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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/164

3:00 p.m., November 28, 1983

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	H. G. Schneider
B. de Maulde	X. Blandin
	M. Teijeiro
R. D. Erb	
M. Finaish	T. Alhaimus
	T. Yamashita
J. E. Ismael	Jaafar A.
R. K. Joyce	L. Leonard
A. Kafka	C. Robalino
G. Laske	G. Grosche
G. Lovato	
R. N. Malhotra	
	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	
G. Salehkhou	O. Kabbaj
	E. A. Ajayi, Temporary
M. A. Senior	J. L. Feito
J. Tvedt	
N. Wicks	T. A. Clark
Zhang Z.	Wang E.

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

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Also Present

African Department: O. B. Makalou, Deputy Director; A. C. Woodward. European Department: L. A. Whittome, Counsellor and Director; L. L. Perez. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; M. Allen, H. W. Gerhard, M. Guitian. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman, A. O. Liuksila, S. A. Silard. Middle Eastern Department: Z. Iqbal. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; L. Alexander, L. U. Ecevit, K.-Y. Chu, N. M. Kaibni, E. C. Meldau-Womack, P. R. Menon, E. A. Milne, A. Salehizadeh, H. H. Zee. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, D. V. Pritchett, O. Roncesvalles. Western Hemisphere Department: M. Caiola, D. C. Ross. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, C. J. Batliwalla, J. Delgadillo, S. El-Khouri, K. A. Hansen, L. Ionescu, Y. Okubo, I. R. Panday, P. D. Péroz, M. Z. M. Qureshi, D. I. S. Shaw, D. C. Templeman. Assistants to Executive Directors: H. Alaoui-Abdallaoui, H. Arias, J. Bulloch, M. Camara, M. B. Chatah, L. E. J. Coene, G. Ercel, G. Gomel, V. Govindarajan, D. Hammann, A. K. Juusela, H. Kobayashi, M. J. Kooymans, E. Portas, M. Rasyid, J. Reddy, A. A. Scholten, S. Sornyanyontr.

1. ACCESS LIMITS - SPECIAL FACILITIES

The Executive Directors resumed from the previous meeting (EBM/83/163, 11/28/83) their consideration of a staff paper reviewing access limits for the compensatory financing facility and the buffer stock financing facility (EBS/83/232, 10/31/83).

Mr. Teijeiro said that his chair supported the maintenance of the present proportional access for special facilities, on the basis of the arguments already heard. First, the compensatory financing facility was the only bridging facility available in the Fund able to perform a countercyclical role. Second, there was no reason to tie access to the general and special facilities. Third, the quota increase was no more than compensating for inflation since the preceding quota increase. Fourth, the recent tightening of conditionality under the compensatory financing facility outweighed any arguments in favor of maintaining the present balance between conditional and unconditional facilities. Fifth, the repercussions on the liquidity of the Fund would be negligible.

Mr. Salehkhou recalled that the access limits for special facilities had been examined extensively by the Executive Board in July (EBM/83/104 and EBM/83/105, 7/18/83). The staff paper currently under discussion gave a useful summary of that earlier Board discussion and the conclusion of the Interim Committee on the matter at its most recent meeting in Washington. His own position remained one of clear support for the retention of present access limits for special facilities.

A number of factors justified his position, Mr. Salehkhou continued. First, the compensatory and buffer stock financing facilities continued to provide valuable assistance to developing countries when they were hard hit by events largely beyond their control and when they were willing to counter such adverse developments in cooperation with the Fund. Thanks to a number of improvements and amendments to the two facilities in the past decade, Fund assistance through them had been timely and efficient. The relief that they provided to member countries, particularly those depending heavily on commodity exports, would clearly be affected if the Board decided to reduce the access limits.

Second, the arguments put forward in favor of reducing the limits on access to the special facilities were unconvincing, Mr. Salehkhou added. The proponents of a reduction believed that, in view of the decision to curtail amounts available under the enlarged access facility, it would preserve the balance between the Fund's conditional and unconditional assistance. There had already been a severe tightening of conditionality under the compensatory financing facility, especially in the interpretation of the test of cooperation and the practical linkage between compensatory drawings in the upper tranches and stand-by arrangements, and the trend unfortunately seemed to be toward even more conditionality. Furthermore, there had never been any connection between access to special facilities and access to the credit tranches or access under extended arrangements. Decisions on both kinds of access had usually been related to the difficulties facing member countries in light of the purposes behind the establishment of each facility. It was at least some consolation to observe a rather wide consensus on that point during the present discussion.

