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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/105

3:00 p.m., July 18, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	W. B. Tshishimbi
	L. E. J. Coene, Temporary
	A. Le Lorier
A. Donoso	
R. D. Erb	
M. Finaish	
T. Hirao	T. Yamashita
J. E. Ismael	Jaafar A.
R. K. Joyce	
	C. Robalino
G. Laske	
G. Lovato	C. P. Caranicas
R. N. Malhotra	
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	
F. Sangare	
	J. L. Feito
J. Tvedt	
N. Wicks	C. Taylor
	Wang E.

L. Van Houtven, Secretary
S. J. Fennell, Assistant

Also Present

European Department: A. Arimo. *Exchange and Trade Relations Department*: C. D. Finch, Director; D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; K. B. Dillon, H. W. Gerhard, M. Guitian. External Relations Department: D. Driscoll. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman. Middle Eastern Department: B. A. Karamali. Research Department: W. C. Hood, Economic Counsellor and Director; R. R. Rhomberg, Deputy Director; L. Alexander, K.-Y. Chu, L. U. Ecevit, E. C. Meldau-Womack, E. A. Milne, T. K. Morrison, A. Muttardy, B. E. Rourke, A. Salehizadeh, H. H. Zee. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: T. M. Tran. Bureau of Statistics: A. K. M. Siddique. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: A. A. Agah, J. R. N. Almeida, C. J. Batliwalla, J. Delgadillo, S. El-Khouri, S. M. Hassan, H.-S. Lee, I. R. Panday, P. D. Péroz. Assistants to Executive Directors: H. Alaoui-Abdallaoui, H. Arias, L. Barbone, R. Bernardo, M. Camara, M. B. Chatah, T. A. Connors, M. K. Diallo, M. Eran, G. Ercel, I. Fridriksson, M. Hull, H. Kobayashi, M. J. Kooymans, W. Moerke, V. K. S. Nair, Y. Okubo, E. Portas, M. Z. M. Qureshi, J. Reddy, C. A. Salinas, J. Schuijer, D. I. S. Shaw, P. S. Tjokronegoro, M. Toro, Wang C. Y.

1. COMPENSATORY FINANCING FACILITY AND BUFFER STOCK FINANCING FACILITY - FINANCING OF FLUCTUATIONS IN COST OF CEREAL IMPORTS - REVIEW

The Executive Directors continued from the previous meeting (EBM/83/104, 7/18/83) their consideration of the staff paper on a review of experience with financing of fluctuations in the cost of cereal imports, and selected policy issues with respect to the compensatory financing facility and the buffer stock financing facility (SM/83/131, 6/16/83; and Cor. 1, 6/20/83).

Mr. Prowse said that the present discussion on the special facilities would clearly be preliminary, rather than conclusive. The experience of 1981 and 1982 had strongly underlined the value of the special facilities for primary producers. The experience of exporters of primary products was different from that of industrial exporters because of the unpredictability of demand for and supply of primary products. All Executive Directors agreed that there was a great need for the special facilities. One of the principal aims of the compensatory financing facility was to provide speedy assistance in the event of an export shortfall; the Executive Board should therefore ensure that any modifications made to that facility did not reduce the timeliness with which assistance could be provided. No evidence suggested that the use of the compensatory financing facility had been counterproductive in achieving adjustment in cases where it had been utilized, a point that the Executive Board should keep in mind when considering the possibility of reducing the relative importance of the special facilities.

He fully supported the staff recommendations with respect to the cereal decision, Mr. Prowse indicated. A further review of that decision would not be necessary when the quota increases under the Eighth Review became effective, but it should be reviewed within two years before lapsing in May 1985. Although relatively limited use had been made of the cereal facility, it had operated smoothly and effectively, and had provided an important potential source of Fund assistance for many countries where cereal import payments were particularly vulnerable to domestic production shortfalls and conditions in world cereal markets. Given the instability of world trade in cereals, the cereal decision should be maintained beyond 1985.

On the issue of overcompensation and undercompensation, he agreed with the staff recommendation that the early drawing procedure should be maintained, Mr. Prowse stated. Overcompensation arising from the use of the early drawing procedure had not presented significant problems, and had not caused any liquidity difficulties for the Fund. The real issue to be addressed was the problem of late repurchase arising from overcompensation; the procedures adopted in November 1982 should assist in that respect.

At EBM/82/145 (11/8/82) a number of Executive Directors had suggested that members using the early drawing procedure should be required to assure the Fund that they would provide data necessary to calculate the actual shortfall without any greater lag than had been projected at the time of the request for compensatory financing, Mr. Prowse recalled. In his summing up, the Chairman had suggested that the Executive Board should consider that possibility at a later date in the light of further experience. However, if there were real problems in statistical compilation, then no amount of pressure could reduce those statistical lags.

He supported the proposed decision regarding the buffer stock financing facility, but if the UNCTAD Common Fund was introduced some reconsideration of that facility might be necessary, Mr. Prowse said. The question of access limits under that facility clearly could not be resolved at the present meeting.

With respect to access limits, Mr. Prowse stated, it was necessary to consider, first, the relative value of the compensatory financing facility in relation to other facilities. Should the relative importance of special facilities be maintained, or should resources be transferred to the more conditional facilities, such as the stand-by arrangement and the extended Fund facility?

The staff paper provided useful projections on access limits, Mr. Prowse considered, but no decision could be reached until after the Executive Board's more general discussion of access under all facilities. The assumptions on which the staff had based its projections appeared reasonable; those projections provided a broad guide for possible future use of the compensatory financing facility under alternative quota limits. However, the range of drawings under the access limits suggested by a number of Directors was certainly within the margin of uncertainty arising from the underlying assumptions. It would be difficult, therefore, to base a case for particular access limits on the staff projections. World economic developments might well lead to an increase in cereal prices or other commodity prices, and demand for the compensatory financing facility would then be reduced. After all, it was only during the previous two years that the use of resources under the compensatory financing facility had risen dramatically, reflecting a collapse of commodity prices. In sum, like Mr. Erb and Mr. Laske, he did not wish to reduce the relative importance of the special facilities.

Second, with respect to the issue of cooperation, Mr. Prowse remarked, the points made by Mr. Polak were well taken. There was a lack of clarity in the staff's views. At EBM/82/40 (4/2/82) he had expressed his thoughts extensively. At that meeting the staff had stated that "the structure of compensatory financing did not include a direct tie between such financing and stand-by arrangements...[and] the staff had had no intention of suggesting that there should be a rigid requirement of a stand-by arrangement in the upper credit tranches for a member wishing to use the compensatory financing facility up to 100 percent of quota. Similarly, there was no automatic connection between a member's access to compensatory financing and either its failure to adhere to performance criteria or its maintenance of an unapproved exchange restriction." He was particulary concerned about drawings below 50 percent of quota and the timeliness and speed with which assistance could be provided under the facility. To place conditions on the lower, or even the upper, 50 percent would limit members' ability to make a purchase within an appropriate time frame, and would seriously affect the value of the facility itself. He could accept the guidelines as they had stood at the time of the April 1982 Executive Board meeting, but the application of those guidelines seemed to have presented more difficulties than expected. It was not possible to specify further guidelines at the present meeting, but he would agree to a discussion of the definition of cooperation under the compensatory financing facility. It was important to clear up the uncertainty quickly, perhaps in the following week.

