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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/2

3:00 p.m., January 3, 1983

W. B. Dale, Acting Chairman

| Executive Directors | Alternate Executive Directors |
|---|---|
| | P.-C. Maganga-Moussavou, Temporary |
| | C. Taylor |
| | G. Ercel, Temporary |
| | P. D. Péroz, Temporary |
| | J. Delgadillo, Temporary |
| R. D. Erb | C. Dallara |
| | T. Alhaimus |
| | Jaafar A. |
| T. Hirao | T. Yamashita |
| R. K. Joyce | M. Casey |
| | H. Arias, Temporary |
| G. Laske | |
| G. Lovato | C. P. Caranicas |
| R. N. Malhotra | |
| | J. E. Suraisry |
| J. J. Polak | T. de Vries |
| | K. G. Morrell |
| | O. Kabbaj |
| F. Sangare | |
| M. A. Senior | J. L. Feito |
| | I. Fridriksson, Temporary |
| Zhang Z. | Wang E. |

L. Van Houtven, Secretary
B. J. Owen, Assistant

1. Compensatory Financing Facility - Avoidance of Double Compensation with Respect to Emergency Drawings . . . . . Page 3

Also Present

African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; F. d'A. Collings, T. T. Gibson, D. J. Goldsbrough. Asian Department: S. Ishii. Exchange and Trade Relations Department: M. Guitian, S. Kanesa-Thasan. External Relations Department: D. Cheney. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; Ph. Lachman, J. M. Ogoola, S. A. Silard. Research Department: W. C. Hood, Economic Counsellor and Director; G. I. Brown, K.-Y. Chu, N. M. Kaibni, G. Khatchadourian, A. Salehizadeh. Treasurer's Department: D. Berthet. Advisor to the Managing Director: E. W. Robichek. Advisors to Executive Directors: E. A. Ajayi, L. Ionescu, H.-S. Lee. Assistants to Executive Directors: E. M. Ainley, R. Bernardo, J. M. Jones, P. Leeahtam, W. Moerke, J. A. K. Munthali, V. K. S. Nair, Y. Okubo, E. Portas, J. Reddy, D. I. S. Shaw, H. Suzuki, J. C. Williams.

## 1. COMPENSATORY FINANCING FACILITY - AVOIDANCE OF DOUBLE COMPENSATION WITH RESPECT TO EMERGENCY DRAWINGS

The Executive Directors considered a staff paper on the avoidance of double compensation with respect to emergency drawings and subsequent drawings under the compensatory financing facility (SM/82/230, 12/13/82).

The Economic Counsellor noted that three possible solutions--labeled A, B1 and B2--had been proposed for dealing with double compensation arising from the overlapping of compensatory drawings and emergency drawings. There were situations in which Solution A was not applicable and other situations in which Solution B2 was not applicable. If preferences ran toward either of those two solutions, it would be useful if Directors indicated which alternative solution should be used in the circumstances in which either A or B2 was not applicable. If Executive Directors preferred B1, which was a simplified version of the recommendation made in SM/82/7 (1/8/82), the decision could be more straightforward.

Solution A was a procedure under which there would be a contemporaneous compensatory financing drawing to deal with an export shortfall and an emergency drawing to deal with the impact of a disaster on other items of the balance of payments, the Economic Counsellor explained. It was proposed that the estimation period with respect to export data should be extended from 6 months to 12 months so that calculations made at about the time of the disaster could pertain to a substantial part of the subsequent 12 months. For example, for a country having a 3-month data lag, calculations could be made for a shortfall year extending 9 months into the postdisaster year if exports could be estimated for 12 months, whereas they would extend only 3 months into the postdisaster year if only 6 months' exports could be estimated. That procedure could not be applied in countries with long lags in producing export data. Thus, a country having a 12-month data lag could, at the time of the disaster, make calculations only for a shortfall year that would end with the actual disaster, even with the extension of the estimation period to 12 months. For countries with statistics that lagged by either 9 months or 6 months, the possible extension into the postdisaster year of the estimates would be either 3 months or 6 months, respectively.

