand-by arrangement in Attachment A to Decision No. 6838-(81/70), April 29, 1981, as amended, with an appropriate reference to this paragraph to be included in paragraph 1 and the subsequent paragraphs of the form to be renumbered accordingly:

> "(Member) will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase."

2. The following paragraph shall be included, as paragraph 5, in the form of the extended arrangement in Attachment B to Decision No. 6838-(81/70), April 29, 1981, as amended, with an appropriate reference to this paragraph to be included in paragraph 1 and the subsequent paragraphs of the form to be renumbered accordingly:

> "(Member) will not make purchases under this extended arrangement during any period in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action with respect to a noncomplying purchase."

3. Other stand-by or extended arrangements granted by the Fund after the date of this decision shall include also the provision in 1 or 2 above.
4. The provision in 1 and 2 above shall be included also in an existing stand-by or an extended arrangement when the Fund and the member reach understandings regarding the circumstances in which further purchases may be made under the arrangement.
5. Decision No. 7678-(84/62), April 20, 1984, shall cease to apply in respect of a stand-by or an extended arrangement that includes the provision in 1 or 2 above.

Decision No. 7908-(85/26), adopted February 20, 1985

In March 1985, the Executive Board decided to begin publicizing its declarations of ineligibility:

> The Executive Board decides that overdue financial obligations to the Fund of members having obligations overdue for six months or more will be reported in aggregate by category of obligation but without identifying the members involved, in the Fund's *Annual Report*, quarterly *Financial Statements of the General Department and the SDR Department*, yearbook issue of *Balance of Payments Statistics*, and *International Financial Statistics*.

Declarations of ineligibility to use the Fund's general resources will be reported in the Fund's *Annual Report* and will identify the members concerned, beginning with the 1985 *Annual Report*.

Decision No. 7931-(85/41), adopted March 13, 1985

Effective in February 1986, the Fund began imposing special additional charges on overdue payments:

Overdue Financial Obligations—Special Charges

I. Overdue Repurchases

1. Pursuant to the Rule I-6(8) the Fund has reviewed the rates of charge to be levied under Article V, Section 8(*c*) on its holdings of a member's currency that have not been repurchased in accordance with the requirements of the Articles or decisions of the Fund.

2. Within three business days after (i) the due date for the repurchase by a member of the Fund's holdings of its currency resulting from purchases of the Fund's ordinary resources or (ii) the effective date of this Decision, whichever is the later, the Fund shall consult with the member on the reduction of the Fund's holdings of the member's currency that should have been repurchased. The consultation shall take place by rapid means of communication.

3. Unless the Fund's holdings of the member's currency are reduced within the period referred to in Section IV below by the amount that should have been repurchased, the rate of charge on the holdings that should have been repurchased shall be increased by a percentage equal to the excess, if any, of the rate of interest on the SDR over the rate of charge levied on the holdings under Rule I-6(4) or (11).

II. Overdue Charges in the General Resources Account

A special charge equal to the rate of interest on the SDR shall be paid by a member on the unpaid amount of charges owed by it under Article V, Section 8(*a*) and (*b*).

III. Overdue Interest and Repayments on Trust Fund Loans

The Fund shall levy a special charge on (i) the amount of overdue interest on Trust Fund loans at a rate equal to one-half of the sum of the rate of interest on Trust Fund Loans and the rate of interest on the SDR, and (ii) the overdue amounts of repayments of Trust Fund loans, at a rate equal to one-half of the sum of the rate of interest on Trust Fund loans and the rate of interest on the SDR, less one-half percent.

IV. Waiver of Special Charges

Special charges under Sections I, II, and III above shall be levied in respect of an overdue financial obligation as of the due date or the effective date of this Decision, whichever is the later, unless the obligation is discharged within ten business days after the applicable date.

V. Notification and Payment of Special Charges

1. Special charges levied under this Decision shall be payable following the end of each of the Fund's financial quarters and the member shall be notified promptly of any special charges due. The charges shall be payable on the third business day following the dispatch of the notification.

2. Special charges in respect of overdue repurchases and charges in the General Resources Account shall be paid in SDRs to that Account. Special charges in respect of overdue repayments and interest on Trust Fund loans shall be paid in U.S. dollars to the Special Disbursement Account.

VI. Entry into Effect and Review

This Decision will enter into effect on February 1, 1986. It will be reviewed shortly after October 31, 1986 at the time of the mid-year review of the Fund's income position for the financial year ending April 30, 1987, and thereafter annually in connection with the annual reviews of the Fund's income position.

Decision No. 8165-(85/189) G/TR, adopted December 30, 1985

In July 1986, the Board agreed to adjust rates of charge and remuneration so that the burden of arrears would be shared between debtor and creditor countries:

Principles of "Burden Sharing," Income Target for FY 1987 and FY 1988, Rate of Charge, and Rate of Remuneration

Section I. Principles of "Burden Sharing"

1. The financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.
2. This sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Income Target for FY 1987 and FY 1988

1. During financial year 1987 and financial year 1988, the Fund's net income target shall be raised from 5 percent to 7.5 percent of the Fund's reserves at the beginning of each year. The additional net income shall be generated in accordance with the provisions of Section V. It shall be recorded separately in the financial statements of the Fund.
2. For financial year 1988, the Fund may decide to add supplemental income to be generated in accordance with the provisions of Section V. It shall be recorded separately in the financial statements of the Fund.

Section III. Rate of Charge

1. (a) The rate of charge referred to in Rule I-6(4) shall be determined at the beginning of financial year 1987 and financial year 1988. This determination shall be made on the basis of the estimated income and expense of the Fund during the year and the target amount of net and supplemental income for the year, and shall include the adjustment necessary to generate one half of the additional net income and of the supplemental income for the year.
   (b) During financial year 1987 and financial year 1988, when estimating income, no deduction shall be made for projected deferred income.
2. During financial year 1987 and financial year 1988, the rate of charge shall be further adjusted in accordance with the provisions of Section V.
3. The rate of charge in force as of the end of a financial year, as adjusted under Section V, shall continue to apply subsequently unless it is otherwise decided.

