NOT FOR PUBLIC USE

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 81/42

10:00 a.m., March 20, 1981

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

| Executive Directors | Alternate Executive Directors |
|---|---|
| | O. Kabbaj |
| | L. D. D. Price |
| A. Buira | M. A. Senior |
| | D. E. Syvrud |
| | H. G. Schneider |
| B. J. Drabble | M. Casey |
| M. Finaish | |
| T. Hirao | A. Nagashima |
| | R. T. Salazar |
| M. B. Jalal | H. G. Askari, Temporary |
| A. Kafka | J. R. Gabriel-Peña |
| B. Kharmawan | V. Supinit |
| S. Kiingi | F. Sangare |
| G. Laske | G. Winkelmann |
| | C. P. Caranicas |
| | P. D. Peroz, Temporary |
| | A. Alfidja |
| M. Narasimham | |
| J. J. Polak | |
| A. R. G. Prowse | P. L. Mapa, Jr. |
| J. Sigurdsson | L. Vidvei |
| Zhang Z. | Tai Q. |

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Also Present

H. E. Kastoft, Executive Secretary, Development Committee. African Department: L. M. Goreux, Deputy Director; J. M. Jimenez, J. W. Kratz, J. F. Laker. Asian Department: P. R. Narvekar, Deputy Director; J. T. Boorman, R. G. Di Calogero, W. G. L. Evers, H. P. G. Handy, R. J. Hides, R. J. Niebuhr, J. Schulz, D. A. Scott, S. Shah. European Department: L. Alexander, M. Dakolias, R. H. van Til. Exchange and Trade Relations Department: M. Guitian, R. R. Selby. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; H. Elizalde, W. E. Holder, Ph. Lachman, J. M. Ogoola, J. K. Oh, S. A. Silard. Middle Eastern Department: H. E. Jakubiak. Research Department: W. C. Hood, Economic Counsellor and Director; C. F. Schwartz, Associate Director and Director of Adjustment Studies; R. R. Rhomberg, Deputy Director; G. I. Brown, K.-Y. Chu, L. U. Ecevit, U. R. Gunjal, N. M. Kaibni, G. Khatchadourian, P. Radhakrishnan, J. S. Smith, P. C. Ugolini. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, R. W. Ley, M. Sami, T. M. Tran. Western Hemisphere Department: S. T. Beza, Deputy Director; P. Habanananda, M. E. Hardy, A. Pera, G. Yadav, E. V. Zayas. Bureau of Statistics: R. J. Walton. Office of External Relations: C. S. Gardner, S. Irving, G. P. Newman. Personal Assistant to the Managing Director: C. M. Watson. Advisors to Executive Directors: C. Bouchard, S. E. Conrado, M. A. Janjua, A. K. Mullei, F. A. Tourreilles. Assistants to Executive Directors: S. R. Abiad, E. M. Ainley, A. F. P. Bakker, C. J. Batliwalla, M. J. Callaghan, L. E. J. Coene, J. L. Feito, A. Halevi, J. U. Holst, W. A. Kabli, S.-W. Kwon, J. E. Leimone, G. B. Lind, J. S. Mair, M. Michelangeli, V. K. S. Nair, M. Z. M. Qureshi, J. Reddy, H. Suzuki, P. S. Tjokronegoro, O. Uçer, Wang E., J. F. Williams, T. H. Williams.

1. SPECIAL DRAWING RIGHTS DEPARTMENT - DESIGNATION PLAN FOR MARCH-MAY 1981

2. OPERATIONAL BUDGET FOR MARCH-MAY 1981

The Executive Directors considered the proposed designation plan for March-May 1981 (EBS/81/48, 3/6/81; Cor. 1, 3/13/81; and Sup. 1, 3/18/81) and the operational budget (EBS/81/49, 3/6/81) for the same period.

The Deputy Treasurer observed that some SDR 700 million in transactions involving designation had taken place since the proposed plan had been issued on March 6, especially in the past few days. Because of the substantial change in excess holdings ratios, the staff had felt it necessary to issue a revised plan at short notice (EBS/81/48, Sup. 1).

A large amount of currencies had been sold under the operational budget, the Deputy Treasurer continued, but the amount was not reflected in the allocation of transfers or receipts because more than half the amount (SDR 300 million) had been in SDRs and thus did not affect members' positions, and the remainder ($200 million) had been in U.S. dollars, which were in the present budget and were also proposed for the new budget for preassigned amounts and thus did not affect the allocations for other members.

Mr. Kafka stated that his authorities had raised no objections to the operational budget or the original designation plan. With respect to the revised designation plan, he had been able to contact only Brazil, which had not objected; he reserved his position on the designation plan for the remaining countries in his constituency--Colombia, Ecuador, Suriname, and Trinidad and Tobago.

Mr. Kharmawan noted that two countries in his constituency--Singapore and Indonesia--had been included in both the operational budget and the designation plan. The Indonesian authorities had indicated that they had no difficulty with Indonesia's inclusion in the operational budget; while there had been no time for a response on the revised designation nation plan, he had no reason to believe that the authorities would object to the proposed higher amount.

He had received no response from the Singapore authorities on either the operational budget or the designation plan, Mr. Kharmawan continued. He doubted that the authorities would object to Singapore's inclusion in the operational budget, but he was certain that the revised designation plan would cause them some difficulty. The organizational structure of the Monetary Authority of Singapore was in a state of transition at present, and the proposed new amounts for Singapore might not be understood. In the circumstances, he asked for Singapore to be included only for the original figure of SDR 2 million.

Mr. Kabbaj observed that, in the revised proposed designation plan, Algeria would be designated for an amount of SDR 8.3 million, which was substantially greater than the SDR 5.5 million figure in the original plan. Time constraints had made it difficult for his authorities to respond to the new figure, so that he wished to reserve their position with respect to the designation plan.

Mr. Kiingi remarked that the countries in his constituency that had been included in the operational budget and designation plan had not responded to the staff proposals. As was normal practice, he assumed their concurrence unless objections were raised.

Mr. Caranicas stated that his Maltese authorities had not objected to Malta's inclusion in the operational budget, although they had not been pleased by the proposed amount. No response had been received from the authorities regarding the revised proposed designation plan, and he reserved Malta's position on the matter. In connection with the revision, he wondered whether in future any way could be found to avoid substantial and sudden changes to the proposed operational budgets and designation plans.

Mr. Polak said that he could support both the proposed operational budget and the designation plan.