Mr. Erb reiterated that quota limits should be shaped by the role and objectives served by the compensatory financing facility relative to the role and objectives served by the more conditional facilities. He had not earlier suggested explicitly that one kind of facility ought to be increased relative to the other; although if he had to give some indication, his preliminary position would be to increase the availability of resources under the credit tranches.

Mr. Prowse indicated that he had not wished to misrepresent Mr. Erb, but it had been his understanding that Mr. Erb had suggested an overall limit for combined access under the compensatory financing facility and the cereal decision of 85 percent of quota, which seemed to correspond to Mr. Erb's position of 102 percent and 305 percent for general access to the more conditional facilities.

Mr. Malhotra considered that the cereal decision had been implemented smoothly, although only six purchases had been made by five members as a result of the improvement in world supply and prices of cereals for importers. Total additional use of Fund resources resulting from the introduction of the cereal decision had amounted to SDR 281 million. The short-term outlook for cereal importers was less favorable; the Fund should therefore not only maintain the facility but should be ready to adopt a flexible attitude if recourse to the facility increased at the same time that export shortfalls occurred in a number of other countries. At that time, it might become necessary to re-examine the present, rather cumbersome, procedure under which there was a joint limit for the compensatory financing facility and the cereal decision.

He endorsed the staff recommendation that the early drawing procedure of the compensatory financing facility should be maintained, Mr. Malhotra went on. The incidence of overcompensation and undercompensation had been limited and should not be allowed to affect an important purpose of the facility, which was to provide timely assistance. The recent practice of alerting members to the implications of overcompensation should prove helpful in reducing delays in repurchasing.

With respect to the buffer stock financing facility, Mr. Malhotra stated that he agreed with the staff appraisal. However, the staff had implied that access to that facility could perhaps be reduced from

50 percent to 40 percent of quota, arguing that that would not constrain members' access to the facility. However, if that was so, then there was no need to change the present limit. Mr. Polak had remarked that the limited use of the facility demonstrated that financing was not the real problem. While he would agree that the need for financing would increase or decrease as and when new commodity agreements were entered into, he would not consider that the role of financing was unimportant.

He noted that the staff paper had not drawn any conclusions with respect to the compensatory financing facility, Mr. Malhotra went on. The staff had considered a number of alternatives and had tried to provide some indication of the level of use that might be made under the special facilities, based on various assumptions. The Executive Board could not come to any conclusion at the present meeting. However, he had had the opportunity to look at the two staff papers scheduled for discussion at the forthcoming meeting on access to the Fund's resources, and he was concerned with their general thrust.

First, the inadequacy of the Fund's liquidity position appeared to have been the controlling factor when considering access to the Fund's resources, Mr. Malhotra observed. Given the difficult global situation, it was of the upmost importance that an institution like the International Monetary Fund should be primarily concerned with finding solutions to the problems of its members. For that purpose, it was important that the staff should address more comprehensively and in greater detail the question of how adequate resources could be marshalled in order to meet those needs. Like Mr. Finaish, he was not prepared to accept the restraint on the Fund's liquidity position that had been assumed in the staff papers. Although the amount of the quota increase and the amount of resources available under the General Arrangements to Borrow was known, there were other issues that needed to be addressed in order to determine whether the Fund had adequate resources to meet the requirements of its members.

The staff papers seemed to suggest that there should be a relative shift of resources away from the special facilities toward the more conditional facilities, Mr. Malhotra continued. The majority of Fund resources were being committed under conditional facilities and the number of member countries currently under Fund programs--either stand-by arrangements or extended arrangements--had increased considerably. Adjustment under Fund programs was therefore already taking place in a large number of countries. He could not understand the need to place still greater emphasis on conditional facilities to the detriment of special facilities; it was not the appropriate time to make such a change.

Over the previous 22 years, Mr. Malhotra stated, the compensatory financing facility had evolved in a way that made it more responsive to problems faced by developing countries, in particular to commodity exporters whose balance of payments problems were generally reversible and beyond the control of the authorities and which had fulfilled the requirement of cooperation with the Fund. He was concerned that some Directors considered that conditionality--even in the lower tranche--should be increased.

If the Board decided to make the special facilities more conditional, the question of whether to maintain or decrease the relative importance of those facilities in relation to all Fund facilities would be irrelevant, Mr. Malhotra considered. Some Directors had even discussed increasing conditionality with respect to drawings of less than 50 percent of quota under the special facilities. Furthermore, it appeared that a number of Directors favored the introduction of a condition for drawings in the upper tranche requiring a pre-existing or simultaneous arrangement with the Fund. The staff paper had indicated that in most cases, countries making a drawing in the upper tranche of the special facilities had already entered into an adjustment program with the Fund or were simultaneously arranging such a program.

There were two reasons why member countries were entering or had already entered into adjustment programs under one of the more conditional Fund arrangements when making a request for compensatory financing, Mr. Malhotra explained. First, many countries were experiencing difficulties that were related not only to an export shortfall but also to other factors; the authorities of those countries deserved to be congratulated for recognizing that their economic problems stemmed from a variety of factors. Second, some authorities, in discussions with Fund staff, had found that it was impossible for them to make a drawing in the upper credit tranche unless they entered into an adjustment program. Merely because a number of countries were entering, or had entered, into ordinary Fund arrangements at the same time as making a drawing in the upper credit tranche of the compensatory financing facility, did not mean that the Fund should make such a situation a precondition.

As Mr. Prowse had stated, the timeliness of financial support--which was the essence of the compensatory financing facility--should be considered when deciding on the degree of conditionality to be attached to the facility, Mr. Malhotra said. If the Fund were to constrain access under the compensatory financing facility or to make it more conditional, there would inevitably be delays in providing assistance. Furthermore, it would be detrimental to the Fund's image if the changes for the better in the compensatory financing facility were reversed at a time when the terms of trade had been deteriorating in a number of countries and when the policies followed in developed countries were having an adverse impact on the balance of payments position in the developing countries.