Section IV. Rate of Remuneration

1. Effective August 1, 1986, Rule I-10(d) shall cease to apply.
2. Effective February 1, 1987, Rule I-10 shall read as follows:
   I-10. (a) The rate of remuneration shall be equal to 100 percent of the rate on interest on holdings of SDRs under Rule T-1 (hereafter referred to as "SDR interest rate").

(b) The relationship of the rate of remuneration to the SDR interest rate will be referred to as the "remuneration coefficient."

3. During financial year 1987 and financial year 1988, the rate of remuneration shall be adjusted in accordance with the provisions of Section V.

Section V. "Burden Sharing" in FY 1987 and FY 1988

1. In financial year 1987 and financial year 1988, and notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4), and the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this Section.

2. (a) In order to generate the additional net income referred to in Section II.1, and the supplemental income referred to in Section II.2, the rate of charge shall be adjusted in accordance with the provisions of Section III.1(a), and the rate of remuneration shall be adjusted, subject to the limitation in (c), in accordance with the provisions of this paragraph, so as to produce equal amounts of income.

(b) If income from charges becomes deferred during an adjustment period as defined in (d), the rate of charge and the rate of remuneration shall be further adjusted, subject to the limitation in (c), in accordance with the provisions of this paragraph, so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, shall not be taken into account.

(c) No reduction in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(d) Subject to the provisions of Section III.1(a), the adjustments under this paragraph shall be made as of May 1 and as of November 1 of each year: shortly after October 31 for the period from May 1 to October 31; shortly after April 30 for the period from November 1 to April 30.

(e) Notwithstanding the provisions of (d), any adjustment made in respect of the first half of financial year 1987 shall affect the rate of remuneration only as of August 1, 1986.

(f) The operation of this decision shall be reviewed when the remuneration coefficient is reduced to 85 percent under (c).

3. A midyear review of the Fund's income position shall be held shortly after October 31 of each year. If, after any adjustment under paragraph 2, the actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year by an amount equal to, or greater than, 2 percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If on December 15 no agreement has been reached as a result of this consideration, the rate of charge shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

4. (a) An amount equal to the proceeds of any adjustment made under paragraph 2(a) in order to generate supplemental income in financial year 1988 shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) An amount equal to the proceeds of any adjustment made under paragraph 2(b) in financial year 1987 or financial year 1988 shall be distributed, in accordance

with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when, and to the extent that, charges, the deferral of which has given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made semiannually.

(c) Distributions under (a) or (b) shall be made in proportion to the amounts that have been made or have not been received by each member as a result of the respective adjustments.

(d) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

Decision No. 8348-(86/122), adopted July 25, 1986

In June 1987, the Board established the Special Contingency Account (SCA) as a form of general provisioning against potential losses:

Income Position—Special Contingent Account

In view of the existing overdue obligations, a special contingent account shall be established. It shall be recorded separately in the Fund's financial statements. There shall be placed to that account, for financial year 1987, an amount of SDR 26,547,074. This amount shall be distributed, to creditors and debtors for that year, in accordance with the principles of burden sharing, when the need for this account disappears.

Decision No. 8619-(87/90), adopted June 17, 1987

The terms of the SCA were modified in January 1988:

Special Contingent Account—Additions in FY 1988 and Disposition of Amounts Placed in FY 1987 and FY 1988

1. An amount equivalent to 2½ percent of the Fund's reserves at the beginning of financial year 1988 already provided for in accordance with Section II.1 of Decision No. 8348-(86/122), adopted July 25, 1986, as amended, shall be placed to the Special Contingent Account at the end of financial year 1988.

2. An additional amount equivalent to 2½ percent of the Fund's reserves at the beginning of financial year 1988 shall be raised in accordance with Section II.2 and Section V.1 and 2(a) of Decision No. 8348-(86/122), as amended, as follows:

(a) effective February 1, 1988 the rate of charge referred to in Rule I-6(4) shall be 6.15 percent;

(b) the rate of remuneration shall be adjusted for the period from February 1 through April 30, 1988 in order to generate an amount of net income equal to the amount generated under (a) subject to the limitation in Section V.2(c) of Decision No. 8348-(86/122), as amended.

That additional amount shall also be placed to the Special Contingent Account at the end of financial year 1988.

3. The amounts placed to the Special Contingent Account, including the amount placed to it in financial year 1987, shall be distributed when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide, in accordance with subparagraphs (a), (b), and 8 below:

(a) distributions of the amounts placed to the Special Contingent Account at the end of financial year 1988 shall be made in proportion to the amounts that have been paid, or have not been received, by each member in financial year 1988 as a result of adjustments made under paragraphs 1 and 2 above;

(b) the amount placed to the Special Contingent Account in financial year 1987 shall be distributed to members that have paid charges referred to in Rule I-6(4) in financial year 1987, in proportion to the amounts that have been paid;

(c) any distribution shall be made in proportion to the total amount to be distributed to each member under (a) and (b) cumulatively.

4. If any loss is charged against the Account, it shall be recorded in accordance with the principle of proportionality set forth in paragraph 3(c).

Decision No. 8780-(88/12), adopted January 29, 1988

A More Cooperative Approach, 1988

In September 1988, the Board and the Interim Committee approved a tripartite strategy for preventing and dealing with arrears:

Report of the Executive Board to the Interim Committee of the Board of Governors on Overdue Financial Obligations to the Fund

September 9, 1988
(excerpts)

1. *Introduction*

. . . In presenting the general framework outlined below, Executive Directors have emphasized that the proposed approach should be viewed in light of the following general principles. First, given the pervasive effects of arrears on the Fund and its membership and the deep difficulties facing many members now having protracted arrears, a positive resolution of the problem must be collaborative in nature, involving not only the member concerned but also the Fund, its membership, and the international community in general. Second, Executive Directors have stressed the unique position of the Fund as an international cooperative institution, its role in the international monetary system, the revolving nature of its resources, and the consequent need for all members, creditors and debtors alike, in practice, to treat the Fund as a preferred creditor. Accordingly, all members should accord the highest priority to the settlement of financial obligations to the Fund. A few Executive Directors suggested that recourse to the provisions of the Articles of Agreement regarding rescheduling of repurchases and payment of charges in local currency would be in order in exceptional cases. The majority of Directors considered, however, that the Fund must avoid opening the way to rescheduling or payment of charges in local currency, which could impair its role in the international monetary system and its effectiveness in the debt strategy. Third, Executive Directors have also emphasized that this approach is to be regarded as a broad strategy and framework for action. The situations and positions of individual coun-

tries vary markedly. The strategy may not be applicable to all countries facing protracted arrears, and it is to be expected that the detailed elements of the approach to be taken with respect to each will need to be determined on a case-by-case basis. The Executive Board notes that a number of specific aspects will require further consideration in light of the Committee's guidance.