Mr. Finaish commented that, of the countries in his constituency included in the designation plan, Kuwait and Libya had indicated no objection to the plan. Qatar and the United Arab Emirates had not replied, but he did not anticipate any objection from them. Libya had indicated acceptance of its inclusion in the operational budget; he had received no reply from Kuwait, Qatar, the United Arab Emirates, or the Yemen Arab Republic. Bahrain had no objection in principle to being included in operational budgets, so long as its balance of payments and reserve positions were strong, the frequency with which it was included was limited, and the amounts were reasonable. The authorities had found the amount for which Bahrain had been included in the proposed budget to be quite large, and he had already spoken to the staff on that matter. In general, it might be useful, when countries were included for the first time in the operational budget, if the staff could explain to the authorities in some detail the legal background for, and mechanics of, the operational budget and designation plan.

Mr. Price indicated that his authorities were content with their inclusion in the operational budget and designation plan for the amounts proposed.

The Deputy Treasurer, responding to a point raised by Mr. Caranicas, noted that the staff would not ordinarily propose a revision in the designation plan based on a normal volume of transactions involving designation. However, the SDR 700 million in transactions that had recently taken place had been too large to ignore, particularly as it had altered

the holdings of SDRs substantially. On Mr. Finaish's point, the staff had in the past provided a number of member countries with informal documentation explaining the background and mechanics of the operational budget and designation plan and would be in touch with Mr. Finaish's office on the matter of providing such information to members of his constituency.

Commenting on Mr. Kharmawan's request to reduce the maximum designation amount for Singapore from SDR 6.6 million to SDR 2 million, the Deputy Treasurer stated that the staff would have no difficulty, from a technical point of view, in meeting the request because the amounts were not material. However, such a reduction would breach the principle of proportionate allocations.

Mr. Caranicas suggested that, if an exception was to be made for Singapore, the Board might also be willing to reduce the amount for which Malta had been designated, particularly since the amount in Malta's case was so small.

The Deputy Treasurer remarked that it was precisely because the amount was so small that the staff had felt that the increase would not have caused difficulty for Malta. However, if there was a consensus in the Board for reducing the amount, the change could be made.

Mr. Schneider commented that the amount for Singapore also seemed small, particularly given the level of gross reserves for Singapore at end-October.

Mr. Kharmawan agreed that, in absolute terms, the proposed increase was not large. The difficulty had to do with the suddenness of the proposed increase and the fact that the monetary authorities at the central bank in Singapore were in a state of transition.

Mr. Syvrud wondered whether it was possible tentatively to leave Singapore in the designation plan for the proposed amount, allowing time for Mr. Kharmawan to confer with the authorities. If, after such a conference, the authorities indicated that they had difficulty with the amount, the Board could agree to reduce it.

Mr. Laske agreed with Mr. Syvrud. Since the designation plan and its revision had been prepared on the basis of guidelines that had been agreed in the Board, they should be followed where possible. In the past, where last minute revisions had been proposed, the procedure suggested by Mr. Syvrud had been followed and the designation plan had been adopted subject to the final consent of the authorities once contact with them had been made. Another possibility might be to agree that the additional amount for which Singapore had been designated in the proposed plan would be made use of only toward the end of the plan period, so that the authorities in Singapore could be given more time to consider the effects of the increase.

Mr. Kabbaj wondered whether the Board would be willing to apply Mr. Syvrud's suggestion to the case of Algeria, allowing him to reserve Algeria's position for the time being until he had had an opportunity to consult with the authorities.

Mr. Kafka, Mr. Mapa, Mr. Narasimham, and Mr. Kiingi said that they were prepared to accept Mr. Kharmawan's request.

Mr. Polak inquired whether, as a way of maintaining the principle of proportionate allocations, it could be said that the Executive Board had been prepared to amend the plan at the request of Mr. Kharmawan, but that it would restore the balance of the amount for Singapore if he could convince the authorities to agree to that amount during the plan period.

Mr. Kharmawan stated that he was willing to follow Mr. Polak's suggestion.

After a further brief discussion it was agreed to amend the proposed designation plan by including Singapore for SDR 2 million--and asking Mr. Kharmawan to attempt, during the execution of the plan, to obtain his authorities' agreement to the additional SDR 4.6 million--and by deleting Malta altogether. The staff would take note of the various observations by Executive Directors on other points.

The Executive Board then took the following decisions:

Designation Plan for March-May 1981

The Executive Board approves the designation plan for the quarterly period beginning March 20, 1981, as set out in EBS/81/48, Supplement 2 (3/20/81).

Decision No. 6785-(81/42) S, adopted
March 20, 1981

Operational Budget for March-May 1981

The Executive Board approves the operational budget for the quarterly period beginning March 20, 1981, as set out in EBS/81/49 (3/6/81).

Decision No. 6786-(81/42), adopted
March 20, 1981

3. ST. VINCENT AND THE GRENADINES - PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

The Executive Directors considered a request by St. Vincent and the Grenadines for a purchase equivalent to SDR 1.3 million under the compensatory financing facility (EBS/81/46, 3/3/81; and Sup. 1, 3/16/81).

The staff representative from the Western Hemisphere Department noted the statement in the appraisal that "a Fund staff mission visited St. Vincent in March 1981 to conduct Article IV consultations and to negotiate a stand-by arrangement in the first credit tranche." That mission had now returned from St. Vincent and had indicated that there was substantial agreement between the staff and the authorities on the policy issues connected with a first credit tranche stand-by arrangement. However, the authorities were only beginning to formulate their budget for the coming fiscal year, so that it would be at least six to eight weeks before negotiations were concluded. At that time, it was expected that the authorities would make another request for a purchase under the compensatory financing facility.

Mr. Casey observed that St. Vincent and the Grenadines had achieved political independence in 1979. Consisting of one main island and several smaller ones located in the East Caribbean, the country had a population of over 100,000 people. GDP per capita was about $500, and the unemployment rate was currently running at 20 per cent. Bananas, St. Vincent's main crop, accounted for approximately 10 per cent of GDP. For 1980, the growth rate was expected to be about 1 per cent and the inflation rate 19 per cent; the overall fiscal deficit was projected to be 6 per cent of GDP, with the balance of payments deficit somewhat over 9 per cent of GDP. St. Vincent was a member of the East Caribbean Currency Area and had negligible foreign exchange reserves and limited scope for borrowing from commercial banks.