Third, it should be noted that increases in Fund quotas had never been considered a reason for reviewing access under the special facilities, Mr. Salehkhou remarked. Yet it was undeniable, considering the very low increase in quotas decided under the Eighth General Review, that access to the special facilities had already been significantly reduced in real terms, particularly for developing member countries whose quota increase in percentage terms had generally been below the average.

As for the impact of alternative quota limits on members' absolute access to special facilities after the new quotas took effect, the staff paper indicated clearly that most potential users of special facilities would individually suffer a reduction in absolute access under many of the proposed alternatives, Mr. Salehkhou remarked. On the financial implications of the various access limits suggested for the special facilities, the staff projections covered only the implications for access limits in the compensatory financing facility between 68 percent and 85 percent of the new quotas, and surprisingly ignored those pertaining to the maintenance of present limits, although the Interim Committee had identified the two positions or options for consideration by the Executive Board. Nevertheless, the projections did entail a wide margin of uncertainty, owing to the ambiguous assumptions on which they were based and to an interpolation that was in his view too simple to catch all the factors affecting the use of special facilities, including outstanding drawings under those facilities and the impact of the world economic recovery on many potential users.

The Secretary noted that 12 Executive Directors had argued for the maintenance of the existing quota limits, namely, access of 100 percent of quota for compensatory financing of either export fluctuations or cereal costs, of 125 percent for both combined, and of 50 percent for access to the buffer stock financing facility. Mr. de Maulde, who had specifically stated that to be his preferred position, was included among those Executive Directors, who together had between 40 percent and 41 percent of the voting power in the Executive Board. At the other end of the spectrum, 5 Executive Directors had argued for reductions in access to the compensatory financing facility to 68 percent, 70 percent, or 75 percent of quota; those Directors also had approximately 40 percent of the voting power. The remaining 5 Executive Directors held intermediate positions. They would be 6 if Mr. de Maulde were included to reflect his second preference. Typically, the middle ground was occupied by Directors like Mr. Joyce and Mr. Schneider, whose position was that the access limit under the compensatory financing facility should not go below a range of 80-85 percent. It should be noted that Mr. de Maulde had explicitly stated that he could not go below 85 percent as the lower limit. The 6 Executive Directors together represented approximately 24 percent of the voting power in the Executive Board.

There had been a good deal of support for the suggestion that the midpoint of the access limit should be retained as the threshold between the lower and upper compensatory tranches, the Secretary added. The possibility of some sort of special treatment for small quota countries had also attracted support. In addition, there had been several expressions of view in favor of not reducing access to the buffer stock financing facility beyond a certain minimum point.

In response to a question by Mr. Malhotra, the Secretary explained that several Executive Directors, in particular those in the group favoring a reduction in access limits, such as Mr. Laske, Mr. Polak, and Mr. Wicks, had nevertheless indicated that they would be happy not to see access under the buffer stock financing facility reduced below 40 percent of quota.

The Chairman suggested that although a compromise solution seemed to be within reach, it might be necessary to leave the decision until the question of access in general was taken up at the end of the week.

Mr. Wicks remarked that he would be disappointed if no attempt were made to reach agreement at the present meeting. The Interim Committee had remitted the subject of access to the special facilities for settlement by the Executive Board. He was also not sure that the matter should be considered in the context of the discussion of quota limits under the policy of enlarged access, the two subjects having little to do with each other.

The Chairman said that access limits for compensatory financing of export fluctuations or cereal costs alone of between 80 percent and 85 percent would be consistent with the views of those five Executive Directors who had spoken in favor of an in-between solution. His personal preference in that range would be for 85 percent rather than for a lower figure, because the absolute access of a few member countries could fall with a limit of 80 percent. Moreover, the Executive Board was under an injunction from the Interim Committee to be particularly mindful of the very difficult circumstances of small quota countries, which would be most affected by a greater reduction in access limits. With access of 85 percent of quota under each of the two compensatory financing decisions, combined access would be about 100 percent, and access under the buffer stock financing facility would be about 45 percent. If there were room for some leeway in terms of percentages of access, it might well be for the cereal component of the compensatory financing facility, although most Executive Directors who had spoken in favor of access limits below 100 percent of quota had also considered that the treatment of the two compensatory financing facilities should be proportionate.

Mr. Malhotra observed that with an access limit of 85 percent for compensatory financing, the combined limit would be 106 percent and the buffer stock limit would be 43 percent.