2. *Preventive Actions*

. . . Executive Directors will seek further to strengthen policies to prevent the emergence of new cases of arrears in the future. In adapting policies on Fund conditionality, increasing attention will continue to be given to the experience gained with the implementation of programs and to improvements in program design. The design of Fund-supported programs needs to take into account the economic conditions of the country concerned; in this regard, structural aspects of members' adjustment problems and the need for growth-oriented policies have received increased emphasis through the adoption of new policies and the adaptation of existing ones. Directors emphasized the need for the Fund to broaden its assessments of members' capacity to repay and, in this connection, to give close attention to the overall levels of indebtedness of these countries. Where appropriate, and consistent with the case-by-case approach of the debt strategy, the Fund will assist member countries in the arrangement of appropriate debt restructuring and/or debt reduction operations with a view to alleviate excess debt and thus provide better safeguards for the utilization of Fund resources.

Executive Directors stressed the importance of continued and strengthened efforts to prevent the emergence of new cases of overdue obligations to the Fund and to forestall the deterioration of potential or existing arrears problems before they surface or become very difficult to resolve. They have requested the management and staff to give particular attention to strengthening preventive aspects in developing and presenting proposals for the use of Fund resources, which may, on a case-by-case basis, include such reserve management practices as would help ensure that members have on hand sufficient SDRs or other readily available resources to meet forthcoming obligations to the Fund as they fall due. Such practices would be intended to improve the prospects for timely payment to the Fund and help safeguard against possible interruption of the member's program; they would not reduce the need for programs to have adequate underlying strength, design, and financing. Executive Directors emphasized the critical importance of members' implementation of their adjustment programs and noted that, in appropriate cases, prior actions could be required to provide needed assurances regarding implementation.

3. *Intensified International Collaboration*

While the actions outlined above should help to prevent new cases of arrears from arising, the problems faced by members with sizable overdue obligations to the Fund are of a depth and nature which will require resolution and perseverance by all the parties involved. The Executive Board has considered a framework for organizing an intensified collaborative effort of the international community to resolve problems of protracted arrears to the Fund. This approach would be implemented on a case-by-case basis with adaptations appropriate to the individual circumstances, and would not be expected to apply generally or simultaneously to all members having protracted arrears to the Fund. The principal determinants in each individual case would be the willingness of the member to embark on, and sustain, the required growth-oriented adjustment policies, and the preparedness of donors and creditors, including multilateral institutions, to provide supporting financing on appropriate terms. This approach would consist of three key, integrated elements, all clearly set forth at the outset.

The first element is the adoption and forceful implementation of a medium-term program of strong comprehensive economic reforms by the member with overdue obligations to the Fund. Frequently, the member's poor record of implementation of economic policies would seem to necessitate the establishment of a new track record in order to overcome doubts about the ability of the member to overcome its payments difficulties.

The member's economic program would represent a decisive break with the past, and be part of a medium-term strategy to achieve sustained growth and external viability. The member would develop the program in collaboration with the Fund and, as appropriate, the World Bank, and the program would be submitted to the Executive Board to obtain its endorsement that it meets the Fund's conditionality standards. In this phase, initial external financial assistance would be an important signal of the international community's willingness to support the appropriate foreign exchange requirements of the program. The program would not involve access to Fund resources while arrears remained outstanding. The member would be expected to meet financial obligations to the Fund as they fell due during the program, although this should not be interpreted as relieving it of responsibility for the settlement of all its overdue obligations to the Fund. In presenting programs, the Fund staff would provide an analysis of the factors that had led to the emergence of overdue obligations to the Fund and of the member's prospective debt-servicing capacity.

The second element of this approach, framed in the context of continuing implementation by the member of a strong adjustment effort, would center on the design of financing arrangements needed to mobilize resources for the clearance of overdue obligations to the Fund, and the organization of other financing needed to support the continuing adjustment effort. Such arrangements could include, if appropriate, bridge financing, debt rescheduling, and new money. In addition, where appropriate, an important complement to the member's adjustment program in the initial phase would be the establishment of an escrow account for the purpose of clearing the arrears with the Fund. Contributions to the escrow account should be provided by the debtor member through reserve accumulation, as well as by creditors and donors. The financing arrangements developed should in no way jeopardize any new resources that may be provided by the Fund.

The third element would comprise restoration of normal relations between the member and the Fund in the context of the Executive Board's approval of an arrangement involving use of Fund resources in support of the member's medium-term growth-oriented adjustment program. Many Executive Directors have stressed the need for an appropriate financing role for the Fund following clearance of the arrears. Some, for instance, have considered the possibility of some front-loading of the Fund's general resources, while others have referred to the possibility of some front-loading of ESAF resources. In particular, a number of Executive Directors expressed interest in the proposal of the U.K. Chancellor of the Exchequer that retroactive (or front-loaded) access under the ESAF be considered for low-income countries, once they have established a successful record of policy implementation under an economic program and have become current with the Fund. In some circumstances, where an economic program has yielded satisfactory performance and convincing assurances on the future stance of economic policies, some front-loading of the Fund's regular or ESAF resources may be justified. Directors will give further consideration to this matter in the near future. Use and phasing of any Fund resources would need to be determined on a case-by-case basis and to be consistent with the Fund's policies and practices, including the applicable access limits and the need for satisfactory assurances regarding the overall availability of financing and the member's capacity to repay. In this connection, Executive Directors have reaffirmed that ESAF resources are to be used in support of strong programs of structural reform, and only after the member has re-established a satisfactory track record with

the Fund. ESAF resources are not to be used for the purpose of shifting the burden or risk of overdue obligations from the Fund's General Resources Account. This principle would need to be respected in devising financial arrangements for the clearance of arrears to the Fund and for support of the member's continuing adjustment efforts.