Turning to the request for a purchase under the compensatory financing facility, Mr. Casey considered that the main criteria for the purchase had been fully met. St. Vincent was a primary exporting country and its export shortfall was temporary in nature. Indeed, exports should recover strongly in the two postshortfall years as banana production began to recover. A rehabilitation program had already been put into effect, and signs of recovery had been evident even at the end of 1980, which was the shortfall year. The recovery would mainly be in terms of volume rather than price, a pattern that should be repeated in St. Vincent's other exports with the exception of arrowroot, which would lag somewhat behind. The circumstances leading to the shortfall--primarily Hurricane Allen, which had struck the country in August 1980--had been clearly beyond the control of the authorities; indeed, the shortfall in the export of bananas, which accounted for 44 per cent of total exports, had been due entirely to hurricane damage.

Although recent data indicated that exports for 1980 as a whole would be higher than expected, Mr. Casey continued, the judgmental shortfall could still be regarded as conservative, in part because banana prices were projected to increase only modestly in the two postshortfall years. The European Community's STABEX contribution had been taken into account, so that there was no question of double compensation. It was worth mentioning in addition that exports had declined in 1979--the year prior to the shortfall--by 9 per cent because of a volcanic eruption; and there had been no compensation for that shortfall, even though the disaster had had the effect of reducing the calculated shortfall in 1980.

As indicated by the staff, St. Vincent and the Grenadines was currently negotiating a one-year stand-by arrangement with the Fund, Mr. Casey remarked. The authorities had stated that they would cooperate with the Fund in an effort to find appropriate solutions for the balance of payments difficulties, and substantial agreement on policy issues had already been reached.

Mr. Price stated that he was happy to support the request by St. Vincent and the Grenadines, whose case for a purchase under the compensatory financing facility was clear cut. He welcomed the information provided by the staff on progress toward a longer-term arrangement.

Mr. Polak recalled that, when the Fund had agreed to emergency assistance for St. Vincent following the hurricane in August 1980, it had been stated that the authorities intended to negotiate with the Fund a medium-term program early in 1981; at that time, the staff had been talking in terms of an extended Fund arrangement. He had the impression that the intention of the authorities to negotiate a medium-term program had been an important element in the willingness of the Board to agree to emergency aid, particularly since, in three similar previous cases of emergency aid, intentions to negotiate longer-term arrangements had not been fulfilled. The stand-by arrangement with St. Vincent that had been referred to by the staff was certainly a step in the right direction, although he would be interested in hearing more about its contents.

On another matter, there appeared to be an element of double compensation in St. Vincent's request, Mr. Polak continued, particularly since emergency assistance had been provided in the wake of the same hurricane that had produced the shortfall in exports. The Fund, of course, had no formal arrangements for avoiding double compensation as between compensatory financing and emergency drawings, but the possibility should be looked at closely, and he would be interested in the staff's views on that matter.

Mr. Mapa said that he could support St. Vincent's request for a purchase under the compensatory financing facility. On another point, he recalled the suggestion by Mr. Casey that the impact of an earlier eruption of a volcano had somehow not been included in the determination of the shortfall. On other occasions, Mr. Drabble had brought up the matter of a disaster facility, and he wondered whether there might be some way of handling situations--like that of the volcanic eruption--that were not covered by the provisions of the compensatory financing facility.

The staff representative from the Western Hemisphere Department noted that Mr. Polak had been correct in his recollection that the authorities of St. Vincent had earlier indicated their intention to negotiate a medium-term program under the extended Fund facility. The reason it was now proposed to negotiate a one-year stand-by arrangement rather than a longer-term program under the extended Fund facility was that the amount of resources that could be made available to St. Vincent under an

extended arrangement would, in conjunction with the compensatory financing facility drawing plus what was available in the first credit tranche, be too large in relation to the size of the economy. In the circumstances, given the authorities' wariness about incurring considerable amounts of long-term debt at present, it had been felt that the best way to proceed was to begin with a one-year stand-by arrangement in the first credit tranche and to see in one year's time whether the economy still required a longer-term program under the extended Fund facility.

As to the content of the stand-by program currently being negotiated, the staff representative observed that the main focus of the discussion was on the fiscal outcome for the coming year. In view of the likelihood of a new round of public sector wage negotiations, the discussions between the staff mission and the authorities had concentrated on the scope of possible offsetting revenue measures. It was important to make certain that the resources made available by the Fund would not be financing a structural deficiency in the budget, which could happen if the Government did not take offsetting revenue measures to finance the wage increases on a longer-term basis. As he had noted previously, substantial agreement had been reached on a program of fiscal measures that would be required in the event of wage increases to be negotiated in the following year.

A second major area of discussion had been interest rate policy, the staff representative continued. The islands of the East Caribbean had a low structure of interest rates in relation to the outside world, in part because of a stringent system of capital controls. The staff had discussed with the authorities the possibility of taking steps to raise the structure of interest rates by removing or amending the ceilings and by eliminating earlier measures that had served to widen the spread between lending and deposit rates. Substantial agreement appeared to have been reached on those issues as well.

The staff representative from the Research Department, responding to Mr. Polak's question concerning double compensation, remarked that, under Fund practice, the only drawings taken into account in dealing with double compensation were those made under the compensatory financing facility. Prior to 1979, Fund procedures had called for consideration of double compensation that might arise from use of Fund resources under under other policies--tranche policies, for example--but the Executive Board had decided in 1979 to discontinue the practice, mainly because it had turned out that the incidence of double compensation in such situations had been quite limited, and the procedures themselves had been extremely complicated. While it was possible to look at the purchase by St. Vincent under the compensatory financing facility as containing elements of double compensation, there was no such compensation under the procedures currently in effect.

Mr. Polak remarked that, irrespective of whether or not double compensation would be involved if the Executive Board approved St. Vincent's request for a purchase under the compensatory financing facility, it should perhaps be put on record that, if the Fund again provided emergency assistance to a country, it would make clear that the country could not approach the Fund for the same shortfall later on under the compensatory financing facility.

The staff representative from the Research Department remarked that Mr. Polak's suggestion would not be easy to administer. Using St. Vincent as an example, he noted that the authorities had requested the emergency assistance very soon after the hurricane had hit the islands, and it would have been difficult at that time to project the shortfall in exports that had occurred some months later. Presumably the same situation would arise with respect to other countries requesting emergency assistance. In practice, it would be impossible to predict the element of export compensation contained in emergency assistance at the time it was provided.