Mr. Polak said that his strong preference would be for an access limit of 80 percent, with the possibility of a higher percentage for small-quota countries. The argument that small-quota countries would benefit from an access limit of 85 percent might not be convincing to those countries, which would in effect be treated in the same way as all other member countries. There might also be some room for compromise in setting the threshold. It was true that the majority, including himself, had suggested retaining the midpoint, but if the threshold were kept at 50 percent of quota, one element of a compromise solution under which the access limit for compensatory financing was 80 percent might be a 50/30 threshold instead of what would be a 40/40 threshold.

The Chairman remarked that he understood the rationale of Mr. Polak's position, but it was necessary to bear in mind that special provisions to benefit small-quota countries would raise the problem of how to respect the principle of equal treatment of members.

Mr. Prowse remarked that a limit of 85 percent of quota, unlike one of 80 percent, would indeed allow every member to maintain its access under the compensatory financing facility. Another argument for choosing 85 percent was that it would represent a rounding up of the rather curious 83 percent figure, at which the absolute access of all members would be maintained. The relevant arguments in the Interim Committee had revolved around the need for a compromise solution that would give every member continued access to the same absolute amount that it had enjoyed under its previous quota, as indicated in the Committee's adoption of 125 percent of quota as an upper limit. The same point could be made about a limit of 85 percent for compensatory financing. The case for an 80 percent limit rather than an 85 percent limit was in some sense spurious because it could hardly be argued in terms of the financial implications for the Fund.

Mr. Kafka said that he had not understood the admonition of the Interim Committee to be that small-quota countries should be helped at the expense of other poor countries. He could go along with a suggestion like Mr. de Maulde's for opening up a special tier of access for small countries, if their need were great or if they suffered from a particularly large export shortfall. No member country's absolute access should be reduced in order to make it possible for small countries to have access to 100 percent of quota. A solution could be found without cutting any member's access limit down from 85 percent to 80 percent.

The Director of the Legal Department noted that the provision in the Articles of Agreement calling for uniformity of treatment prevented different groups of members from being treated differently. It had been possible to make distinctions based only on particular types of balance of payments problems faced by member countries. Use of the compensatory financing facility itself was open to any member facing a specific type of balance of payments problem, namely, one resulting from a shortfall in its export proceeds. It had of course been recognized that that particular problem would be faced more often by primary producing countries;

the same could be said of problems arising from members' buffer stocks. Differences in access to Fund resources for different groups of countries, based on the sort of criteria that had been mentioned during the discussion, would not be consistent with the principle of uniform treatment.

Mr. Kafka observed that ways had always been found of circumventing the provision relating to uniform treatment by citing in relevant decisions the requirement that there be exceptional circumstances, which the Executive Board would understand in the case under discussion to mean a particularly large export shortfall in relation to quota.

Mr. Polak remarked that the Interim Committee had mentioned small-quota, low-income countries and not large shortfalls compared to quotas. However, in some of its previous decisions, the Executive Board had acted to round up the quota increases for small countries differently from those for larger countries and had at one time raised small quotas in accordance with a different formula. How had those decisions been reconciled with the principle of uniformity?

The Director of the Legal Department replied that the Articles did not indicate how members' quotas were to be calculated. Over the years, various formulas had been used to take into account different factors, which had been adjusted to meet developments and changing needs in order to ensure what was regarded as an appropriate distribution of quotas. By contrast, the Interim Committee's request that the Fund should be mindful of the difficult circumstances of small-quota, low-income member countries in implementing its policies on access to its resources had to be understood in the light of the requirement that the Fund provide balance of payments assistance in a uniform way for all members. While the Fund could take into account the magnitude of the balance of payments problems of members resulting from certain specified circumstances, it could not establish provisions calling for special treatment for a category of member countries. In establishing the compensatory financing facility, the Fund had originally intended to help primary producing countries, but, because a facility could not be established only for those countries, the Fund had drawn up the compensatory financing decision to apply to all member countries that qualified by virtue of experiencing the specific problem of an export shortfall, while recognizing that in fact the primary producing countries would in effect be the beneficiaries.

Mr. de Maulde remarked that he had perhaps not made it sufficiently clear that although he could go along with an access limit of 85 percent for compensatory financing, he would have difficulty with reducing the access limit for the export and cereal components combined to 100 percent and would prefer to keep the present joint limit of 125 percent of quota. A country that had an export shortfall and that was at the same time in dire need of costly food imports was in the worst imaginable situation. With a joint limit of 105 percent, such a country would be able to draw only 20 percent of its quota under the decision on compensatory financing of cereal imports if it had drawn 85 percent of quota on account of its export shortfall. As it was, the retention of the 125 percent combined limit would already result, once the new quotas came into effect, in a reduction in access to the cereal component of the compensatory financing facility.