The magnitude of financial resources and the degree of cooperation and coordination that will be required for this strategy to succeed is, in some cases, beyond the customary experience of the various parties involved, including, in many instances, agencies and institutions which have not in the past had occasion to work in close collaboration with the Fund. For these reasons, the Executive Board is of the view that, for the collaborative approach to succeed, it will be important in some cases for the Fund to take the initiative to promote the establishment of support groups of major donor and creditor countries for members with substantial arrears to the Fund that are prepared to cooperate in this strategy and willing to implement fundamental economic and financial reforms.

Although the form of such support groups might differ from case to case, they would generally include high-level governmental representatives, and would have a crucial coordinating role with respect to financing. A number of Executive Directors have indicated that their authorities would be prepared, under appropriate conditions and safeguards, to participate in support groups that may be established for individual countries, without implying a commitment to provide financing in any particular amount or form. Further consideration will need to be given as appropriate in particular cases to the possible features of such groups, including, inter alia, their composition, timing of establishment, precise functions, and role of the chairing creditor.

The Fund itself would of course need to play a central role. The management and staff would have an active part in the process of collaboration and coordination, for instance, maintaining contacts with the support group, in particular as regards the process of matching a program's financing requirements with available resources and engaging in dialogue, as appropriate, with the support group on progress under the program. The Executive Board, which would remain solely responsible for any commitment of Fund resources, would be involved from the outset, in considering initial adjustment programs and subsequent Fund arrangements, assessing financing needs, reviewing developments under Fund-endorsed programs, and more broadly in evaluating the overall implementation of the collaborative approach.

4. *Remedial Measures*

A number of Executive Directors expressed the view that the most effective deterrent against arrears to the Fund is the prospect for a member of increased financial isolation and prolonged economic deterioration. Nonetheless, most Executive Directors considered that, as part of a strategy offering collaborative solutions, the range of remedial measures to be taken or to be considered should be widened in order to demonstrate clearly the membership's determination to deal firmly with any member not prepared to cooperate actively in maintaining or normalizing its relations with the Fund. In considering certain of the actions outlined below, Executive Directors noted that, as a matter of equity, members failing to meet their obligations to the Fund could not expect to receive the same benefits of membership as those that have taken the actions necessary to fulfill their obligations.

In this connection, a number of Executive Directors considered that it would be important to distinguish between members that would seem to be in a position to meet their obligations to the Fund but are unwilling to do so, and those that are willing to pay but unable to do so. To this effect, they have suggested the establishment of objective criteria, and have considered that further analysis of such criteria or indicators could be of assistance to

the Executive Board in assessing the relative performance of members in arrears to the Fund and could, indeed, complement more broadly the continuing effort to extend and strengthen the Fund's analyses of capacity to repay in connection with use of Fund resources. The Executive Board is, however, mindful that there are inherent difficulties in making such distinctions and that a considerable element of judgment would be required, including judgment whether a member in arrears is collaborating in an effort to normalize relations with the Fund. The Executive Board will return to this matter in the near future.

The Executive Board has discussed and will give further consideration to the following possibilities for extending the range of remedial actions.

a. Most Executive Directors have agreed in principle that a member must first discharge its overdue obligations to the General Resources Account before it would be permitted to pay for an increase in its quota in connection with the Ninth General Review; and that, in the event the quota payment were not made within a prescribed period, the proposal for an increase in quota would lapse. In the view of these Directors, specific provisions to implement this approach should be incorporated into decisions to be taken in connection with the Ninth General Review of Quotas.
b. Most Executive Directors are agreed that, in the absence of clear willingness on the part of a member to cooperate with the Fund in the resolution of its problems, withdrawal of technical assistance should be considered on a case-by-case basis, paying due regard to the need to maintain a dialogue with these members. A number of Executive Directors noted that the Fund's technical assistance is a scarce resource in heavy demand and that the continued provision of such assistance in such cases, particularly where not directly related to settlement of obligations to the Fund, would inappropriately be at the expense of other members that meet their obligations to the Fund in full.
c. Most Executive Directors also agreed that the Fund's policies regarding the provision of information on individual members in arrears, in the context of the Annual Report and the Fund's financial statements, should be somewhat extended. Some Directors considered that increased use of press releases would be appropriate in some cases, in particular following reviews of ineligible members and where it is concluded that the member is not cooperating actively. Others felt that such increased publicity would not be appropriate.
d. A number of Executive Directors considered that, in certain cases, it would be appropriate for the Fund to inform other multilateral institutions and bilateral official creditors of a member's arrears to the Fund. Some of these Directors also supported adding to such notifications a request that the institutions take the situation into account in their own relations with the member concerned.
e. Executive Directors' views on the efficacy of imposing penalty charges on overdue repurchases continue to differ. Among those Directors favoring such charges, some were attracted by the possibility of holding their application in abeyance if a member was judged to be collaborating actively with the Fund to reduce its arrears.
f. Executive Directors are generally agreed that compulsory withdrawal should be examined only in individual cases and only in the event that all other avenues had been exhausted. Some Directors have asked that possible forms of suspension of membership be examined further, although it appears that the possibilities in this area are quite limited in the absence of an amendment to the Articles of Agreement.

5. *Conclusion*

The Executive Board believes that a comprehensive initiative to secure the reduction and eventual elimination of arrears to the Fund is urgently needed. Failure or too much de-

lay in the resolution of this problem could well mean that the cost of using the Fund's resources would gradually become more expensive, remuneration to creditors would be eroded, and the Fund's usable resources would be reduced, thereby impairing the possibility for the Fund to discharge its responsibilities. This report has outlined a strategy to avoid such an outcome by addressing the problem of arrears through strengthened preventive actions, intensified international collaboration, and extended remedial measures.