The Chairman noted that the issue raised by Mr. Polak centered on the way in which the Fund viewed emergency assistance. Under Mr. Polak's suggestion, the emergency assistance would be an advance on a future compensatory financing facility drawing. It was also possible, however, to view the emergency assistance as a separate matter from assistance under the compensatory financing facility.

Mr. Price considered that the Fund should act according to the decisions taken by the Executive Board in the past. The so-called emergency assistance provided by the Fund was not a policy of the Board that appeared anywhere in a decision; rather, the Fund had shown a willingness to help in cases where there had been sudden emergencies. In the case of Nicaragua in 1979 the assistance had been provided under the compensatory financing facility, while in the case of St. Vincent and others it had been provided under tranche policy. Since the emergency assistance for St. Vincent had been provided under tranche policy, the double compensation provisions of the compensatory financing facility did not apply. Provided that the Executive Directors were satisfied that the member had a balance of payments need for the compensatory drawing, he saw no difficulty in providing the resources.

The Deputy Managing Director, referring to the emergency assistance provided to St. Vincent and the Grenadines, noted that it had been clearly understood that the hurricane had created an emergency situation and that the normal standards of tranche policy would not in the circumstances be met. The Executive Board had never laid down or defined a policy for emergency drawings, even though a number of such drawings had been approved by the Board in the past. Unless the guidelines of the Executive Board on tranche policy in general, or emergency drawings in particular, were changed, the issue of double compensation as between emergency assistance and drawings under the compensatory financing would not arise.

Even if the double compensation approach were to be followed, the Deputy Managing Director continued, the figures on page 4 of the staff paper (EBS/81/46) made it clear that the proposed purchase under the compensatory financing facility would be justified in any event because the judgmental shortfall (SDR 2.9 million) was far larger than the proposed purchase under the compensatory financing facility (SDR 1.3 million) together with the amount provided under the emergency drawing (SDR 0.4 million in the first credit tranche and SDR 0.3 million in the reserve tranche).

Mr. Polak stated that he had been satisfied by the answers to his question on double compensation. Still, if a similar case arose in the future, Executive Directors should be willing to state in the decision providing emergency assistance that the Fund would not wish the emergency assistance in question to be duplicated by a compensatory financing transaction for the same shortfall.

The Chairman remarked that he continued to have difficulty with Mr. Polak's suggestion. It was possible to view the emergency assistance provided to St. Vincent as the first installment on a future stand-by arrangement or longer-term arrangement rather than an installment on a future compensatory financing facility drawing. Indeed, at the time of the emergency drawing, it had been stated that "the Government of St. Vincent will discuss with the Fund staff early in 1981 an adjustment program." Such a statement suggested that the emergency assistance would be integrated into a later adjustment program. It had also been stated at the time of the emergency that "in addition, St. Vincent will in all probability qualify by late 1980 or early 1981 for purchases under the compensatory financing facility."

Mr. Sigurdsson considered that Mr. Polak's concern was more with conditionality than with double compensation. Since the emergency assistance had been given to St. Vincent under tranche policy but without a program in place, the usual conditionality had not come into play. Having listened to all the arguments, however, he believed the proposal for a drawing under the compensatory financing facility was fully justified, and he did not feel there was any risk of a precedent for double compensation as between the compensatory financing facility and the emergency assistance.

Mr. Mapa agreed with Mr. Price that, when a proposed compensatory financing facility drawing followed on the heels of emergency assistance that had been provided for a disaster that may have led to the later shortfall, the deciding factor should be the country's balance of payments need. In the case of St. Vincent and the Grenadines, it had been shown that the balance of payments need fully justified the request.

Mr. Casey said that he also tended to side with Mr. Price on the issue under discussion. However, present arrangements for emergency assistance were somewhat vague, and it might be useful in future to discuss and clarify them.

It was still the intention of St. Vincent and the Grenadines to negotiate a medium-term arrangement as soon as possible, Mr. Casey continued, although, as noted by the staff, the country's absorptive capacity made borrowing under such an arrangement at the present time quite difficult. Moreover, the data base in St. Vincent was poor and hampered efforts to establish appropriate performance criteria for an extended Fund facility program. In the circumstances, he believed that the decision to go for the time being with a one-year stand-by arrangement instead of a drawing under the extended Fund facility would be appropriate.

The Executive Board then turned to the proposed decision on St. Vincent's request for a purchase under the compensatory financing facility, which it approved.

The decision was:

1. The Fund has received a request from the Government of St. Vincent and the Grenadines for a purchase of the equivalent of SDR 1.3 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representation of St. Vincent and the Grenadines and approves the purchase in accordance with the request.

Decision No. 6787-(81/42), adopted
March 20, 1981

## 4. MALDIVES - 1980 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1980 Article IV consultation with Maldives together with a proposed decision concluding the 1980 Article XIV consultation (SM/81/39, 2/11/81). They also had before them a report on recent economic developments in Maldives (SM/81/40, 2/18/81).

Mr. Finaish made the following statement:

The small, open economy of Maldives has registered substantial progress in recent years. The major thrust for this progress has come from growth in the economy's three main sectors: fishing, tourism, and shipping. Some progress has also been made in further diversifying the productive base of the economy. A large part of this achievement is attributable to the pragmatic development policies pursued by the Government.

These favorable developments continued in 1980. In fact, there was a marked further improvement in the rate of economic

expansion. This was amply reflected in the increase in the rates of growth of the main sectors over those for the previous years.

The prospects for continued growth in the economy appear promising. The centerpiece of the government development strategy continues to be the transformation of the traditional fishing industry and the development of the tourism and shipping industries. To this effect, the Government is concentrating on expansion of fuel distribution for mechanizing boats and increasing the fish collection, storage, and processing facilities. Possibilities for opening tourist resorts in new areas, especially in Gan in order to take advantage of the infrastructure of the former airbase, are being explored. Several new carriers are planned to be added to Maldives Shipping Limited (MSL), the national shipping company. Reflecting the authorities' efforts to diversify production and exports, the State Trading Organization (STO) has concluded joint-venture agreements with two Hong Kong-based companies for the manufacture of garments for export. Measures are also being taken to exploit whatever potential exists for agricultural development on the islands. Various small-scale schemes have been undertaken to promote the cultivation of vegetables and expand coconut and timber production. The prospects for continued progress have been strengthened by the establishment of a National Planning Agency which is entrusted with the task of preparing and coordinating sectoral development schemes. These schemes are expected to form the base of a five-year development plan for the period 1982-86. The Agency is also taking steps to improve the data base in the country.