As for Method B2, which required a comparison to be made between the actual or estimated shortfall for the postdisaster year and the size of the emergency drawing, the Economic Counsellor continued, it would not be possible to calculate the shortfall for the first 9 months of the postdisaster year if countries had a data lag of 3 months, and until 6 months after the end of the postdisaster year for countries having 12-month data lags, on the assumption that the period for which data could be estimated remained 6 months. Accordingly, Solution B2 could not be applied to postdisaster compensatory drawings requested at times when the shortfall for the postdisaster year could not be calculated, although it could be applied if the postdisaster compensatory drawing was delayed long enough.

In practical terms, the Economic Counsellor said, three decisions were feasible. First, to accept B1; second, to accept A with B1 as an alternative when A did not apply; third, to accept B2, with B1 as an alternative when B2 did not apply. Whenever a choice was made, the existing compensatory financing decision would have to be modified accordingly, as stated in SM/82/230. A minor correction should be made on page 1 of that paper, where the reference to the number of emergency drawings that had given rise to double compensation when succeeded by compensatory drawings should be nine and not eight. The partial sentence at the top of page 4 should also be deleted.

The Acting Chairman, in response to a question by Mr. Kabbaj, agreed that a fourth possible decision would be to take no action, and to maintain the status quo.

Mr. Laske observed that apart from its limited applicability, another argument against Solution A was that it involved a complicated estimating process with an inherent danger of miscalculation and of overcompensation. Since the objective of the exercise was to further reduce the potential for overcompensation, it would be inappropriate to apply that solution. Moreover, the solution could not be applied if the lag with which data were reported was particularly long.

His first preference was for Solution B2, Mr. Laske stated, because it employed a relatively simple technique for determining the potential overcompensation when an emergency drawing was followed by a drawing under the compensatory financing facility. In contrast, Solution B1 seemed hardly less complicated than the previously rejected version (SM/82/7, 1/8/82; EBM/82/15 and EBM/82/16, 2/10/82). Furthermore, it seemed to involve a certain arbitrariness because a ratio had to be set for the possible impact of a disaster on exports and on the entire balance of payments position. Even Solution B2, which he preferred, and for the same reasons as Solution A, would be of limited applicability; but should it find the necessary support in the Executive Board, Solution B1 could be applied whenever B2 itself was not workable.

Mr. Taylor recalled that when the Executive Board had discussed the subject of emergency drawings in February 1982, his chair had taken the view that such drawings should be treated as precursors of full stand-by or extended arrangements, or regular compensatory financing drawings, and not as free-standing drawings. The concern of his chair at that time had been that members using Fund resources after a disaster should, in due course, enter into an arrangement with the Fund including, where necessary, an adjustment program, if the normal three-year to five-year period for repurchase was to apply. Normally, members not converting emergency drawings into drawings subject to an appropriate degree of conditionality should make prompt repayment within, say, six or nine months, one advantage being that the complication of double compensation would be avoided. There had been some support for the position of his authorities during the previous discussion, and similar ideas had also been put forward. Nevertheless, the decision had been to accept the broad guidelines suggested by the staff in SM/82/7; while they codified and in some respects refined the existing procedure, they had not in fact disposed of the problem of the possible overlapping of emergency drawings and subsequent additional or compensatory financing drawings.

Although he continued to believe that it would be preferable to follow the approach suggested by his chair with the support of a number of other Directors in February 1982, Mr. Taylor continued, he could go along with the suggestions in the present staff paper for resolving the problem of double compensation. That problem was small in practice and would probably remain so, and it seemed unnecessary to spend a great deal of time on possible solutions. Indeed, it might be advisable not to formulate rules at all but to leave the matter open for pragmatic judgment by the staff. If there was a general wish in the Executive Board to have a set of rules, he could accept any of the suggested solutions, or even the original method put forward in SM/82/7, cumbersome as it had been. As the Economic Counsellor had explained, however, the choice was not simple. Solution A was subject to the drawback mentioned by Mr. Laske of not necessarily benefiting countries with rather long reporting delays. In other cases, Solution A would carry an increased risk of error and oversimplification.