In supporting the broad thrust and outlines of the approach proposed, Executive Directors have stressed that many specific aspects will need to be considered further and that implementation will need to be flexible and determined on a case-by-case basis. They have stressed also that success will require exceptional efforts both by the countries in arrears and by the international community in general. The need to organize and obtain substantial financing in support of members' efforts to fundamentally reform their economies and regularize their relations with the Fund will in many cases necessarily involve institutions such as aid agencies that have their own lending priorities. The Executive Board believes that by supporting this approach these institutions will contribute to restoring conditions in which their own operations in these countries can be most effective. Similarly, the suggested application of preventive and remedial actions will require firmness and determination on the part of the Fund's membership. For both reasons, the Executive Board emphasizes the need for a commitment from all Fund members to the approach to be adopted so as to ensure that all parties involved act together in support of a common interest, and requests the Interim Committee's guidance and endorsement.

Declarations of Noncooperation, 1989

In July 1989, the Board approved procedures for declaring countries not to be cooperating with the Fund. The revised statement reflecting the sense of the meeting, as circulated for approval by Executive Directors prior to the close of business on August 17, 1989, read as follows:

Policy on the Fund's Procedures for Dealing with Members with Overdue Obligations to the Fund, adopted at EBM/89/101 (July 27, 1989)

The Fund, as a cooperative institution, relies on the mutually supportive actions of its membership in all areas of its endeavors. Overdue financial obligations are a breach of obligations to the Fund and are demonstrably a noncooperative action, which imposes financial costs on the Fund's membership, impairs its capacity to assist members, and more generally weakens the Fund's ability to perform its broader responsibilities in the international financial system.

As the experience with arrears demonstrates, countries which accumulate arrears to the Fund also damage themselves, in part through the deterioration which inevitably follows in their financial relations with other creditors. When arrears exist the Fund is not able to provide its own assistance and its effectiveness is diminished as a catalyst for helping the country restore regular financial relations with other creditors.

This statement outlines procedures aimed at preventing the emergence of overdue financial obligations to the Fund and the elimination of existing overdues, including protracted arrears. The need for flexibility in the implementation of the Fund's policies dealing with overdues has been stressed in the past; flexibility must continue to be exercised in order to take account of the specific circumstances of the member. Nonetheless, a balance must be struck between the need for appropriate flexibility and the need for clear and cred-

ible procedures that act as a deterrent to members against incurring arrears and to encourage members with overdues to become current.

Arrears preventions

The importance of preventing new cases of arrears has been stressed by the Executive Board. As noted in the past, our best safeguard is the quality of Fund arrangements and we will continue to direct our efforts to ensure that arrangements of the highest quality are placed before the Board. These efforts would include assisting members to design strong and comprehensive economic programs, careful attention to access levels and phasing, explicit assessment of a member's capacity and willingness to repay the Fund, and adequate assurances regarding external financing during the period of the Fund arrangement. Special understandings with creditors and donors may also need to be sought in certain cases to help assure progress toward external viability. In some cases, specific financial or administrative arrangements—designed to ensure that forthcoming obligations to the Fund are settled on time—will be used to increase the assurance that the Fund's resources will be repaid on time. Moreover, the importance of members remaining current on obligations falling due and observing the Fund's preferred creditor status will continue to be stressed.

The Fund's response to overdue obligations

The Fund has developed a set of procedures for dealing with members with overdue financial obligations which are designed to bring about a reduction and the eventual elimination of these overdue obligations. In addition to the procedures set out below, the Fund makes an effort to assist members willing to cooperate to eliminate their arrears through the design and implementation of appropriate policies as well as to help members adopting these policies to secure the necessary financial support.

The procedures initiated immediately after a member falls into arrears provide for a sequence of actions by management, the staff, and the Executive Board.

- Whenever a member fails to settle an obligation on time, the staff immediately sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the Executive Director concerned.
- When an obligation has been outstanding for two weeks, management sends a communication to the Governor for that member stressing the seriousness of the failure to meet obligations to the Fund and urging full and prompt settlement. The Executive Board understands that the Governor will bring this communication and the circumstances that gave rise to it to the attention of his authorities at the highest level. The communication to the Governor would also note that unless payment is received in due course, the Managing Director would intend to raise with the Executive Board the possibility of communicating with Governors of the Fund concerning the situation. The Managing Director has on occasion raised the matter of overdue financial obligations to the Fund directly with the head of government of the member concerned, and he would intend to continue to do so in those cases where he believes it would be a useful procedure.
- The Managing Director notifies the Executive Board normally one month after an obligation has become overdue.
- When the longest overdue obligation has been outstanding for six weeks, the Managing Director informs the member concerned that unless the overdue obligations are settled a complaint will be issued to the Executive Board in two weeks' time. The Managing Director would in each case recommend to the Executive Board whether a

communication should be sent to a selected set of Fund Governors, or to all Fund Governors. If it were considered that it should be sent to a selected set of Fund Governors, an informal meeting of Executive Directors would be held, some six weeks after the emergence of overdues, to consider the thrust of the communication. Alternatively, if it were considered that the communication should be sent to all Fund Governors, a formal Board meeting would be held to consider a draft text and the preferred timing. A sample text for a communication to all Fund Governors is set out in Attachment I.
- A complaint by the Managing Director is issued two months after an obligation has become overdue, and is given substantive consideration by the Executive Board one month later. At that stage, the Executive Board has usually decided to limit the member's use of the general resources, and if the member has overdue obligations in the SDR Department, to suspend its right to use SDRs, and has provided for a subsequent review of the decision. This and subsequent review periods would normally not exceed three months. It would be understood that the Managing Director may recommend advancing the Executive Board's consideration of the complaint regarding the member's overdues.
- The Annual Report and the financial statements identify those members with overdue obligations outstanding for more than six months.

Beyond these procedures, the Executive Board has expressed its intention to provide that a member must first discharge its overdue financial obligations to the General Resources Account before it would be permitted to pay for an increase in its quota under the Ninth General Review, and that, in the event the quota payment were not made within a prescribed period, the proposal for an increase in the member's quota would lapse.