A number of Directors had considered that, given the higher quotas under the Eighth Review there was justification for reducing access limits under the special facilities in terms of multiples of quotas, Mr. Malhotra commented. However, the quota increases of those countries using the special facilities had been well below the average quota increase, and they would therefore be affected most severely by such a reduction. Furthermore, maintaining absolute access in nominal terms was not justified. The Fund staff generally stressed to authorities the importance of controlling inflation because of the adverse impact that inflation could have on an economy. The Fund therefore, could not overlook the impact of inflation on the value of its own resources; there was no justification for reducing access in absolute terms on either theoretical or practical grounds. In conclusion, he was seriously concerned about the emphasis in the staff paper away from special facilities.

Mr. Robalino stated that he supported the staff appraisal with respect to the cereal decision. The staff did not foresee any problems in implementing the cereal decision, since world supplies and prices of cereals had been favorable to cereal importers.

On the issue of overcompensation and undercompensation, Mr. Robalino said, the present arrangement provided timely compensation and was particularly useful for those countries experiencing long delays in compiling statistical data. The staff had indicated concern about overcompensation, which he noted was equivalent to only 5 percent of total drawings. Of the 16 countries that had been overcompensated, only 5 had had problems completing their repurchase. Member countries and the staff should be commended for their outstanding record.

With respect to the buffer stock financing facility, he supported the maintenance of the access limit of 50 percent of quota, Mr. Robalino went on. The staff suggested a limit of 75 percent for non-oil less developed countries under the compensatory financing facility. Under that limit, the average ratio of actual compensatory financing would be equal to the ratio existing in 1981 and 1982. Under a 75 percent access limit, 48 of the 120 members receiving below-average increases in quotas under the Eighth Review would experience a reduction in absolute access to the facility, a result unacceptable to his authorities.

If the present 100 percent limit were maintained, total projected drawings would be SDR 8.5 billion for the period 1984-88, as compared with SDR 7.3 billion if the 75 percent limit was adopted, Mr. Robalino observed. A difference of SDR 1.2 billion over five years did not seem to be large. From footnote 2 on page 14 of SM/83/131, it was clear that the proportion of shortfalls that had not been compensated because of the existence of quota limits had been declining over the years. However, in 1982 the amount of drawings that could have been made if there were no access limits would still represent 37 percent of total shortfalls. Present quota limits were therefore strict enough, and, given the difficult world economic situation, there was no need for increased conditionality. The staff had recognized a clear need for oil exporting countries to make drawings under the compensatory financing facility. The present limit of 100 percent of quota should also apply to drawings by oil exporting countries under the compensatory financing facility.

Mr. Wang commented that the compensatory financing facility had been established in order to reduce fluctuations in the export earnings of developing countries, and to assist members--particularly exporters of primary products--in countering payments difficulties caused by temporary export shortfalls. It was also a special facility characterized by low conditionality and simplified procedures for drawing, which allowed for timely access to resources.

The compensatory financing facility had become an important means of balance of payments assistance, particularly after 1975, when it had been liberalized, Mr. Wang went on. Annual drawings under the facility during the previous seven years had averaged SDR 1.22 billion, which was only 15 percent less than the aggregate amount of all drawings--of SDR 1.43 billion--made during the entire 13 preceding years. Drawings under the compensatory financing facility in 1982 had accounted for 35 percent of the total credit extended by the Fund in that year. On April 30, 1983, outstanding purchases under the facility had amounted to SDR 6.8 billion by 67 members, representing 29 percent of total purchases outstanding. It was evident that the compensatory financing facility had become increasingly important in providing assistance to an increasing number of countries.

The external economic environment of the developing countries--especially those exporting primary products--had deteriorated, Mr. Wang continued, and most had suffered from large-scale losses in their terms of trade. Their trade balance had seriously deteriorated as a result of exogenous factors, including intensified protectionism by the developed countries. Many of those developing countries had encountered payments difficulties arising from export shortfalls, and no improvement was in sight. Inevitably, there would be increased recourse to Fund resources under the compensatory financing facility, in terms of both the number of countries making purchases and the absolute amount of the drawings. In those circumstances, the role of the compensatory financing facility should be increased rather than reduced. The quota limits of access to the facility should be maintained at 100 percent, and conditionality should not be increased.

Finally, Mr. Wang remarked, he shared the staff appraisal and recommendations with respect to the cereal decision and to overcompensation and undercompensation.

Mr. Joyce said that he agreed with the staff analysis that the cereal decision had achieved its purpose, even though drawings had been somewhat limited over the previous two years. From the analysis in Annex II, there were grounds for hope that demand for drawings under the cereal decision would not increase in the following two years, in view of the substantial improvement in the world's food situation. Nevertheless, such an improvement might be a temporary phenomenon, and he therefore agreed that the decision should be reviewed again on or before May 13, 1985.

He supported the early drawing provisions of the compensatory financing facility, Mr. Joyce indicated. It was desirable that overcompensation should be eliminated or reduced as far as possible, but the level of overcompensation since December 1975 had not been large, and there was evidence that the situation had been improving, presumably because of the introduction of new procedures as well as further refining of estimation techniques. He agreed that it was vital that members make prompt repurchases in cases of overcompensation and that the Board be kept informed by the staff of any delays in completing such repurchases.

He supported the continuation of the buffer stock financing facility in its present form, Mr. Joyce said, even though it was the staff view that a reduction in access limits from 50 percent to 40 percent of quota would probably not have a constraining effect. He also agreed that the decision regarding that facility should be reviewed if and when the UNCTAD Common Fund came into effect.

With respect to the broader questions of quota limits under the various facilities and the interpretation of the existing provisions regarding conditionality, Mr. Joyce went on, the staff had examined first the core countries, and then the likely impact of potential drawings by the oil exporting countries. He agreed with those Directors who had stated that it was premature to try to reach a decision at the present meeting on an appropriate ceiling for drawings under the compensatory financing facility after the quota increase. However, it was important to ensure, first, that potential users of the facility would continue to have adequate and timely access and, second, that demands for resources under the compensatory financing facility would not be excessive, particularly in view of the relatively low degree of conditionality attached to the special facilities. The Executive Board might wish to consider clarifying or modifying further the test of cooperation with the Fund, particularly if access were maintained in absolute terms or increased above existing levels.

The compensatory financing facility clearly provided a useful service to many members, including many of the countries in his constituency, Mr. Joyce indicated. Nonetheless, in view of the difficult economic conditions currently being faced, it was increasingly important that Fund resources be centered on those facilities that best promoted adjustment. There was a risk that, in certain circumstances, drawings under the compensatory financing facility could be used to delay implementation of adjustment measures, and clearly that risk had to be taken into account when determining the future evolution of the facility. The Executive Board might wish to consider alternative formulations of the conditionality provisions, including possibly the adoption of a trigger level beyond which a country had to show that it had been cooperating with the Fund. He would be prepared to exchange ideas with others on that subject.