The two variants under Solution B, Mr. Taylor commented, had both advantages and disadvantages. One problem with Solution B2 was that no attempt was made to identify the compensatory element of the emergency drawing, so that the former might be exaggerated and the size of any subsequent compensatory drawing be unduly reduced. A drawback to Solution B1 was that, on the face of it, it looked rather difficult to apply because it would mean distinguishing between the different elements of the total impact of a disaster on the balance of payments. But in practice, the staff had to analyze in some detail the effect on exports in making the calculations for a compensatory financing drawing. Admittedly, under Solution B1, extra work would have to be done, mainly to analyze the effect of the disaster on imports, although the difficulties would be lessened because the estimates would be made some months after rather than at the time of the disaster. Although he could accept either Solution B1 or B2, his preference would be for Solution B2, with B1 held in reserve for cases in which B2 would not work.

Mr. Casey said that he preferred the status quo, and he was grateful to Mr. Kabbaj for having raised the possibility. The status quo was presumably tantamount to the no-rule option mentioned briefly by Mr. Taylor. When the matter had last been before the Executive Board, his chair had expressed regret at the failure to agree on a special disaster or emergency facility for use by member countries suffering from the loss of a large part of their productive capacity due to the destruction of infrastructure by natural disasters. In such cases, which were mercifully rare, the balance of payments position of the countries affected could deteriorate enormously as a result of a huge increase in import requirements and an inability to export. But the negative judgment of the Executive Board on establishing a separate disaster facility had prevailed, and his overriding concern at present was that the Fund should not be less flexible or understanding with respect to emergency drawings followed by a request for compensatory financing than it had been in the past. On that score, he was wary of the solutions presented by the staff in SM/82/230; without simulations or illustrative calculations, it was difficult to assess which option was preferable, and it was clear that maintaining the status quo would be the best solution for the unfortunate countries concerned.

He was not sure in any event that double compensation was the nub of the problem, Mr. Casey continued. It was more a matter of conditionality, or rather the lack of it. If, for example, a country experiencing a natural disaster had a program under an arrangement with the Fund, no adjustment for so-called double compensation would be made when the country later requested a compensatory financing drawing. That had been spelled out clearly in the footnote on page 4 of SM/82/230. Yet the staff was proposing that an adjustment be made for double compensation if the emergency drawings were made in the absence of a Fund program. An even more intriguing case was that of a country already having a Fund program when the disaster struck. As he understood it, the arrangement could then be augmented in the light of the disaster, and, again, no adjustment in respect of the emergency drawing would have to be made in the event of a subsequent compensatory financing drawing. He was not sure whether or not that raised a question of evenhandedness, but it certainly left a great deal to fate. And that arbitrariness was the main reason for his preference for the status quo. He also noted that the options put forward by the staff raised technical problems of how to divide up a balance of payments problem into its various elements, including that of the export shortfall, and the noncereal import excess.

On the rare occasion when a country made an emergency drawing of one or two credit tranches without a program--there had been about 9 cases in 20 years--it did state its willingness to cooperate with the Fund in finding solutions to its balance of payments problems, Mr. Casey noted. That legally valid statement was also repeated in the context of any subsequent request for compensatory financing. In passing, it might be a good idea to provide more technical assistance to help an unlucky country to adopt corrective policies.

In conclusion, Mr. Casey said, the status quo was preferable to any of the solutions suggested by the staff, which were unwieldy in relation to the minute problem that they were designed to address. If necessary, in a spirit of compromise, he could reluctantly go along with Solution B1, which he understood could stand alone in all circumstances without the need for an alternative.