Another measure being considered by the staff relates to the possibility of withholding SDR allocations for members with arrears in the General Department. This measure would require an amendment of the Articles and will be examined further in the next Six-Monthly Report on Overdue Financial Obligations.

Declaration of ineligibility

- If a member persists in its failure to settle its overdue obligations to the Fund, the Executive Board declares the member ineligible to use the general resources of the Fund. The timing of the declaration of ineligibility would vary according to the Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its financial obligations to the Fund. The procedures for dealing with members with protracted arrears that have been declared ineligible include further reviews at intervals of not more than six months.
- For members with protracted arrears willing to cooperate with the Fund in settling those overdues, the Fund has adopted an intensified collaborative approach, which incorporates exceptional efforts by the international financial community.
- For members that are judged not to be cooperating actively with the Fund, remedial measures would be applied.
- Members not showing a clear willingness to cooperate with the Fund have been informed that in these circumstances the provision of technical assistance would be inappropriate, but the Fund would reconsider providing technical assistance once the member has resumed active cooperation. The Managing Director may also limit technical assistance provided to a member, if in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Fund.

- A further remedial measure in cases of protracted arrears would be communications with all Governors of the Fund and with heads of certain international financial institutions. Use of such communications would normally be raised for the Executive Board's consideration at the time of the first post-ineligibility review of the member's arrears. At that time the staff would prepare a draft text of a communication along the lines set out in Attachment II to this statement. It should be noted that the Fund's communication to certain other international financial institutions, such as the three main regional development banks (Asian Development Bank, African Development Bank, Inter-American Development Bank), like its communication to the Governors, would not request the addressee to take specific actions and would leave any action to the institution's discretion. This does not preclude informal contacts with other international financial institutions. The staff would intend to propose to send this latter type of communication on the occasion of the next post-ineligibility review for members that at present have arrears that have been outstanding for a protracted period, in the event the Executive Board judges that the member concerned is not cooperating actively with the Fund in efforts to resolve the problem of its overdue financial obligations to the Fund.

Censure or declaration of noncooperation

- A declaration of censure or noncooperation would come as an intermediate step between a declaration of ineligibility and a resolution on compulsory withdrawal. The decision as to whether to issue such a declaration would be based on an assessment of the member's performance in the settlement of its arrears to the Fund and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Three related tests would be germane to this decision regarding (i) the member's performance in meeting its financial obligations to the Fund taking account of exogenous factors that may have affected the member's performance; (ii) whether the member had made payments to other creditors while continuing to be in arrears to the Fund; and (iii) the preparedness of the member to adopt comprehensive adjustment policies. The declaration would follow any communication to Governors after ineligibility and would be considered at a subsequent post-ineligibility review. The period between such communications and the declaration could be about six months, but this time period would be determined on a case-by-case basis.

A draft of the declaration is set out in Attachment III. The actual declaration would be based on this draft text taking account of the circumstances of the individual case. The declaration would be adopted by the Executive Board and published.

Other remedial measures

- On suspension of membership, Directors noted the necessity of amending the Fund's Articles of Agreement to provide for suspension of membership. Some Directors showed an interest in introducing a provision into the Articles of Agreement under which the voting rights of a member that has been declared ineligible to use the Fund's general resources could be suspended. However, most Directors felt that it would not be advisable to propose an amendment of the Fund's Articles of Agreement at this time, but that this matter could be reconsidered in the future.
- Finally, Directors noted the availability to the Fund of procedures under Section 22 of the By-Laws on compulsory withdrawal. These procedures would only be pursued once the Fund has exhausted all other possible avenues to redress the problem of overdue financial obligations and, despite a declaration of noncooperation, the member

has not exhibited a willingness to cooperate with the Fund. The Articles of Agreement and the By-Laws provide for procedures for settling claims by the Fund on a member in the event that it withdraws from the Fund. If the procedures were initiated, the staff would prepare an analysis of the effect of the member's withdrawal on the Fund's financial position.

ATTACHMENT I

Draft First Letter to All Governors

Dear :

The Executive Board has considered the complaint which was recently issued regarding [member]'s overdue financial obligations to the Fund. In considering this complaint the Executive Board has agreed that I write to all Governors of the Fund to draw their attention to this development. Prompt and effective actions now by [member] and the international community would avoid a further deterioration of this situation including the possibility of declaring [member] ineligible to use the general resources of the Fund, would permit these overdues to be cleared before their magnitude makes the problem more intractable, and before they place a financial burden on other members.

[Paragraph on background circumstances of member leading to the emergence of arrears, the views of the member regarding its overdue obligations, and the member's intended approach for addressing the problem of its overdue obligations. This paragraph would be tailored to the specific circumstances of the member concerned.]

The Executive Board is very concerned about these developments which have serious potential implications both for the [member] and for the Fund as a whole, if the problem is not resolved early. The existence of these overdue financial obligations to the Fund precludes the Fund from extending financial assistance to the member. In addition, experience to date indicates that when a country incurs arrears to the Fund its financial relations with other creditors are also likely to deteriorate. These arrears also have an adverse impact on the Fund as an international financial cooperative, which is the central monetary institution in the international monetary system. As you are aware, overdue obligations, if they are not settled, place a financial burden on other members: on the Fund's debtor members in the form of higher charges and the Fund's creditors in the form of reduced remuneration.

The Fund would greatly appreciate any assistance in urging the member to effect the full and prompt settlement of its overdue obligations to the Fund.

Sincerely yours,
Michel Camdessus
Managing Director and
Chairman of the Executive Board

ATTACHMENT II

Draft Second Letter to All Governors and Certain International Financial Institutions

Dear :

The Executive Board has reviewed the overdue financial obligations of [member] and its circumstances. In this context it agreed that I write to all Governors of the Fund to seek their assistance in resolving the problem of [member]'s overdue financial obligations to the Fund [and that I inform at the same time the heads of [names of certain international financial institutions]].