He supported the practice of holding Article IV consultations with the member at, or close to, the time of a request for a drawing on the compensatory financing facility below 50 percent of quota, Mr. Joyce remarked. However, he urged that the holding of those consultations should not be allowed to delay unduly a member's access to resources. The fact that Article IV consultations would be occurring on a more regular and more frequent basis should help in that respect.

He shared the view that requests for a drawing under the compensatory financing facility, even below 50 percent of quota, should be looked at with particular care in cases where a country's balance of payments problems might be due to more basic difficulties and where policy adjustments might be needed to deal with the underlying causes of those problems, Mr. Joyce considered. A country should indicate its intention to correct factors that had been a major cause of its balance of payments problems or, at a minimum, be willing to cooperate in finding appropriate solutions for its difficulties. There should not be any requirement that a country enter into a stand-by or extended arrangement with the Fund in order to have access to resources in the upper tranche under the compensatory financing facility. However, given the world economic conditions, it was not surprising that in recent months a number of countries had negotiated adjustment programs with the Fund at the same time as making a request for a drawing under the compensatory financing facility.

The staff analysis suggested that maintenance of the current drawing ceiling under the compensatory financing facility following the Eighth Quota Review could result in an excessive increase in the demand for Fund resources, Mr. Joyce observed. The staff projections indicated that some reduction in the present access limit might be required. While he did not favor a return to annual ceilings on disbursements under the compensatory financing facility, there might be some value in having a new overall ceiling covering drawings under all of the facilities with low conditionality, namely, the compensatory financing facility, the cereal decision, and the buffer stock financing facility. Finally, if the Executive Board decided to reduce access--in percentage terms--to the low-conditionality facilities in order to economize on Fund resources, the decision should be reviewed at a later date if the enlarged access program were subsequently terminated or reduced.

Mr. Sangare considered that the staff paper would have been more complete if examined together with the two papers on policy on access to the Fund's resources, which were scheduled for discussion the following week. He fully supported the staff recommendation to maintain the compensatory financing facility and the cereal decision. The recent relative improvement in the world food situation could not be taken as an indication that food shortages were over; experience demonstrated clearly the temporary nature of that improvement. In fact, the FAO had recently identified 28 countries--20 of them in Africa--that were experiencing abnormal food shortages. The need for a cereal decision was greater than ever owing to the successive years of drought, experienced by many countries, the declining ability of countries to import food because of mounting external payments problems, and the tight international financial situation.

The staff had noted that in a considerable number of countries cereal imports constituted about one fifth of total export earnings, Mr. Sangare continued. That ratio had grown by 20 percent during the 1970s and was likely to continue growing at the same rate. The outlook for cereal-importing countries was not favorable owing both to higher world prices and to production shortfalls in a large number of food deficit countries. He therefore supported the maintenance of the cereal decision without any reduction in the present quota limits. In fact, the establishment of a separate facility would perhaps be a more logical solution.

Commenting on the early drawing provision, Mr. Sangare stated that he shared the staff view that it had provided timely compensation and had allowed countries with data problems to have access to resources under the compensatory financing facility. The staff was satisfied with the operation of the early drawing procedure, and he supported the maintenance of that provision.

In the case of overcompensation, it was essential that legal commitments should be fulfilled by members, Mr. Sangare considered. Nevertheless, the staff should recognize that failure by the authorities to repurchase promptly might be due to their inability to do so--as a result of balance of payments or foreign exchange problems--rather than their unwillingness to repurchase.

The staff had not made any specific proposals with respect to the quota limits under the compensatory and buffer stock financing facilities, Mr. Sangare observed. The economies of developing countries--because of the structure of their exports, the instability of their export revenues, and their relatively high export to GDP ratio--were vulnerable to the vagaries of international commodity markets. The special facilities had been established in order to help those developing countries to stabilize their economies. The modification and liberalization of the compensatory financing facility since 1975 had been in the right direction and had introduced some improvements necessary to meet the objectives of that facility.

The staff had projected that the present quota limits would not be sufficient to maintain the ratio of drawings to shortfalls that had prevailed during the previous seven years, Mr. Sangare commented, which implied that the present quota limit of 100 percent would have to be increased so that the core countries could maintain their level of access. Such an increase would be quite consistent with previous Fund policies. Indeed, the G-77, in its resolution at the Fifth Ministerial Meeting held in April 1982, had called on the Fund to "expand substantially and liberalize the compensatory financing facility so as to promote full, prompt, and automatic coverage of shortfalls without imposing conditionality."

At a time when commodity markets were weakening as a result of developments in the industrial world, it was quite logical that resources under the compensatory financing facility should be used to ameliorate the plight of the primary producers, Mr. Sangare stated. As Mr. Finaish had indicated, it was important to determine an appropriate level of access based on the balance of payments needs of countries rather than on the amount of resources available to the Fund. In conclusion, his authorities could not support any proposals to reduce quota limits under the compensatory financing facility or to impose increased conditionality. Such restrictions would lead to the erosion of the compensatory financing facility at a time when considerable expansion and flexibility was most needed.

Mr. Hirao indicated his agreement with the staff appraisal regarding the cereal decision. Drawings under the cereal decision had been limited, but in those cases where it had been used, the facility had achieved its purposes.

With respect to the experience of overcompensation and undercompensation, he was also in broad agreement with the staff appraisal, Mr. Hirao stated. He hoped that the delays in completing the repurchases of overcompensated amounts would be avoided in the future.

The potential availability of Fund resources under the compensatory financing facility had expanded significantly as a result of four general quota increases and three increases in the quota limits, Mr. Hirao noted. Annual average drawings over the previous five years were almost 17 times larger than those of the initial five years. With increasing liberalization of the facility, the share of drawings under the compensatory financing facility as a percent of total outstanding use of Fund credit had increased, and by the end of 1982 it had represented 28 percent of total outstanding credit. More importantly, the proportion of outstanding drawings under the compensatory financing facility to the total use of Fund resources had increased significantly to about 44 percent in May 1983. A substantial percentage of ordinary resources was being used to finance purchases under the facility.

The rapid increase in use of the compensatory financing facility had been due to a variety of factors, Mr. Hirao remarked, including the business cycle and the variation in commodity prices. However, there were perhaps two additional factors explaining the increase in use. First, requests for drawings under the facility did not necessarily have to be accompanied by adjustment programs. Second, drawings under the compensatory financing facility had been financed wholly by the Fund's ordinary resources.

It could be argued that in assisting members in their balance of payments difficulties, the Fund should direct its ordinary resources on a priority basis to those countries that adopted appropriate adjustment programs, Mr. Hirao said. According to the staff, the level of the Fund's usable ordinary resources would not be adequate in 1986 despite the quota increases under the Eighth Review. Further discussion would be necessary both to explore the ways in which the use of the compensatory financing facility could be more closely associated with an adjustment program and to determine the quota limits for drawing on the facility in order to achieve a more harmonious allocation of ordinary resources between special facilities and the more conditional facilities.