Mr. Suraisry observed that the number of cases in which the problem of double compensation had arisen had been limited. According to the staff, there had been only 9 emergency drawings in the past 20 years; furthermore, the amounts involved had been small. It followed that the problem under discussion was not urgent, although that should not prevent

Executive Directors from seeking to find a systematic solution. Second, both of the methods suggested by the staff required modification of the compensatory financing decision. Third, within a few months, the Executive Board would be reviewing the facility for the compensatory financing of fluctuations in the cost of cereal imports, and considering experience with respect to the avoidance of overcompensation in early drawings.

Therefore, Mr. Suraisry considered, it would be prudent to postpone the decision with respect to double compensation. However, if the Executive Board felt that a decision had to be reached at the present meeting, he was willing to consider the staff's proposals. While the first approach--Solution A--was straightforward and easy to implement, it suffered from at least two drawbacks. The first was that it did not entirely eliminate the problem that it was designed to deal with. The staff had explicitly drawn attention to the possibility of double compensation even if Solution A were applied. The scarce incidence of the problem should exclude any solution that did not eliminate it. The second drawback was that the essence of the approach was the extension of the estimation period to 12 months, as an exception. The compensatory financing decision already had enough exceptions without introducing yet another.

The two versions of the second approach--Solution B--were not as straightforward or as easy to implement as the first approach, but they would deal with the problem of double compensation in a more effective manner, Mr. Suraisry stated. Therefore, his preference was for Solution B1 because there would be no need to resort to an alternative.

Mr. Alhaimus commented that the two approaches suggested in the staff paper represented an improvement by way of a simplification of the procedures submitted in an earlier paper. The fact remained, however, that the scope of the problem that the proposals were intended to address was extremely limited. As stated by the staff, there had been only 9 emergency drawings in 20 years. Thus it might not be inappropriate to consider the advisability of making no policy change. Both approaches examined by the staff would involve amendment of the decision on compensatory financing. In most of the cases that would be covered, the amount of double compensation was likely to be small, and there would be additional work for the staff, including the estimation of data.

In sum, Mr. Alhaimus said, he was not convinced of the need to make any change until the magnitude of the problem justified one. Should such a need arise, he would prefer a combination of both approaches, namely, the extension of the estimation period to 12 months in cases where requests for an emergency drawing and for compensatory financing were submitted simultaneously, and Solution B1 when a compensatory drawing was requested after an emergency drawing.

Mr. Polak joined others in noting that the problem under discussion was not a major one. Of the possible solutions proposed by the staff, Solution A was unacceptable because it was not suitable for all cases and would involve the Fund more deeply in making estimations. Solution B1 was particularly unreasonable in that its definition of the balance of payments impact counted imports but not their financing; it should be disqualified on that account alone. The remaining solution, B2, was a reasonable proposition, especially as it addressed itself not only to the question of double compensation but to that of conditionality as well, which was one of the reasons for taking up the matter in the first place. Unlike Mr. Casey, he saw no objection to the Fund's discriminating between countries that had an arrangement and those that did not. Moreover, Solution B2 could easily be made to work in all cases, if the compensatory element of an emergency drawing was defined as the emergency drawing itself, unless data were available to calculate the export shortfall for 12 months following the disaster and the export shortfall was smaller than the emergency drawing, in which case the latter would apply.

The Economic Counsellor indicated that Mr. Polak's definition could apply to all cases if it were formulated to allow for the estimation of data for six months.

Mr. Jaafar said that in principle an export shortfall arising from a disaster should not be compensated twice, and appropriate adjustments should be made to avoid double compensation. As a practical matter, however, the problem of overcompensation was not of a magnitude that warranted a general solution of the type suggested in the staff paper. According to Table 1 in SM/82/7, there had been only five emergency purchases related to natural disasters since 1973, involving a total of SDR 38.4 million. The countries concerned were in the Caribbean area and were highly vulnerable to natural disasters, especially hurricanes. Such countries usually had one-crop economies, which were often entirely destroyed. Time, effort, and more important, assistance from the international community was then necessary for reconstruction. Those were in fact the very considerations that had led Mr. Prowse recently to advocate the idea of minimum quotas for small developing countries.