As you know, [member] was declared ineligible to use the general resources of the Fund on [date], as it had failed to meet its financial obligations to the Fund. As of [date], [member]'s overdue financial obligations to the Fund amounted to SDR[ ] million and the longest overdue obligation had been outstanding for [ ] months. As you are aware, these overdue obligations reduce Fund resources available to help other members and place a financial burden on debtor members in the form of higher charges and on creditor members in the form of reduced remuneration.

[Paragraph on background circumstances of member leading to the emergence of arrears, the views of the member regarding its overdue obligations, and the member's intended approach for addressing the problem of its overdue obligations. This paragraph would be tailored to the specific circumstances of the member concerned.]

The Fund has developed a set of procedures, including the intensified collaborative approach, for dealing, as appropriate, with members that have overdue financial obligations outstanding for a protracted period. The application of the procedures for members in arrears up to now has not resulted in [member] taking steps that could be expected to resolve promptly the problem of its arrears to the Fund. If, in the period prior to the next review of [member]'s arrears, [member] does not take action to demonstrate its willingness to resume active cooperation with the Fund toward the resolution of the problem of its arrears, [member] may be subject to a declaration of noncooperation. This would be a most serious step that would involve the publication of this declaration, which would refer, inter alia, to the availability to the Fund of procedures under Section 22 of the By-Laws on compulsory withdrawal of [member] from the Fund. The Fund's Executive Board has emphasized the critical stage that has been reached with respect to [member]'s arrears and has stressed its sincere hope that the consideration of further steps will be unnecessary. The Fund would appreciate your [Government/institution] taking whatever actions it considers appropriate to help bring about an early resolution of this situation.

The Executive Board will review again the position of [member] with regard to its arrears to the Fund not later than [date].

Sincerely yours,
Michel Camdessus
Managing Director and
Chairman of the Executive Board

ATTACHMENT III

Draft Declaration on Censure or Noncooperation

The Fund notes that, since the declaration of ineligibility on [date], the member has remained in arrears in its financial obligations to the Fund, thus persisting in its failure to fulfill its obligations under the Articles, and that the level of its arrears has not decreased (or has increased);

[notes that the member has made payments to other creditors while not discharging its financial obligation to the Fund (or not to the same extent), thus ignoring the preferred creditor status that members are expected to give to the Fund;]

- finds that the member is not cooperating with the Fund toward the discharge of its financial obligations to the Fund;
- urges the member to discharge its financial obligations to the Fund promptly and to cooperate with the Fund;
- reminds the member that arrears to the Fund, which is a cooperative institution, are detrimental to the whole membership of the Fund in that they hamper the proper per-

formance by the Fund of its function of assisting members facing balance of payments difficulties;

- reminds the member that members in breach of their obligations to the Fund may be subject to the procedures under Section 22 of the By-Laws leading to compulsory withdrawal.

. . . 5. The Third Amendment, 1992

Finally, in November 1992, the Third Amendment to the Articles of Agreement took effect. That amendment introduced four changes.

First, Article XXVI, Section 2, was rewritten to read as follows:

Section 2. *Compulsory withdrawal*

(*a*) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5, or Article VI, Section 1.

(*b*) If, after the expiration of a reasonable period following a declaration of ineligibility under (*a*) above, the member persists in its failure to fulfill any of its obligations under this Agreement, the Fund may, by a seventy percent majority of the total voting power, suspend the voting rights of the member. During the period of the suspension, the provisions of Schedule L shall apply. The Fund may, by a seventy percent majority of the total voting power, terminate the suspension at any time.

(*c*) If, after the expiration of a reasonable period following a decision of suspension under (*b*) above, the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having eighty-five percent of the total voting power.

(*d*) Regulations shall be adopted to ensure that before action is taken against any member under (*a*), (*b*), or (*c*) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Second, a new paragraph was added to Article V, Section 3(i), providing for the restoration of voting rights in the Executive Board following the lifting of a suspension:

(v) When the suspension of the voting rights of a member is terminated under Article XXVI, Section 2(b), and the member is not entitled to appoint an Executive Director, the member may agree with all the members that have elected an Executive Director that the number of votes allotted to that member shall be cast by such Executive Director, provided that, if no regular election of Executive Directors has been conducted during the period of the suspension, the Executive Director in whose election the member had participated prior to the suspension, or his successor elected in accordance with paragraph 3(*c*)(i) of Schedule L or with (f) above, shall be entitled to cast the number of votes allotted to the member. The member shall be deemed to have participated in the election of the Executive Director entitled to cast the number of votes allotted to the member.

Third, a provision was added to Schedule D, governing appointments to the Council:[171]

(f) When an Executive Director is entitled to cast the number of votes allotted to a member pursuant to Article XII, Section 3(i)(v), the Councillor appointed by the group whose members elected such Executive Director shall be entitled to vote and cast the number of votes allotted to such member. The member shall be deemed to have participated in the appointment of the Councillor entitled to vote and cast the number of votes allotted to the member.

Fourth, a new schedule was added to the Articles:

Schedule L
Suspension of Voting Rights

In the case of a suspension of voting rights of a member under Article XXVI, Section 2(b), the following provisions shall apply:

1. The member shall not:

(a) participate in the adoption of a proposed amendment of this Agreement, or be counted in the total number of members for that purpose, except in the case of an amendment requiring acceptance by all members under Article XXVIII(b) or pertaining exclusively to the Special Drawing Rights Department;

(b) appoint a Governor or Alternate Governor, appoint or participate in the appointment of a Councillor or Alternate Councillor, or appoint, elect, or participate in the election of an Executive Director.

2. The number of votes allotted to the member shall not be cast in any organ of the Fund. They shall not be included in the calculation of the total voting power, except for purposes of the acceptance of a proposed amendment pertaining exclusively to the Special Drawing Rights Department.

3. (a) The Governor and Alternate Governor appointed by the member shall cease to hold office.