With the stepping-up of development activity in recent years, government spending has also increased. To meet the growing expenditure, the Government has been taking steps to increase its revenues, which consist mainly of customs receipts, taxes on tourism, and profit remittances from public enterprises, chiefly the STO and MSL. However, since the revenue base is limited, the government budget has been in deficit in recent years. The deficit declined substantially in 1980 as revenues expanded much faster than expenditures. This was due mainly to a threefold increase in transfer of profits from public enterprises and a twofold increase in customs duties and tourism taxes. The former chiefly reflected an increased restructuring of the tax system for a more effective taxation of the major growth sectors of the economy, i.e., external trade and tourism. This included subjecting all imports to an import tariff and eliminating exemptions to the tourism tax as well as redefining its base and rate. The authorities are aware of the need to broaden the revenue base further in the future so as to ensure that revenues increase commensurately with expenditures.

With respect to monetary developments, total liquidity increased fairly sharply during 1979. This reflected mainly a large increase in foreign currency denominated deposits with the banks and the financing of about one quarter of the government budget deficit through currency issue. Bank credit to the Government accounted for most of the increase in domestic credit during the year. With the improvement in the budgetary position in 1980, the rate of liquidity growth fell to a relatively moderate level during the first nine months. The currency in circulation rose by less than one third of the 1979 figure, and the increase in bank credit to the Government was small. The increase in total domestic credit during the nine-month period was, however, similar in magnitude to that in the previous year due to a substantial increase in credit to public enterprises. This mainly represented credit financing of the import of food and petroleum inventories by the STO. The relatively higher level of financial growth in the last couple of years, reflecting a higher level of economic activity, appears to be in part responsible for the recent increase in inflation; most of this increase, however, represents higher import prices.

At the institutional level, a draft monetary act has been prepared for the establishment of the Maldives Monetary Authority which will be entrusted with the usual central banking functions. Further, in order to improve banking services through greater competition, the Government has recently given approval to the establishment of two new banks.

As regards the external sector, the current account of the balance of payments moved from a surplus in 1978 to a deficit in 1979. This reflected, in part, a deterioration in the terms of trade of about 8 per cent. The deficit is provisionally estimated to have increased somewhat further in 1980. As a result of higher fish prices and larger receipts from tourism, exports recorded a substantial increase during the year. That the deficit still increased was because of unusually large imports by the STO. Since a sizable part of these imports was meant for inventory accumulation, the increase in the deficit does not appear to represent any worsening of the factors underlying the balance of payments. The authorities expect the external position to improve substantially in the coming years on account of the continued growth of both fish exports and tourism.

Finally, in April 1980 the authorities eliminated the multiple currency practice for which Fund approval had been granted through 1980. The exchange system is thus again free of restrictions and multiple currency practices.

Mr. Jalal observed that the performance of Maldives' economy over the previous two years had been satisfactory, with the tourist, shipping, and fishing industries--the main sources of foreign exchange--growing at a rapid pace. Especially commendable were the efforts to modernize the fishing industry in order to encourage a higher level of productivity, particularly since nearly half of the labor force was engaged in fishing. In view of the 2.8 per cent population growth rate, promoting new sectors was essential, and he therefore welcomed the continuing efforts to explore the potential for manufacturing. Joint ventures, such as those recently concluded with Hong Kong, represented a good first step in that direction.

He was in agreement with the staff on the issue of pricing in the fishing industry, Mr. Jalal continued. Given increases in fuel costs, a more flexible pricing system that reflected real costs of production would certainly provide a better base for the development of the industry.

In the area of public finance, Mr. Jalal considered that the increase in tax revenues achieved through changes and improvements in the tax system had enabled Maldives to take positive steps forward in development. Additional efforts to control the budget deficit would be necessary in order to reduce the inflationary pressures already being felt; in that connection, work on the price index should be started as soon as possible in order to provide the Government with reliable indicators. Finally, on the monetary front, the establishment of the Maldives Monetary Authority represented an improvement and a necessary step in the management of the economy. The Authority should give Maldives a better institutional base for implementing the required monetary policies.

Mr. Narasimham stated that he had read the staff report on Maldives with a degree of both fascination and regret. His fascination had been sparked by the description of Maldives, a little known group of islands; his regret had come with the recognition that one of the last idyllic spots on earth was being inexorably drawn into the vortex of what might be called a "contemporary" international economy. That evolution had led the islands to become afflicted with balance of payments and budget deficits, an incipient energy problem, a deterioration in the terms of trade, and various other economic difficulties. In the circumstances, the authorities should be commended for their pragmatic development policies and for the efforts they had been making to sustain growth in the fishing and tourism sectors, as well as for their attempts to diversify the economy.

The authorities were also to be complimented for the improvement in fiscal performance, Mr. Narasimham continued. In contrast to so many countries where budgetary problems arose because public sector enterprises were not making profits, Maldives was a refreshing change. The State Trading Organization (STO) had tripled its profits in one year and had provided much needed relief to the budget.

On another matter, Mr. Narasimham recalled that the two banks operating in Maldives--one from Pakistan and one from India--had a wide spread between their deposit and advance rates, all denominated in foreign currency. Lending rates were linked to New York, but the deposit rates were not; and the reason given was that the cost of rupee transactions was high. He would be interested in hearing staff comments on the situation.

The staff representative from the Asian Department, remarking on the wide spread between deposit and lending rates, said that, while the tourist resort operators in Maldives were free to bank in Singapore to obtain better deposit rates, they apparently had thus far chosen not to do so. The net return on assets for the banks in 1980 was estimated at about 5 per cent, implying a good profit position. In the circumstances, the staff had suggested that the authorities should study the financial situation of the two banks now in Maldives, acquaint themselves with the facts, and then discuss with the banks a possible reduction in some of the service charges and a narrowing of the spread. The authorities were certainly aware of the problem and, indeed, one of the reasons they were anxious for the additional banks to begin operations in Maldives was to encourage increased competition.

Mr. Finaish added that, in addition to considering the proposals by the staff for reducing the spread, the authorities had already issued licenses for new banks in Maldives as a way of increasing competition among banks.