The proposed refinements of the compensatory financing decision to avoid double compensation would, Mr. Jaafar believed, yield only marginal benefits. On the other hand, it was necessary to weigh the costs of the demanding and meticulous work involved in making detailed estimations of exports and imports, and in apportioning or reclassifying the emergency drawing into various categories, namely, that part attributable to a decline in exports and that to an increase in imports. Not only would the effort be time-consuming, but the estimations could be subject to a wide margin of error. The staff could use its time more productively on other work.

His first preference, therefore, was to let the current practice continue, Mr. Jaafar stated. If the Executive Board was led into making a choice between the alternative methods presented in the staff paper, he would prefer to give members the option of choosing between Solution A and B1. A large number of countries with long data lags might not be in a position to take advantage of Solution A. Nonetheless, there might be countries with short data lags that might be interested in that solution. A majority of the members making emergency drawings might find Solution B1 more appropriate.

Finally, Mr. Jaafar sought clarification on the first sentence on page 4, under the heading "B. Alternative Approach." The implication seemed to be that a compensatory financing drawing that was requested subsequent to an emergency drawing would be expected to be followed up by a stand-by or extended arrangement.

Mr. Hirao remarked that he had slight doubts about Solution B2, which seemed to be based on the presumption that the entire amount of an emergency drawing was of a compensatory character or that an export shortfall due to a disaster was fully compensated by an initial emergency drawing; consequently, the deduction from a subsequent compensatory drawing might become larger than it should be. As between Solution A and B1, he leaned slightly toward the latter because the former might increase the frequency of overcompensation. However, the rarity of an emergency drawing succeeded by a compensatory drawing indicated that the probability of consequent overcompensation could be expected to be small. In addition, Solution A had the merit of providing a member country with more timely assistance. He could therefore go along with that approach as well, although he understood that it would have a limited application.

Mr. Feito noted that, as pointed out by the staff, the possibility of double compensation arising from an emergency drawing followed by a compensatory financing drawing had materialized only a few times. Given the exceptional nature of emergency drawings themselves, the problem would clearly continue to be limited; therefore, he saw no urgent need for modifying present ad hoc practices based on the good judgment of the management and could support the maintenance of the status quo.

If the Executive Board considered that it was necessary to change the present system, he could go along with the first solution suggested by the staff, to extend the estimation period to a maximum of 12 months, Mr. Feito stated. If that method could not be applied because of lags in the production of data, he could accept the use of Solution B1. Before giving his support to that solution, however, he wanted to know whether the staff had any information on the average lag in the reporting of data, more specifically on the production of data in the 9 countries that had made emergency drawings. Since those countries had more or less the same type of economy and other common characteristics, the information could be useful.

Mr. Malhotra also considered that the problem being dealt with was of a marginal nature and that the solutions suggested were rather complicated. Each of them entailed difficulties. The first solution, as some Directors had pointed out, called for a decision to increase the total period of estimation. Under the second, an element of judgment had to be exercised as to the likely impact of an emergency on exports at a time when the country concerned would be unable to do so with assurance. Most of those countries, mainly in the Caribbean, often faced serious disasters, and it was unclear to him whether the assistance provided by the Fund was adequate. In extending disaster relief, any organization found it difficult to take care of the entire impact on a particular economy.

Under the circumstances, Mr. Malhotra urged that the status quo be continued. The Fund had much more important issues to deal with, and, as the Managing Director had often recommended, the Executive Board should not be overburdened at a time when major issues were impending. Having taken the position that the present policy need not be changed, he was unable to express himself in favor of any of the suggested approaches.