In the current difficult circumstances, only a few countries could expect an automatic export recovery without taking appropriate adjustment measures, Mr. Hirao considered. Most countries experiencing export shortfalls would have to take adjustment measures to solve their balance of payments difficulties, even though the shortfalls were due to external factors largely beyond their control. The Fund should assist members in identifying the causes of their difficulties and should encourage them to take the necessary adjustment measures. It would be practical, therefore, to associate adjustment programs more closely with drawings under the compensatory financing facility.

Because of the rapidly growing demand for limited Fund resources, it would be necessary to maintain an appropriate balance between the special and the more conditional facilities, Mr. Hirao explained. In the light of those considerations, the need to enlarge the access limits of the compensatory financing facility in absolute terms was not justified. Given the average rate of increase in members' quotas of 47.5 percent, the access limit under the facility could perhaps be reduced to a level that maintained access in absolute terms, about 70 percent of quota. For those members whose quota increases were less than average, the present access limit in absolute terms could be maintained if a grandfather clause were introduced.

With respect to conditionality, further study was needed, Mr. Hirao considered. A stricter test of cooperation for drawings in the upper tranche was desirable. Further discussion was clearly necessary to determine quota limits on access to the compensatory financing facility. On another point, the quota limit on access to the buffer stock financing facility could be reduced to 40 percent without constraining access to the facility.

Mr. Salehkhou stated that although the staff had not proposed any important changes, it had recorded the experience with respect to the compensatory financing facility. The implementation of the cereal decision had been, in general, satisfactory and efficient in bringing about timely assistance to many developing countries. The use of estimated data for cereal imports in the excess year for a maximum period of 12 months had been particularly helpful and had not resulted in any major difficulties. He supported the staff recommendation that the facility should be continued.

He fully agreed with the staff view that the early drawing procedure should be maintained, Mr. Salehkhou went on; it had been useful in increasing access to the compensatory financing facility and in providing timely assistance.

Since the staff had made no specific recommendations with regard to access limits under the special facilities, he would make only a few preliminary remarks, Mr. Salehkhou commented. It was evident from the tone of the paper that the staff considered a reduction of quota limits under the compensatory financing facility inevitable. Such a reduction would be unreasonable as access would be reduced in absolute amounts for a large number of developing countries that were potential users of the facility. As the balance of payments position was still weak in many countries, the policies of the industrial countries continued to have considerable adverse effects on the less developed economies. As the recent quota increase was insufficient, maintenance of the present quota limit under the compensatory financing facility was the least that could be contemplated.

The authorities of many developing countries were concerned that access to the compensatory financing facility would be reduced even though use of the facility had already been made more conditional, Mr. Salehkhou explained. In that connection, he recalled the comments made by Mr. Polak and other Directors with respect to the conditionality on drawings below 50 percent of quota in the compensatory financing facility. Although he agreed that fair guidelines needed to be attached to the use of any Fund facility, he did not believe that conditions attached to drawings below 50 percent of quota in the compensatory financing facility should be tight if such drawings were to provide timely assistance to countries with temporary difficulties arising from factors largely beyond the control of the authorities. Furthermore, requests for compensatory financing were, in general, of relatively small amounts and should therefore be considered in a flexible manner.

A number of Directors had stated that the present access limits exerted an unsustainable strain on Fund liquidity, and had suggested that those limits should be reduced, Mr. Salehkhou observed. However, a few months previously Directors had stated that there would be no need for a large increase in quotas and that other financing sources should be explored. The needs of Fund members should be the principal factor in determining access limits. There seemed likely to be little improvement in the short term in the external position of those members most likely to use Fund resources. In order to preserve the Fund's important role in the international financial community, it would be necessary to solve its liquidity problem.

Although the Executive Board had decided earlier to consider requests by oil producing countries on a case-by-case basis, he was suprised that a few Directors had made discriminatory comments regarding oil producing economies, Mr. Salehkhou stated.

Mr. Wicks indicated his agreement with the staff that, with the exception of the need to look at the overall access limits, the cereal facility was working well. With respect to overcompensation and under-compensation for early drawings, he endorsed the staff view and supported its recommendation that the policy of permitting the use of estimated data in the calculation of the export shortfall should be maintained. He welcomed steps taken by the management recently to remind countries using the early drawing procedure that prompt repurchase would be necessary in the event of overcompensation. The staff should bring to the attention of the Board any unusual difficulties in implementing the early drawing procedure.

As to the question of access limits under the compensatory financing facility, a number of his colleagues had been rather coy in stating their positions, Mr. Wicks noted. He would like to be as definite as possible. First, there would have to be some reduction in the quota limits under the compensatory financing facility in view of the 47.5 percent increase in quotas agreed in 1983, for the reasons described by Mr. Hirao. An automatic expansion of access to the compensatory financing facility in proportion to the quota increase would result in an undesirable shift in the overall balance between high-conditionality and low-conditionality assistance available from the Fund, which would be inappropriate at present in view of the prospective strains on Fund liquidity. It was impossible to consider the questions of access limits and of Fund liquidity as two separate subjects.

Over the previous two years, he had discerned a tendency by the staff to test requests for a drawing under the compensatory financing facility more rigorously, Mr. Wicks said. He supported that action. In practice, most drawings over 50 percent of quota in the compensatory financing facility took place in conjunction with Fund adjustment programs. Codifying that procedure would be no more than building on the present widespread practice. Drawings below 50 percent should be conditional on the member's cooperating with the Fund "to find, where required, appropriate solutions for its balance of payments difficulties," as mentioned in paragraph 2(b) of Decision No. 6224-(79/135). It was important that the member had been cooperating with the Fund and that the member would continue to cooperate. Experience suggested there was a case for requiring that drawings in the upper tranche should in general be conditional on the member's implementing a Fund program. Such an approach was entirely consistent with the current state of the global economy. Structural maladjustments were widespread, and the compensatory financing facility should be used to help achieve the required deep-seated adjustment efforts.

With respect to the precise limits on access for the compensatory financing facility and the cereal decision, the quota limit should be about 75 percent for each or perhaps a little higher, with an overall limit on combined access of 100 percent of new quotas, Mr. Wicks indicated. Such a limit would come close to maintaining nominal access for most members and would permit substantially increased access for certain members. A limit of about 75 percent would provide the correct balance between relatively slack and tight conditionality; and since the Fund's financial constraints bore more heavily on borrowed than on ordinary resources, it was appropriate to use a good proportion of the Fund's ordinary resources for the permanent facilities with lower conditionality.