The scope for diversification in Maldives was limited, particularly in the areas of industry and agriculture, Mr. Finaish observed. It was for that reason that the authorities had mainly concentrated their efforts on improvements in the existing sectors of fishing, tourism, and shipping. In that connection, the authorities were aware of the need for flexibility in the pricing policy of the fishing industry. Procurement prices were reviewed at the beginning of each contract period and were adjusted to reflect changes in costs, including fuel costs, in order to maintain an adequate profit margin for fishermen and to provide incentives for increasing output and productivity. A sizable upward adjustment in prices had been made in April 1980, and the incentives appeared to be working, as reflected in the high rate of increases in the catch and in the demand by fishermen for more mechanized boats. The authorities recognized the importance of fishing to the Maldivian economy--it represented 90 per cent of Maldives' exports and provided work for 50 per cent of the labor force--and would continue to make improvements where possible.

The Chairman made the following summing up:

> My understanding is that Executive Directors have indicated broad concurrence with the views contained in the staff appraisal of the report for the 1980 Article IV consultation with Maldives.

Directors commended the authorities for pursuing pragmatic development and financial policies that have led to rapid economic growth in recent years, mainly through modernization of the traditional fishing industry and development of the tourist sector. They welcomed a number of recent initiatives including a restructuring of the tax system, the formulation of a national plan, and efforts to diversify exports. These actions, in conjunction with continued attention to policies promoting the fishing and tourist sectors, were thought to augur well for the future of Maldives.

Directors noted the need for maintaining tax efforts to raise resources for development and for a more flexible procurement pricing system, and they welcomed the prospective establishment of the Maldives Monetary Authority.

The Executive Board then took the following decision:

Decision Concluding 1980 Article XIV Consultation

1. The Fund takes this decision in concluding the 1980 Article XIV consultation with Maldives, in the light of the 1980 Article IV consultation with Maldives conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Maldives maintains an exchange system that is free from restrictions on the making of payments and transfers for current international transactions.

Decision No. 6788-(81/42), adopted
March 20, 1981

5. FOOD IMPORT COSTS - FUND FINANCIAL ASSISTANCE - PROJECTED OPERATIONAL EXPERIENCE WITH INTEGRATED PLANS

The Executive Directors considered a staff paper outlining variants of a scheme integrated with the compensatory financing facility by which possible assistance could be provided to members adversely affected by higher food import costs (SM/81/52, 3/6/81).

Mr. Kastoft, Executive Secretary of the Development Committee, was present for the discussion.

The Chairman recalled that Executive Directors had discussed the matter of Fund assistance to finance food import costs on various occasions, most recently at EBM/80/179 on December 10, 1980. In its latest paper (SM/81/52), the staff had elaborated on operational aspects

of integrated plans and attempted to reply to all remaining unanswered questions that had been put to the staff on December 10, 1980.

What was important was to make as much progress as possible in discussing the matter in preparation for the Interim Committee meeting in Gabon in May, the Chairman continued. Even if a final decision could not be taken until after the meetings in Gabon, it would be helpful if Executive Directors could make their positions clear on the issues for consideration that had been provided by the staff.

In previous discussions, there had seemed to be a drift toward support for an integrated scheme in the compensatory financing facility mechanism, the Chairman noted, and it would be useful in the present discussion to hear from those who had preferred a separate scheme to see whether they might, as a compromise, be able to accept one of the proposed alternatives for an integrated scheme. In that context, he recalled that an 85 per cent majority of the total voting power would be required to approve the food facility, which would float in the reserve tranche. It would be helpful if Directors could speak in particular on the issue of the quota limits as well as on the eight operational questions and staff proposals on pages 35 and 36 of SM/81/52.

The Economic Counsellor noted that there were a number of typographical errors in the text of SM/81/52, which should be corrected. Item c on page 3 of the paper should read: "The net shortfall is calculated as the sum of the geometric shortfall in merchandise exports and the arithmetic excess in gross cereal imports." The words "but up to 12 months" in the fifth line of section 3 on page 35 should be changed to read "for up to 12 months." On page 37, in the paragraph before the footnote, the second line should read: "that overcomes the negativity problem, namely, by calculating the trend of merchandise exports net of cereal imports." The number "16" in the final paragraph on page 38 should read "10," and the reference to "page 16" in the first full paragraph on page 42 should be changed to "page 11."

Mr. Drabble commented that, in general, the staff paper appeared to address all of the questions and many of the problems that had been raised at EBM/80/179. One of the concerns of his authorities--the impact the food facility itself would have on food prices in a period in which there might be an imbalance between supply and demand--had not been directly addressed in the paper. It would have been helpful if some indication could be given of the approximate size of the possible financing involved in the various simulations in relation to total world trade in cereals. He suspected that such a calculation would show that the impact of a food facility on food prices might be fairly marginal, but he would appreciate further elaboration by the staff.

His chair accepted that the food facility scheme was a matter to which Ministers would wish to address themselves at the Interim Committee meeting in Libreville, Mr. Drabble continued. However, the complexity

of the issue suggested that it would be difficult for Ministers to cover all the finer points of detail involved in the food facility mechanism, and it was thus important for the Executive Directors to move as suggested by the Chairman toward narrowing differences of view as much as possible before placing the matter before the Interim Committee.

Commenting on the specific issues in the staff paper, Mr. Drabble stated that his Canadian authorities continued to feel that the proposal for a food facility mechanism was in the nature of a "stopgap" measure, addressing only one aspect of the very serious problem that would be facing the world over the next decade or two. Hence, in agreeing to adopt some form of food import compensation along the lines proposed in the staff paper, his authorities believed that the facility should be established for a specified initial period of perhaps four-five years. It would be useful to indicate to Ministers that the financing of cereal imports under the type of program proposed would not address the more fundamental problems of imbalances in world food supplies and that there was an urgent need for agencies other than the International Monetary Fund to pay attention to the problem. It was the view of many of his colleagues that the development banks and other more specialized agencies concerned with the problems of food were better equipped than the IMF to deal with the fundamental issues; and that point should be made to the Ministers.

His authorities continued to support a fully integrated scheme as one most compatible with the basic balance of payments criterion relevant to Fund assistance, Mr. Drabble remarked. While there might be certain operational conveniences associated with a partially separated facility, such an arrangement could lead to a situation in which countries were compensated for an increase in food import costs at a time when they might be experiencing relative strength in their exports. In the circumstances, it would be best to agree to a fully integrated scheme, which would take account of other important elements in the member's overall balance of payments situation.