Mr. Malhotra suggested that it should be possible to lay down some criteria to enable small countries in difficult circumstances to draw up to 100 percent of quota, for instance, on the basis of a greater need in proportion to quota. After all, suitable language had been found for developing criteria for applying the Interim Committee's two-tier access under the enlarged access policy.

Mr. Salehkhou considered that there had not been a full enough expression of views on the threshold for a definitive view to have emerged. Many Directors, including himself, had moreover rejected a midpoint, and had urged retention of a threshold of 50 percent of quota.

The Chairman noted that most Directors who had favored a single compensatory financing limit of 100 percent had supported a threshold at the midpoint, although some were unable to accept a threshold of less than 50 percent if the maximum were less than 100 percent.

Mr. Finaish said that he too understood that those Directors who were in favor of maintaining the present limits unchanged were also in favor of a threshold of 50 percent of quota in all cases.

The Economic Counsellor, responding to a question by Mr. Malhotra, explained that, as noted in the staff paper, the most straightforward solution would seem to be to continue to use the midpoint of the ceiling as the threshold between the tranches. With an access limit of 80 percent, the threshold would be at 40 percent. The alternative was to retain the present threshold of 50 percent of quota.

Mr. de Maulde considered that the threshold was less important than the maximum access limit for compensatory financing and the combined access limit. He could go along with the midpoint of the maximum limit as a threshold, in an attempt to find the basis for a compromise.

Mr. Joyce remarked that even some of those Directors who supported access limits of 80 percent to 85 percent were prepared to accept a threshold of 50 percent of quota.

The Chairman recalled that, in addition to Mr. Joyce, Mr. Polak could accept 50 percent of quota as a compromise, as could Mr. Lovato and Mr. Prowse. Thus, 15 Executive Directors could either accept or would prefer a threshold of 50 percent of quota. As a guide for the discussion, he suggested a combination of an access limit of 85 percent for compensatory financing under either decision, of 105 percent for the two decisions combined, and 45 percent for the buffer stock financing facility, together with a threshold expressed as 50 percent of quota rather than as a midpoint between zero and the ceiling on access.

Mr. Alfidja and Mr. Erb recalled that the intention had been to regard the present discussion as a preliminary one, the final decision being made only when the package of policy issues relating to access had been agreed.

Mr. Kafka remarked that there had been a good deal of support for not regarding the decision on access to the special facilities as being tied necessarily to the decision on enlarged access. The Chairman's proposal was a reasonable compromise, and he would be in favor of reaching a decision on it at the present meeting.

Mr. Joyce agreed with Mr. Kafka that if a decision were close, it should be taken at the present meeting; there was no necessary linkage between a decision on access to the special facilities and that on overall access limits under the enlarged access policy.

Mr. Malhotra said that his position was to advocate maintenance of the present limits, but, if there were a general agreement on the compromise suggested by the Chairman, he could go along with Mr. Kafka and Mr. Joyce and try to come to a decision at the present meeting.

Mr. Suraisry commented that his statement had been made on the understanding that the discussion was preliminary, but he too was willing to compromise. If a decision could be taken at the present meeting, which seemed advisable, he would be willing to consider the Chairman's proposal.

Mr. Wicks remarked that although he had proposed that an attempt should be made to reach a decision forthwith, he could not support the combination of access limits proposed by the Chairman.

Mr. Alfidja added that he would be prepared to look at the Chairman's proposal at the present meeting.

Mr. Erb observed that he would have difficulties both with the 85 percent access limit and with the choice of 50 percent of quota as the threshold. The combination of those two features would move the compromise too far in one direction. It might be as well to contemplate different combinations and also to bear in mind the further discussions on access that the Executive Board would be having.

Mr. Laske stated that the figures proposed by the Chairman went beyond what he had indicated as his first preference. However, he had mentioned that he could take a flexible position and he had been attracted by the combination mentioned by Mr. Erb of a solution halfway between a proportional reduction based on 102 percent and 125 percent, respectively, or about 75 percent. He wondered whether Executive Directors should not give further thought to the matter, returning to it on December 2, possibly on the basis of a written presentation of the various combinations that might lead to a compromise.

Mr. de Maulde said that his position was to support a joint limit of 125 percent of quota in order not to reduce the cereal component of compensatory financing. However, if other Directors were ready to take a decision, he was prepared to join them.

Mr. Erb supported Mr. Laske's suggestion to return to the matter on December 2. As for the desire to avoid an explicit linkage between access limits on the compensatory financing facility and those on enlarged access, the view of his chair was that it was not that some principle of proportionality should be applied but rather that there was a need to look at the overall size of enlarged access in taking a view on the access limits under the compensatory financing facility. It would seem desirable to find a compromise on access limits for the compensatory financing facility that were in the middle of the range of access limits of 102 percent and 125 percent under the enlarged access policy, without a one-to-one tie between proportionality under the two policies, and avoiding a two-tier system for access to the compensatory financing facility. A figure between 68 percent and 83-85 percent might be one solution.