The question of combined access under the compensatory financing facility and the cereal decision was complex, Mr. Wicks commented. It was possible for primary producers to be hit simultaneously both by low commodity prices for exports and by abnormally high prices for cereal imports; or a natural disaster could turn a net exporter of cereal into a net importer of cereal. For that reason, he suggested a combined access limit that was greater than the limits on either individual facility.

There were many issues to be considered, and it was certain that the present discussion would not be conclusive, Mr. Wicks remarked. He hoped that at the time of the general review of access limits the Executive Board could consider the technical question of the difficulty of estimating oil export shortfalls using traditional methods of calculation.

Miss Le Lorier commented that experience with the cereal facility was limited; only six requests had been made over the previous two years, due in part to a more favorable than expected balance between supply of and demand for cereals. At the same time, she noted that the number of countries facing a critical food situation had remained fairly high throughout the period. Some of those countries had not requested Fund resources under the cereal decision, perhaps because of their reliance on concessional cereal imports. However, she would appreciate staff comments on the point.

The lack of demand for resources under the cereal decision--for whatever reason--should alleviate some of the fears expressed at the time of the Executive Board's discussion of the 1981 decision about the risks of a flood of demand for Fund resources, Miss Le Lorier remarked. Use under the cereal decision had been consistent with its original purpose, and there had been no major problems of implementation. She therefore endorsed the decision.

Commenting on the experience with overcompensation and undercompensation, Miss Le Lorier recalled that the Executive Board had had the opportunity to discuss that issue extensively in November 1982. Experience since that time had not shown any problems with respect to the early drawing procedure, and she supported the staff appraisal.

She welcomed the staff projections with respect to quota limits under the compensatory financing facility, Miss Le Lorier remarked. Although the utilization ratio of the compensatory financing facility had fluctuated extensively throughout recent years, it had at no time reached a level that could be considered a significant use of total potential access. In fact, excluding 1976 and 1982, total utilization had been, at most, equal to 10 percent of potential access, and for most of the time had been well below that amount.

A drastic reduction in access limits would not yield any great savings of Fund resources, Miss Le Lorier went on. Table 7 indicated that at the present limit of 100 percent of quota, outstanding drawings would reach a maximum of SDR 9.34 billion. A reduction to 75 percent of quota would still leave total maximum outstanding drawings at SDR 8.34 billion--a saving of only SDR 1 billion--by 1985. A saving of little more than SDR 2 billion would be achieved by reducing the access limit from 100 percent to 75 percent of quota for total combined outstanding drawings, including the cereal decision and drawings by oil exporters. She agreed with Mr. Prowse that those figures were well within the margin of uncertainty.

The compensatory financing facility and the buffer stock financing facility should be examined only within the context of a broader discussion on enlarged access under the Eighth General Review of Quotas, Miss Le Lorier considered. The prime objective of the Eighth Review was to enable the Fund to meet the needs of its members. A reduction in access limits--which would only provide modest savings unless the reduction was drastic--did not constitute an adequate response by the Fund to the difficult circumstances facing the less developed countries. At a time when the Fund was having to play a more active role, it was essential that it should provide adequate resources rather than reducing quota limits.

She had listened with great interest to the comments by Mr. Polak on the conditionality associated with the compensatory financing facility, Miss Le Lorier said. Balance of payments difficulties could not be traced only to export shortfalls. Could the staff indicate the proportion of drawings under the compensatory financing facility that had been associated with an upper credit tranche arrangement? She would not be surprised if that proportion had increased over recent years due to the difficult world economic situation. On the whole, she agreed with other Directors that the compensatory financing facility was intended to meet the special balance of payments problems resulting from an export shortfall. Finally, with respect to the buffer stock financing facility, she shared the view expressed by Mr. Malhotra that the Fund should continue to contribute to efforts made to stabilize the price of primary commodities.

Mr. Feito indicated his support for the staff proposal and recommendations regarding the cereal decision, and overcompensation and undercompensation. Experience with the cereal decision had been rather limited, but there had been no major problems of implementation. The cereal decision should be maintained and should be reviewed again in two years, before its expiration in May 1985.

The early drawing procedure had provided timely compensation, particularly for the smaller developing countries, and there had been only a few cases in which repurchases had been delayed, Mr. Feito observed. There was no need to modify that procedure except, perhaps, to allow further drawings in the case of undercompensation.

The staff had proposed no decisions on the quota limits under the compensatory financing facility, Mr. Feito observed. The compensatory financing facility had been one of the most successful facilities of the Fund and had brought significant goodwill for the institution. Throughout the years, the Executive Board had shown considerable flexibility in reviewing the facility and adapting it to changing circumstances. At various times, there had been proposals to further liberalize or improve the facility, and he was somewhat concerned that during 1982 there had instead been a tendency to restrict access to the compensatory financing facility, to limit the resources available under it, and to make it more conditional. During 1982, an increasing number of countries had made drawings only if under 50 percent of quota, indicating perhaps that conditionality associated with the facility had increased. It was the firm view of the authorities in his constituency that conditionality should be relaxed. He did not support any increase in conditionality for drawings above 50 percent of quota.

On many occasions his chair had observed that Fund quotas had become inadequate and had lagged significantly behind other important variables to which they should be related, Mr. Feito continued. Access to resources under the compensatory financing facility should be maintained at the same relative levels. Figures from the staff paper indicated that even with a quota limit of 100 percent, the ratio of drawings to shortfalls would be well below the ratio that had prevailed in 1976 and significantly below the ratio for the period 1980-82. What would be the financial consequences of maintaining the present level of access? Liquidity considerations should not unnecessarily limit the Fund from fulfilling its proper role. Perhaps the Fund's liquidity position was being maintained at an excessively low level in relation to members' needs. He would refer to that issue in greater detail at the Executive Board's forthcoming discussion on access to Fund resources. Finally, special facilities were for special purposes and should maintain their individual features; it was therefore not appropriate to have an overall access limit covering all Fund resources.

Mr. Donoso stated that, although operations under the cereal decision had been rather limited, the facility had served its purpose well and had not presented any problems of implementation. He shared the staff view that the facility should be maintained. Furthermore, he agreed with the staff recommendation with respect to overcompensation and undercompensation. In addition, the early drawing provision of the compensatory financing facility should be maintained in its present form.

The staff projections of the level of outstanding drawings under different quota limits for the compensatory financing facility were useful, Mr. Donoso said, although there had been a high degree of uncertainty. It was not appropriate to discuss specific limits at the present time, since they should be determined in light of future discussion on total access to Fund facilities and resource availability. Nevertheless, given a 47.45 percent average increase in quotas for member countries under the Eighth Review, the reduction in quota limits from 100 percent of old quotas to 67.8 percent of the new quotas would maintain access to the compensatory financing facility in absolute terms. In practice, however, for the 72 countries with outstanding drawings under the compensatory financing facility, the average increase in quotas was only 37.3 percent after the Eighth Review. Therefore, in fact, the reduction in quota limits to 67.8 percent of new quota implied a reduction in absolute terms for the countries using the facility. Usable resources of the Fund seemed to have increased by more than 47.5 percent while potential demand for resources had increased by only 37 percent; however, that relationship did not imply that access limits should be mechanically increased so as to close the gap. There were a variety of factors that should be considered before arriving at new access limits.