Mr. Fridriksson reiterated the opinions voiced from his chair on earlier occasions. The fundamental element of emergency financing was the provision of quick assistance when disasters arose. Even relatively modest amounts of outright purchases could both provide needed relief and encourage financing from other sources. The Fund should avoid codifying or structuring guidelines for the granting of emergency assistance. It was essential for the Fund to maintain a flexible posture in that respect and for the staff to have a freer hand in making qualitative assessments than it had in other matters. Fortunately, the instances in which emergency financing was needed were few, so that the Executive Board was granted the liberty of being more flexible than it would choose to be in other areas.

Maintaining the status quo was probably the best solution, Mr. Fridriksson remarked. However, of the approaches presented in SM/82/230, he had a preference for Solution A. Should requests be received from countries with unduly long data lags, he probably would not reject the use of Solution B1 as an alternative, but he would again suggest considering those cases flexibly and using pragmatic judgment with respect to the requirements to be met.

Mr. Erb commented that, like other Directors, he did not see the issue before the Board as a major one. The emergency facility provided the Fund with an opportunity to respond flexibly to the needs of members struck by natural disasters but, as experience had demonstrated, it had been used quite exceptionally. The problem of double compensation occurred in even more exceptional circumstances, although where it did, adjustments should be made. Among the approaches put forward in the staff paper, he could not support Solution A. His preference would be for Solution B1. He could go along with Solution B2 if necessary to reach a consensus in the Board.

Mr. Péroz commented that if it was a matter of choosing among the approaches suggested by the staff or of not making a choice, his first preference would be to leave things as they stood. If a choice had to be made, it would be important to note that, as indicated in the staff paper, double compensation as a result of emergency drawings had been in the past and would remain under almost all circumstances a remote risk.

If he had to make a specific selection, his preference would be for Solution A, coupled with B1 when A did not apply. His first preference was for the status quo.

Mr. Sangare reiterated the position taken by his chair when the Executive Board had discussed emergency assistance related to natural disasters in February 1982. At that time, his chair had stated that the treatment of disaster-related assistance had been satisfactory, with each request being considered on its merits. That method had provided the necessary flexibility to the Fund in dealing with emergency situations. His position therefore remained unchanged. Indeed, he continued to believe that no guidelines should in any way compromise that flexibility, or reduce the volume of emergency purchases that would otherwise have been made available. He noted that the Chairman, in his concluding remarks at the end of the discussion at EBM/82/16, had indicated general support by the Executive Board for the need for continued flexibility in the treatment of disaster-related assistance. He hoped that that flexibility would continue unimpaired.

The number of cases of double compensation or double counting had been small during the past 20 years, Mr. Sangare noted from the staff paper. If that pattern continued, the instances of possible double compensation would be limited, and confined to a compensatory drawing made after an emergency drawing. For that reason, a number of Directors, Mr. Casey and Miss Le Lorier in particular, had indicated in February 1982 that they were less concerned about the problem of double compensation, and he agreed with them.

The proposals set out in the staff paper under discussion might be deficient, Mr. Sangare considered, to the extent that they proved restrictive and cumbersome in application. The proposal to extend the estimation period from a maximum of 6 months to a maximum of 12 months could reduce the possibility of double compensation for those countries that did not experience significant delays in producing statistics. However, as indicated by the staff, the proposal could tend to eliminate certain countries, particularly developing countries, from benefiting from Fund resources if they experienced long delays in producing their statistics. Unfortunately, such delays were common in just those countries that were likely to apply for Fund assistance when struck by natural disasters. He had also noted that the staff had mentioned the risk of overcompensation when estimated data were used for long periods, which would raise further difficulties in the use of Solution A.