With respect to the quota limits to be applied, Mr. Drabble said that his initial preference was for access of 100/50/125 per cent of quota within a fully integrated scheme. While he could be flexible on the subceiling for cereal drawings, it would be imprudent to go beyond an overall limit of 125 per cent of quota, particularly given the uncertainties regarding the Fund's liquidity position in the period--which might be quite long--prior to final agreement on the Eighth General Review of Quotas.

Turning to the eight specific points raised on pages 35 and 36 of the paper, Mr. Drabble reiterated his preference for specifying a limited period for the existence of the facility; and he could accept the proposal for biennial reviews. On the third point, at least for the initial period, he favored the proposal to allow members the option of including or excluding cereal imports on the occasion of their first request under the facility. At some stage, however, it might be necessary to return

to the whole question of options, not only that relating to the inclusion of cereal import costs but also those already in existence with respect to tourism and workers' remittances. One argument for having an option for tourism and workers' remittances was that many countries' statistics were often in a rough state and available only with a considerable time delay. The situation with respect to data had tended to increase the argument for an option. Under the proposed facility, however, there was less likely to be a problem with data availability, and it might be useful later to consider whether the exclusion or inclusion of cereal imports should be wholly optional. The Fund was moving toward a situation in which members were being invited only to submit data in the form that would enable them to draw the largest amounts of Fund resources and to favor something less than the more comprehensive measure when that was to their benefit. Still, given the operational uncertainties involved in the food facility scheme, it would be appropriate initially only to require a member to exercise the option on the occasion of its first request.

On point 4, he could agree to the staff proposals with respect to double compensation, Mr. Drabble said. However, there remained a number of questions related to the grant element of food aid and to how food aid should be treated more generally. One might ask, for example, whether concessional credits--not necessarily in grant form--should be included in double compensation provisions, although such an approach might be regarded as unduly niggardly; besides, difficulties might arise with respect to the calculations, given the various forms that bilateral food aid could sometimes involve.

The delineation of the "Food" items to be covered by the facility (point 5) were satisfactory, Mr. Drabble remarked. He did have a question, however, on the section on conditionality (point 6). When a country drew more than 50 per cent of its quota under the compensatory financing facility, there was a requirement for a substantive test of collaboration with regard to the member's general balance of payments problem. That test had been an important element in the operation of the compensatory financing facility, and he favored its retention for the combined drawings. With the great increase in the number of countries negotiating very conditional programs with the Fund--either under the extended Fund facility or stand-by arrangements--a great many countries facing balance of payments problems could be expected already to have programs that would satisfy the criteria of the test, so that its retention should not be an obstacle in most cases to further drawings under the facility combining a provision for the compensation of food imports. Nonetheless, he would be interested in hearing the views of his colleagues and the staff on his suggestion to retain the test.

His authorities were in favor of the proposal to float the scheme in the reserve tranche (point 7), Mr. Drabble commented. Finally, on the matter of access (point 8), it appeared that a fully integrated scheme would reduce any problems of access because the simulations in the staff paper showed that a fully integrated scheme with an option for food

import compensation was less likely to be attractive to higher-income countries than would be the case with a separate scheme.

Mr. Kabbaj noted that, on December 10, 1980 (EBM/80/179) his chair had supported the establishment of a food assistance program for members. He agreed with the Chairman that it was important for the Fund to take a meaningful and positive step toward assisting members adversely affected by higher food import costs and that it was appropriate for the Fund to be involved in such assistance.

Commenting on the staff paper, Mr. Kabbaj registered his objection to the exclusion of oil producers in the projection of the annual compensatory financing facility drawings for the 1981-85 period. That exclusion was highly prejudicial and not supported by the legal provisions of the compensatory financing facility decision. On other matters, his chair favored a food facility scheme that would provide additional resources for members and would not produce a net loss for any member of the Fund. His authorities continued to support strongly a separate scheme that was truly additional and could go along with the most liberal combination of quota limits. If the food facility was intended to assist the Fund's most seriously affected members, it should take appropriate account of their needs and introduce a meaningful level of additional resources for the purpose. The scheme's projected financial burden on the Fund seemed bearable; indeed, it should not introduce unreasonable pressure of the Fund's liquidity.

Remarking on points 1-8 on pages 35 and 36 of the staff paper, Mr. Kabbaj stated that he could support an initial period for the facility of four years, with biennial reviews. Since the preference of his chair was for a separate scheme, the matter of the option described in point 2 was not applicable. He could agree to the proposals on early drawings in point 3, and his only question on point 4 was to ask the staff for a better definition of what constituted stock accumulation, particularly given the variety of practices among members.

He was in full agreement with the staff on points 5-7, Mr. Kabbaj continued, although he wondered whether, since the proposed separate scheme was in fact a variation within the integrated scheme, an 85 per cent majority was required for approval. Finally, with respect to point 8, he believed that all members of the Fund should enjoy access to the food facility.

Mr. Peroz considered that the staff document clarified most of the issues raised at EBM/80/179 and provided a comprehensive picture of the problems of a potential food facility scheme and the consequences of the various possible alternatives. Like others, he hoped that the exchange of views in the Executive Board would provide the basis for a constructive discussion by the Interim Committee, from which the Board could draw useful guidance before taking a formal decision on the food facility. In that connection, the preference of his authorities continued to be for a separate scheme, which appeared to provide more significant and additional assistance and was thus best suited to the magnitude of the

problems likely to emerge over the next few years. Nonetheless, his authorities had indicated that, in a spirit of compromise, they could go along with an integrated scheme, but with a strong preference for the adoption of a quota limit of 100 per cent for cereal imports, associated with an overall 150 per cent limit on combined drawing under both proposed schemes.

With respect to other matters of operational policy, his authorities had indicated that they could go along with points 1-8 on pages 35 and 36 of the staff paper, Mr. Peroz continued, although they would prefer a period of application of five years--rather than four--which could be associated with a mid-term review of the facility. With respect to the exercise of the option, the preference of his authorities was for the alternative recommended by the staff.

Mr. Narasimham remarked that, in considering the design of the new facility, the Executive Board should keep in mind the particular needs of lower-income countries where food security was precarious at best. Historically, food supplies in those countries were greatly influenced by weather conditions, and experience showed that one year out of every three or four had been adverse enough to necessitate a sudden increase in food imports. Moreover, the low-income countries had not found it feasible to build up adequate stocks in good years because of a lack of available storage facilities and the high cost involved in building them. The years in which additional imports of food had been needed often coincided with sharp upward swings in the price of food, thus causing further strains on the balance of payments and disruption to development efforts as other imports had to be cut back. Altogether, as noted by Mr. Kabbaj, the case for instituting some sort of facility within the Fund to assist members adversely affected by higher food import costs was clear.