Mr. Malhotra declared that if those Executive Directors who had taken a very restrictive approach, and who accounted for 40 percent of the voting power, were not prepared to move from their position, it would be extremely difficult for those who favored maintaining the status quo to give up their stand. Therefore, unless there were general agreement on a compromise at the present meeting, he would have to withdraw his support for the Chairman's proposed solution and reiterate his support for access limits of 100/125/50 percent.

Mr. Joyce remarked that although the objective was to reach a consensus, he would find it useful to have a clearer idea of the voting majorities required for approval of the various limits under discussion.

The Director of the Legal Department explained that the decision on access limits for use of the Fund's resources under the compensatory financing and buffer stock financing facilities could be taken by a simple majority of the votes cast. On the assumption that the compensatory financing decision on cereal imports would continue to float, the decision on access limits in respect of cereals would require an 85 percent majority.

Mr. Prowse wondered whether further thought could be given to the possibility of adding a rider to the decision to be adopted, indicating that when an export shortfall was very large in relation to a member's gross national product, the respective limits might be raised from 85 percent to 100 percent and from 105 percent to 125 percent. The impact would presumably be to benefit very small countries that relied heavily on the exports of primary products, thereby responding to the Interim Committee's concern about the difficult circumstances of small-quota low-income countries.

In response to a remark by the Chairman, Mr. Prowse added that it could be argued that small countries' quotas had not taken care of the problems of those particular countries.

The Director of the Legal Department reiterated that criteria for treating member countries differently had to be formulated in terms of the magnitude or nature of members' balance of payments problems. The criterion of the gross national product was not directly related to the balance of payments. A poor country could nevertheless have a strong balance of payments position. If the intention was to find a way in which to take account of exceptional circumstances, in terms of the size or nature of the balance of payments problems of some countries, the decision would have to be qualified in such a manner as to make the exceptional treatment available to all members encountering excessively large balance of payments problems.

Mr. Joyce commented that it seemed to him that a provision referring to an excessively large export shortfall and thus balance of payments difficulties in relation to the size of quota or to the size of GNP would on the face of it apply across the board to all member countries. De facto, the provision might have more frequent application to some countries than to others, but it would in itself be nondiscriminatory.

The Director of the Legal Department said that he would give further thought to Mr. Joyce's formulation, which differed from Mr. Prowse's suggestion because it related the treatment to the magnitude of the balance of payments problem of the member and of its export shortfall in relation to its quota.

Mr. Polak remarked that although views were closer than they had been at the outset, there was still a wide gap between those who could not accept an access limit of more than 80 percent and those who could not agree to one below 85 percent. In an attempt to narrow the gap, it might be helpful to find out what freedom there was in the system as a whole for adjusting the percentages. Mention had already been made of moving the threshold up from the midpoint of what would be a lower access limit to 50 percent of quota. A second area for exploration was related to the cereal facility, where, as Mr. de Maulde had mentioned, the joint export/cereal limit could be raised beyond 20/25 percent over the separate limit. Therefore, he wondered whether the weights could not be changed without changing the total, for instance, by setting the single access limit for compensatory financing at 80 percent, with a limit of perhaps 110 percent or 115 percent for both compensatory financing decisions together, and a threshold of 50 percent of quota as a further option for consideration.

The staff representative from the Research Department, in response to a question by the Chairman, said that six countries would have their access reduced in absolute terms if the single limit were set at 80 percent.

Mr. Malhotra inquired how often the combined limit of 125 percent of quota had been reached by members drawing under the compensatory financing facility. The facility was too important for the countries likely to make use of it to settle for a lower access limit either for the compensatory financing for export shortfalls or excess cereal costs in exchange for a somewhat higher combined limit, if that combined limit would be reached in rare cases only.

The staff representative from the Research Department observed that there had been six drawings under the cereal facility in the two-and-a-half years since it had been established. In five of those cases, outstanding drawings had risen above 100 percent of quota. In only one case had they reached the joint limit of 125 percent. In one other case, the joint limit had been approached; in the three remaining cases, the percentages had ranged from 102 percent to 108 percent.

After a further brief discussion, Executive Directors agreed to take up the question of access limits for special facilities as the first item on the agenda of the meeting scheduled for December 2, 1983.

APPROVED: March 30, 1984

LEO VAN HOUTVEN
Secretary