(b) The Councillor and Alternate Councillor appointed by the member, or in whose appointment the member has participated, shall cease to hold office, provided that, if such Councillor was entitled to cast the number of votes allotted to other members whose voting rights have not been suspended, another Councillor and Alternate Councillor shall be appointed by such other members under Schedule D, and, pending such appointment, the Councillor and Alternate Councillor shall continue to hold office, but for a maximum of thirty days from the date of suspension;

(c) The Executive Director appointed or elected by the member, or in whose election the member has participated, shall cease to hold office, unless such Executive Director was entitled to cast the number of votes allotted to other members whose voting rights have not been suspended. In the latter case:

(i) if more than ninety days remain before the next regular election of Executive Directors, another Executive Director shall be elected for the remainder of the term by such other members by a majority of the votes cast; pending such election, the Executive Director shall continue to hold office, but for a maximum of thirty days from the date of suspension;

[171]As discussed in Chapter 20, the Council was embodied in the Second Amendment as an eventual successor to the Interim Committee. As of 1998, it had not been brought into existence.

(ii) if not more than ninety days remain before the next regular election of Executive Directors, the Executive Director shall continue to hold office for the remainder of the term.

4. The member shall be entitled to send a representative to attend any meeting of the Board of Governors, the Council, or the Executive Board, but not any meeting of their committees, when a request made by, or a matter particularly affecting, the member is under consideration.

The Third Amendment also necessitated introducing two new rules:

K-6. Before any member's voting rights are suspended pursuant to Article XVI, Section 2(*b*), the matter shall be considered by the Executive Board, which shall inform the member in reasonable time of the complaint against it and allow the member an adequate opportunity for stating its case both orally and in writing.
Adopted March 10, 1993

K-7. When a member, whose voting rights have been suspended, requests the Executive Board to terminate the suspension and the Executive Board decides not to terminate such suspension, a written report shall be presented to the member stating what further action is required before such suspension will be terminated.
Adopted March 10, 1993

References

Ali, Ali Abdel Gadir, 1985, *The Sudan Economy in Disarray: Essays on the IMF Model* (Khartoum and London: Ithaca Press).

Baker, James A., III, 1995, *The Politics of Diplomacy: Revolution, War and Peace, 1989–1992* (New York: G.B. Putnam's Sons).

Branson, William H., and Jorge B. de Macedo, 1989, "Smuggler's Blues at the Central Bank: Lessons from the Sudan," in *Debt, Stabilization and Development: Essays in Memory of Carlos Diaz-Alejandro*, ed. by Guillermo Calvo and others (Oxford: Basil Blackwell), pp. 191–207.

Brown, Richard P.C., 1992, *Public Debt and Private Wealth: Debt, Capital Flight and the IMF in Sudan* (London: Macmillan).

Callaghy, Thomas M., 1993, "Restructuring Zaïre's Debt, 1979–1982," in *Dealing with Debt: International Financial Negotiations and Adjustment Bargaining*, ed. by Thomas J. Biersteker (Boulder, Colorado: Westview Press), pp. 107–31.

de Vries, Margaret Garritsen, 1976, *The International Monetary Fund, 1966–1971: The System Under Stress*, Vol. 1: *Narrative;* Vol. 2: *Documents* (Washington: International Monetary Fund).

Diwan, Romesh, and Grace Hu, 1986, "Country Objectives and IMF Conditionality: An Empirical Analysis of Sudan Economy," *Indian Journal of Quantitative Economics*, Vol. 2, No. 2, pp. 83–100.

Dodsworth, John R., and others, 1996, *Vietnam: Transition to a Market Economy*, IMF Occasional Paper No. 135 (Washington: International Monetary Fund).

Hussain, M. Nureldin, and A.P. Thirwall, 1984, "The IMF Supply-Side Approach to Devaluation: An Assessment with Reference to the Sudan," *Oxford Bulletin of Economics and Statistics*, Vol. 46 (May), pp. 145–67.

Horsefield, J. Keith, ed., 1969, *The International Monetary Fund, 1945–1965: Twenty Years of International Monetary Cooperation*, Vol. 1: *Chronicle*, by J. Keith Horsefield; Vol. 2: *Analysis*,

by Margaret G. de Vries and J. Keith Horsefield with the collaboration of Joseph Gold, Mary H. Gumbart, Gertrud Lovasy, and Emil G. Spitzer; Vol. 3: *Documents* (Washington: International Monetary Fund).

IMF Treasurer's Department, 1998, *Financial Organization and Operations of the IMF*, IMF Pamphlet Series No. 45 (Washington: International Monetary Fund, 5th ed.).

Liebenow, J. Gus, 1987, *Liberia: The Quest for Democracy* (Bloomington, Indiana: Indiana University Press).

Lissakers, Karin, 1991, *Banks, Borrowers, and the Establishment: A Revisionist Account of the International Debt Crisis* (New York: Basic Books).

Martha, Rutsel Silvestre J., 1990, "Preferred Creditor Status under International Law: The Case of the International Monetary Fund," *International and Comparative Law Quarterly*, Vol. 39 (October), pp. 801–26.

Nashashibi, Karim, 1980, "A Supply Framework for Exchange Reform in Developing Countries: The Experience of Sudan," *Staff Papers*, International Monetary Fund, Vol. 27 (March), pp. 24–79.

Reno, William, 1995, *Corruption and State Politics in Sierra Leone* (Cambridge: Cambridge University Press).

Rowan, Hobart, 1975, "IMF Rejected Saigon Request," *Washington Post* (May 12), pp. A1 and A15.

Sachs, Jeffrey D., 1990, "Social Conflict and Populist Policies in Latin America," in *Labour Relations and Economic Performance: Proceedings of a Conference Held by the International Economic Association in Venice, Italy*, ed. by Renato Brunetta and Carlo Dell'Aringa (New York: New York University Press), pp. 137–69.

Webb, Richard C., 1988, "Economic Crisis and Foreign Debt in Peru," in *Development and External Debt in Latin America: Bases for a New Consensus*, ed. by Richard E. Feinberg and Ricardo Ffrench-Davis (Notre Dame, Indiana: University of Notre Dame Press), pp. 241–53.

Weeks, John, 1992, *Development Strategy and the Economy of Sierra Leone* (New York: St. Martin's Press).

Weeks, John, and Phil Gunson, 1991, *Panama: Made in the USA* (London: Latin American Bureau).