Finally, his chair attached considerable importance to maintaining the relative importance of the compensatory financing facility among the Fund facilities, Mr. Donoso indicated. Furthermore, the low conditionality of the special facilities should be maintained in order to help solve temporary balance of payments problems arising from exogenous factors.

Mr. Coene stated that he could broadly agree with the staff assessment of the experience with respect to the cereal facility and with overcompensation and undercompensation. In addition, the buffer stock financing facility had proved useful and should be maintained in its present form.

It was difficult to interpret the experience with the compensatory financing facility since the facility had undergone several revisions and the data indicated some volatility in drawings, Mr. Coene considered. The rate of compensation over the previous seven or eight years clearly indicated that the present features of the compensatory financing facility adequately met the needs of countries experiencing loss of export earnings due to temporary export shortfalls. Furthermore, the staff projections indicated that if the role of the compensatory financing facility was to be maintained, there was limited scope for downward adjustment of access limits. The final decision on access limits under the compensatory financing facility should be taken in conjunction with the decision on access limits to the more conditional facilities.

Commenting on the requirement of cooperation, Mr. Coene said that the Fund must manage its resources in a prudent way. When providing resources under the compensatory financing facility, it must be satisfied that countries would be able to repurchase within the prescribed periods. The staff, therefore, had to make a fair assessment of the temporary character of the export shortfall, and insist on adequate cooperation between the member country and the Fund. Like others, he noted the divergence between the staff's views on the requirement of cooperation as expressed in the paper on enlarged access and the Executive Board's decision of April 1982, in particular for purchases amounting to less than 50 percent of quota. In that context, he broadly endorsed the comments by Mr. Polak, Mr. Prowse, and Mr. Joyce. Further discussion on the issue of cooperation was necessary.

Mr. Nimatallah remarked that he would not contribute to the discussion because of the discriminatory comments made by Mr. Laske and Mr. Erb concerning possible requests from oil exporting countries for drawings under the compensatory financing facility. He would speak after his authorities had had a chance to consider those comments.

Mr. Prowse noted that one aspect of the statistics in the staff paper was important in determining whether drawings under the compensatory financing facility could, to some extent, undermine the adjustment measures that should be taken by countries with balance of of payments difficulties. From Table 6 on page 17 of SM/83/131, it was evident that with an 85 percent quota limit, core drawings under the facility would represent only 11.5 percent of total shortfalls in 1985. That figure was not a large proportion of the total shortfalls and did not seem to imply that a country needing to adjust would not do so because of receiving resources available under the facility. For the period 1976-82, core drawings had been 15.7 percent of total shortfalls; for the period 1980-82, core drawings had been 27.5 percent of total shortfalls. If access were limited to 85 percent, the proportion of shortfalls being financed would be reduced to less than one third of the proportion financed over the previous two years. Evidently the percentage of shortfalls being financed through the compensatory financing facility was so small that it would not affect the need for adjustment. Furthermore, the reduction in quota limits would result in a very major reduction in the proportion of shortfalls that could be financed under the facility as compared with the proportion over the previous seven years.

The Economic Counsellor explained that although the staff had provided information on the implied demand for Fund resources under each quota limit, it had not dealt with the issue in great detail. From Table 10 on page 25 of the staff report it was possible to calculate the maximum net increase in use of resources from 1983 to 1985.

While the staff had not suggested precise access limits, it had drawn attention to core drawings as a percent of total shortfalls over the history of the Fund, the Economic Counsellor explained. The staff had compared the degree to which core drawings would service shortfalls under various quota limits, but it had not drawn any particular conclusions.

Use of the compensatory financing facility by oil producers was projected to be higher--in relation to quota--than use by other countries because oil producers did not have any outstanding drawings under the compensatory financing facility, the Economic Counsellor explained.

The assumed growth rate in export earnings was in line with the latest medium-term forecast, the Economic Counsellor remarked. However, the World Economic Outlook did not provide any projections beyond 1984.

Responding to a question from Mr. Erb, the Economic Counsellor confirmed that at the time of the formal review of access limits under the cereal decision the Executive Board would not need to have an extensive discussion since most of the points had been discussed at the present meeting.

Explaining the time lag in providing data with respect to the early drawing procedure, the Economic Counsellor said that although the Fund staff had provided a considerable amount of help to some countries making a request for a drawing under the compensatory financing facility, the staff had not provided the same amount of help in compiling actual trade data at a later date. It was exploring the possibility of providing more help in the compilation of trade statistics in order to reduce the time lag.

The staff had not considered establishing a seperate cereal facility because operations under the existing cereal decision were limited, the Economic Counsellor explained. Furthermore, there had been no pressure from Executive Directors to establish such a facility.

Some countries with severe cereal problems had not requested drawings under the cereal decision for three reasons, the Economic Counsellor considered. First, some of those countries had received concessional aid to help solve the food problem. Second, the food shortages--in Africa particularly--tended to be chronic, and the cereal decision provided financing only for an excess of cereal imports. Third, cereal prices had been lower than usual, and those countries might have been able to finance imports without aid.

Statistics available for the period from January 1976 to October 1981 indicated that of a total of 67 drawings over 50 percent of quota under the compensatory financing facility, 47 had been associated with other Fund arrangements, the Economic Counsellor observed. Between November 1981 and June 1982, 21 of the 22 drawings in the upper tranche of the compensatory financing facility had been associated with credit tranche arrangements.

Taking up the issue of cooperation with the Fund, the Economic Counsellor remarked that the fact that the question of cooperation under the compensatory financing facility came up in many Executive Board discussions was adequate proof that the issue was a complex one. It was necessary to try to marry the essential features of the compensatory financing facility with the characteristics of the Fund itself.

The compensatory financing facility was designed to meet a particular balance of payments problem, deriving from circumstances that were not only beyond the authorities' control but were inherently reversible, the Economic Counsellor went on. On the other hand, countries, when joining the Fund, undertook to maintain their balance of payments in a viable position, and to take action to restore a balance of payments equilibrium if necessary.

Through its surveillance practice, the Fund was in a position to classify any member of the Fund in one of three categories with respect to its balance of payments position, the Economic Counsellor continued. A country in category A was one judged by the Fund and by the member itself as maintaining a sustainable balance of payments position; no change in policy was necessary. A country in category B was one whose balance of payments position was not in a sustainable position, but which had in place policies that were adequate to restore sustainability to the payments position; such countries might or might not be using Fund resources. A country in category C was one whose balance of payments position was not sustainable and whose policies were judged to be inadequate to restore sustainability.