The second approach, or Solution B, which involved making adjustment by apportioning emergency drawings into export and nonexport components, might not dispel the fears expressed by several Directors in February 1982. The computations involved would place an extra load on an already overburdened staff. However, he was aware that the staff had undertaken similar exercises in the past. He wondered whether the staff could comment on the effects of making such computations on the speed with which requests for emergency drawings could be handled, and whether they were likely to facilitate the decision-making process relating to a subsequent compensatory drawing. He would personally prefer a simple and straightforward method that would be easily understood by the drawing members while dealing with emergency situations with the necessary speed.

In conclusion, Mr. Sangare stated, his chair would like to see the present practice continued. If, however, the Executive Board was set on choosing a particular formula, he would urge that the flexibility inherent in the current practice be maintained. In that respect, either B1 or B2 would be acceptable to him, provided that the adjustment mechanism did not impair the consideration of such requests; the timeliness of assistance in emergency situations was of crucial importance.

Mr. Lovato remarked that, having heard the views of other Executive Directors, and the explanation and recommendation of the Economic Counsellor, he favored Solution B2, supplemented by Solution B1 whenever B2 itself was not applicable.

Mr. Kabbaj wondered whether the issue of double compensation with respect to emergency drawings was important enough to have justified so much effort and time on the part of the staff and Executive Directors, particularly when the Board's schedule of meetings had been extended to ensure an early completion of the quota review. Indeed, the number of occurrences that could potentially result in such double compensation was and should continue to be limited; they would involve small countries almost exclusively. If it was necessary to find solutions in order to avoid double compensation with respect to emergency drawings, it was also necessary for the Fund to remain flexible in its approach to that exceptional facility and in no way to reduce members' access.

The formula proposed by the staff early in 1982 for avoiding double compensation with respect to subsequent emergency and compensatory drawings would have been effective, Mr. Kabbaj observed, although some Executive Directors had felt that it was too complex and possibly too difficult to apply in practice. Basically, the same formula had been presented anew in the staff paper under Solution B, accompanied by a proposal to reclassify the compensatory element of the emergency drawing as a compensatory drawing. Therefore, both versions of Solution B were subject to the same objections expressed in 1982 with respect to the method then proposed by the staff in the appendix to SM/82/7.

His own concern with the new proposal under B1 and B2 was not related to the complexity of the method for determining the compensatory element of an emergency drawing, Mr. Kabbaj remarked. It lay instead in the reclassification of the corresponding amount as a compensatory drawing, which would actually result in reducing members' outstanding access to the compensatory facility whereas the present determination of the compensatory element reduced only the amount of the compensable shortfall. It was most likely that countries hit by severe natural disasters and that resorted to emergency drawings would subsequently request use of the compensatory financing facility. Hence, any reduction in their access to the compensatory financing facility would be undesirable and certainly not in line with the spirit of the emergency drawing.

He urged the Board to maintain its present practice, Mr. Kabbaj continued. It was certainly no more complex than the staff's proposals under B1 and B2, and it had been effective so far in avoiding double compensation. Should the Board decide that a new method for the avoidance of double compensation should be sought, Solution A in SM/82/230 aimed at extending the estimation period for a simultaneous compensatory drawing, would certainly be acceptable because it did not have the complexity of the present practice and would make it possible for members hit by natural disasters to draw a larger amount of Fund resources and deal more adequately with the impact on their balance of payments. It should be made clear that qualifying for an emergency drawing would in no way be contingent upon qualifying to use the compensatory financing facility.

In light of the Economic Counsellor's opening remarks, Mr. Kabbaj said, he could accept the exceptional use of Solution B1 in cases where A was not applicable due to large lags in data reporting. But, like other Directors, he would go along reluctantly with any alternative to the status quo.

Mr. Zhang stated that he would prefer no change in the present practice and to deal with individual cases as the occasion arose. Since the three methods were not mutually exclusive, a decision could then be reached to use the method that would give the most reasonable results.

Mr. Delgadillo said that his preference was for maintaining the present practice. If the Board considered it necessary to select a solution from those put forward in SM/82/230, he would have no difficulty in going along with Solution A, supplemented by Solution B1.

Mr. Morrell remarked that, like many other Directors, he had considerable reservations about the need to tidy up the compensatory financing decision in the way proposed in the staff paper. The problem was small, covering only 9 drawings in the past 20 years. In addition, double compensation was a form of overcompensation, the potential for which was inherent in the procedures for calculating export shortfalls under the compensatory financing decision, wherever estimation was involved. However, if the Executive Board considered that some methodology was necessary, it should be, as far as possible, consistent, equitable, and reasonably straightforward. All the proposed methods presented some difficulty in those respects, but Solution B1 should be the preferred method. Under B2, the compensatory element would be smaller, and there would be an apparent bias against compensatory assistance as a result of designating the emergency drawing as compensating firstly for the export shortfall.

The Economic Counsellor, in response to Mr. Jaafar's request for clarification about the language on page 4 of SM/82/230 referring to a compensatory drawing that had to be made after an emergency drawing but before a member could obtain a stand-by or an extended arrangement, explained that the subject of whether or not an emergency drawing necessarily had to be followed by an arrangement had not been dealt with. It might be recalled that the staff paper considered by the Executive Board in February 1982 (SM/82/7) had included, among the issues for consideration by the Executive Board, broad guidelines for the provision of emergency assistance that had, he believed, been generally accepted by the Executive Board at that time. Guideline (e) had read in part: "For purposes of emergency assistance requests, a member would be required to describe the general policies it plans to pursue, including its intention to avoid introducing or intensifying exchange and trade restrictions. The request will be granted when the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where appropriate, solutions for its balance of payments difficulties." But that fell short of an expectation that an emergency drawing would necessarily be followed by a stand-by or extended arrangement.

As to the effect of the various methods on the time it would take to respond to the request for an emergency drawing, the Economic Counsellor added, it was hard to visualize any difference among them. Some features of the methods might delay a subsequent compensatory drawing; as he had noted in his opening remarks, Solution B2 as defined in the staff paper could in some circumstances be used only if its application were delayed until data became available permitting the calculation of the shortfall for the postdisaster year.

The staff representative from the Research Department said that an examination of the lags in reporting data for the nine cases revealed that in four cases, the lag had been six months or less; in the remaining cases, it had exceeded six months.

The Acting Chairman said that by far the majority of Executive Directors had indicated a preference for the status quo or would be willing to maintain the present practice. Since the Executive Board did not wish to codify the way in which emergency drawings were dealt with, and since such drawings were by definition exceptional in each instance, the staff and management would continue to be flexible and pragmatic, and would come forward with whatever recommendations seemed appropriate and sensible in the individual circumstances.

Mr. Polak remarked that he was satisfied that the will of the Executive Board should prevail. The inherent difficulty was that the Fund could not resolve the problem that had been discussed by being reasonable and flexible because in fact it could not be flexible in its approach to a subsequent compensatory drawing. The problem had its origin in the fact that once a member had received an emergency drawing, the rules for the later compensatory drawing applied rigidly, without leaving any room for the exercise of judgment.

Mr. Erb wondered whether, in judging whether or not an emergency drawing should be made, it was not often a matter of the Executive Board's taking into account the possibility that the member's need might be met by a compensatory financing drawing. Thus, it might be not so much a matter of the application of the compensatory financing decision versus the provisions for emergency drawings, as of reaching a judgment about the appropriateness of applying the provisions for an emergency drawing rather than a later application of the compensatory financing decision.

Mr. Casey pointed out that, as various Directors had noted, speed was of the essence in an emergency. There was thus only a slight possibility that the member could wait until data became available to enable it to request a compensatory financing drawing following an emergency.

The Executive Directors concluded their consideration of the avoidance of double compensation with respect to emergency drawings and subsequent drawings under the compensatory financing facility.

APPROVED: June 8, 1983

LEO VAN HOUTVEN
Secretary