Any of those countries might suffer damage to its balance of payments from causes that were beyond the authorities' control and that were inherently reversible, the Economic Counsellor considered. Such a country could make a request for use of Fund resources under the compensatory financing facility. What should the attitude of the Fund be in those circumstances? It would seem logical that a country in category A should have access to resources to the full extent allowed under the compensatory financing facility. A category B country, in his view, should have access to resources under the facility, although it was debatable whether such access should be phased over a certain period.

The real question arose when a category C country made a request for use of resources under the compensatory financing facility, the Economic Counsellor indicated. It was a matter for discussion whether such a country should have access to the resources before undertaking policies--with or without a Fund program--to restore its balance of payments position. Perhaps, rather than considering the issue of cooperation with respect to drawings below and above 50 percent of quota, the Fund might do better to consider phasing disbursement of resources on condition that appropriate policies were implemented. Nevertheless, the issue was a difficult one and was not a matter on which there was universal agreement; further discussion by the Executive Board might be useful.

Responding to a question by Mr. Joyce on the legal basis of phasing the disbursement of resources, the Economic Counsellor stated that the idea of phasing was not new to the compensatory financing facility.

Mr. Polak remarked that there was also an agreed position worked out over the previous twenty years by the Fund based not on an ex ante classification of countries into three categories, but on a judgment made by the Fund at the time that the country made a request for use of resources under the compensatory financing facility. The staff would consider the willingness on the part of the country to participate in consultations with the Fund and to discuss in good faith the appropriateness of its policies and whether changes would be necessary.

The Chairman, summarizing the discussion, remarked that, with respect to the cereal decision, Executive Directors broadly agreed with the staff appraisal. The cereal decision of 1981 had worked smoothly, and although a few Directors had voiced reservations concerning the principle of the facility, the Executive Board generally agreed that apart from the matter of quota limits to access, which had to be decided on in the context of broader decisions on access, the cereal decision should be maintained in force and reviewed before its expiration on May 13, 1985.

In commenting on experience with respect to overcompensation and undercompensation, Directors had referred to the extensive discussion of that question in November 1982, the Chairman went on. In the light of that discussion and of the procedural steps taken since, the Board agreed with the staff that the policy on the operation of the early drawing provisions of the compensatory financing facility should be maintained. The recent changes in procedures emphasizing the risk of repurchase in early drawings should be continued. The staff had been asked to assist member countries in compiling their trade statistics in an effort to reduce the time lag between the time of the request for a drawing under the compensatory financing facility and the calculation of the actual shortfall. In addition, the staff had been asked to bring to the attention of the Board cases presenting unusual difficulties, particularly difficulties encountered in compiling trade statistics.

The discussion of quota limits under the compensatory financing facility and buffer stock financing facility was not conclusive, the Chairman indicated. A number of Directors had had only preliminary views on the matter, while others had reserved their position until the forthcoming review of enlarged access policy. Eleven Directors--36 percent of the weighted voting power--had stressed the crucial importance of those facilities at a time when a number of primary producing developing countries were experiencing a dramatic deterioration in the terms of trade as a result of factors beyond their control. Those speakers had favored maintaining the access limits in relative terms, noting that that would still leave drawings, in terms of the percentage of shortfalls for the core countries, at a substantially lower level than in recent years. Furthermore, they had regretted the perceived tendency to apply tighter conditionality to compensatory financing facility drawings both below and above 50 percent of quota. The need to maintain timely access to the compensatory financing facility had been stressed.

Other Directors, without doubting the usefulness of the compensatory financing facility, had noted that the resources at the disposal of the Fund were limited; therefore, the question of access limits under the compensatory financing facility could not be considered separately from the question of access to all Fund facilities, especially the conditional ones, the Chairman remarked. Given the extremely crucial adjustment problems confronting many countries, they had considered it unreasonable to shift limited Fund resources toward special facilities away from conditional facilities. Although views had differed somewhat in detail, and not all Directors in the group had spoken in quantified terms, they had generally proposed a reduction in relative terms so as to maintain access in absolute amounts. A number of Directors had suggested limits of about 65-70 percent for drawings under the compensatory financing facility and of 80-100 percent for combined access under the cereal decision.

Some Directors had considered that a 50 percent limit on access to the buffer stock financing facility was acceptable, the Chairman observed. Others had felt that 40 percent was perhaps more appropriate.

Further discussion of the issue of the conditionality attached to the compensatory financing facility was necessary, the Chairman concluded. The Executive Board would consider that issue at its forthcoming review of the Fund's enlarged access policy.

Mr. Erb recalled that Mr. Nimatallah had suggested that his statement had been discriminatory with respect to oil producers. All that he had said was, first, that his position had been made clear at the time of the Executive Board discussion of the compensatory financing facility in relation to the oil producers. Second, he had remarked that the forecasts in the staff paper were subject to great uncertainties because there was no experience with respect to oil producers. He had also said that there was insufficient experience with respect to cereal producers to be able to make estimates regarding the future use of the facility under the cereal decision.

The staff estimates had been based on a lengthy period of experience with respect to the 120 core countries, Mr. Erb went on. From experience of utilization rates and shortfall data in relation to the trend in exports, the staff had deduced the probable use of Fund resources over the coming years. When projecting use by oil producers, the staff had not been able to use past data since no oil exporters had requested use of resources under the compensatory financing facility. It would be wrong to assume that the staff estimates would be precise. Finally, the Fund should continue to consider requests on a case-by-case basis.

Mr. Laske stated that he had not questioned in any way the concensus that had been reached by the Executive Board at the time of the discussion in June 1983 on requests by oil exporters for drawings under the compensatory financing facility. Requests should be dealt with on a case-by-case basis and he had not made any suggestions that implied discriminatory treatment of oil producers.

The Chairman assured Mr. Nimatallah that the Fund would not be discriminatory in considering requests by oil producers. However, the Fund did not have experience with respect to requests by oil producers. The staff projections had therefore to be based on estimates of future oil prices and demand.

The Executive Board then took the following decision:

1. The Executive Board has conducted a review in accordance with paragraph 17 of Decision No. 6860-(81/81), adopted May 13, 1981, "Compensatory Financing of Fluctuations in the Cost of Cereal Imports," and decides to maintain the Decision unchanged.

2. A further review of the Decision at the time when quota increases under the Eighth General Review of Quotas become effective is not called for, but the Decision shall be reviewed prior to its expiration on May 13, 1985.

Decision No. 7490-(83/105), adopted
July 18, 1983

APPROVED: January 18, 1984

LEO VAN HOUTVEN
Secretary