Assistance for higher cereal costs would have to be designed in such a way as to enable countries to overcome temporary and reversible excesses in food import payments arising both from production shortfalls and fluctuations in world prices, Mr. Narasimham continued. As the Chairman had observed on earlier occasions, such assistance would have to be additional in a meaningful way to other balance of payments assistance available from the Fund. Indeed, additionality of resources should be the key concept governing Fund decisions on assistance to members.

Commenting on the staff paper, Mr. Narasimham considered that the most important question had to do with which of the variants of integration should be adopted. During previous discussions on the subject, his chair had expressed a preference for a fully separate scheme, although the majority view appeared to be drifting toward a preference for a scheme that could be integrated with the compensatory financing facility. In the circumstances, he could agree to a separate scheme integrated only through joint quota limits, a scheme which would introduce a degree of flexibility and additionality within the ceilings set in respect of both cereal drawing and combined drawings. Simulation results in Table 3

of the staff paper indicated that, for the group of low-income countries, drawings under the separate scheme would be additional and clearly higher than under a fully integrated arrangement. Even with the most liberal quota limits, drawings by LDCs under an integrated scheme would represent an addition of only 18 per cent to the compensatory financing facility, while under a separate scheme the addition would be 56 per cent. With less liberal joint quota limits of 100/50/125 under an integrated scheme, 46 low-income countries would have had an increase of 11 per cent in drawings over the compensatory financing facility, while under a separate facility there would have been a 40 per cent increase. Also, total drawings would have shown an increase of SDR 1.3 billion under the integrated scheme as compared with SDR 6.3 billion under a separate facility. If the results were looked at from the point of view of 110 countries, regardless of the quota limits chosen, the advantage to most countries was obviously in a separate scheme.

Another clear advantage of the separate scheme was shown in the calculations in Table 4, based on the frequency distribution of gains and losses in simulated drawings under the two schemes, Mr. Narasimham noted. With a separate scheme, the gain was spread over a wide group of countries so that, regardless of the quota limits assumed, 104 countries would stand to gain. Moreover, losses occurred only under an integrated scheme, and it was certainly not the intention of the Board to devise a scheme under which low-income countries could stand to lose.

On the quota limits themselves, Mr. Narasimham remarked that his preference was for a higher combined quota limit than that indicated in the staff paper. However, if asked to choose from among the variants listed, his clear preference was for the most liberal set of quota limits, 100/100/125. If a consensus was to emerge in the Board for a somewhat more restricted limit, he could go along provided there was agreement for the variant of the separate scheme with combined quota limits.

The range of financial costs, over the short term, of operating the scheme under the various alternatives indicated that, even assuming the worst scenario of high prices and crop failure, the outer range of annual requirements for operating a separate scheme on the most liberal limits was placed at about SDR 1 billion, which was by no means an unmanageable figure, Mr. Narasimham considered. Assuming high prices and no crop failure in importing countries, the estimated cost was about SDR 780 million. However, under the integrated scheme in the worst case scenario, drawings were estimated to reach SDR 660 million with high quota limits and no more than SDR 370 million with low quota limits. In his view, if such a narrow-based scheme were to be established, it would not make a positive or meaningful contribution to the problem of excess food import costs, particularly given that the short-term outlook for grains was not likely to be favorable. Although the staff estimated that SDR 1 billion for a separate facility represented an outer limit, it could be argued that, to the extent a member's balance of payments need arose substantially from a surge in the cost of its cereal imports--and to the extent

that that need was met through the use of the food facility--it would not be necessary to use Fund resources under other policies to meet that need. In the circumstances, there might be some reduction in the use of Fund resources to offset the use attributed to the food facility.

Commenting upon the reference made to India in the staff paper, Mr. Narasimham observed that, on the basis of historical simulations covering the period 1962-77, the staff had correctly pointed out that India "dominates the results under both schemes." Severe drought had occurred in three of the years in question and, given the margin of food reserves on which India had operated in the past, had led to sharp increases in food imports. However, caution should be exercised in using the historical simulations to predict the future. India had not imported any cereal in the past three years; indeed, it had recently become a net exporter of cereal. The success of India's efforts to increase agricultural production and stock buildup had been clearly demonstrated in 1979 when, even after suffering through a drought of exceptional severity, India had not been forced to import foodgrains. A succession of bad years was of course not unknown in a country like India, and it was impossible to predict whether or not the future might again bring the need to import grains, but it was the hope--and even the expectation--that, in normal years, India would not need any food imports and that in good years it might continue to be an exporter of foodgrains. In general, then, the past pattern of global cereal imports might not necessarily serve as an appropriate basis for assumptions about the future.

Turning to points 1-8 on pages 35 and 36 of the staff paper, Mr. Narasimham stated, first, that he was in favor of establishing a food facility for an indefinite period, although subject to review by the Board at any time, or at least biennially as suggested by the staff. He could also go along with the staff suggestion that flexibility should be employed in calculating the excess in cereal imports and that, to enable a speedy response, the data could be estimated for up to 12 months of the excess year as was done at present in a related context with data on tourism and workers' remittances.

He had no difficulty with the staff comments on the avoidance of double compensation, Mr. Narasimham said, although he wondered whether the adjustment for stock buildup in a year of excess cereal imports had not been overemphasized. Any buildup of stocks in one year was likely to some extent to be self-correcting in subsequent years in that the buildup might reduce the need for cereal imports up to levels that otherwise might have been required. On a related matter, it might be worthwhile giving consideration in the future to a possible extension of the facility to finance national buffer stocks. Developing countries found it difficult to divert resources to building up stocks due to the cost of physical construction of storage facilities and of inventory accumulation. Yet the existence of such stocks had tended to ease the burden on other importing countries because demand on the world market was reduced. A drawdown of over 10 million tons of foodgrain stocks in India over the past two or three years was an indication of the measure of additional demand on world supplies that might have occurred in the absence of such stocks.

With respect to the food items to be covered by the new facility (point 5), Mr. Narasimham recalled that the Governor for India, at the most recent Interim and Development Committee meetings, had pleaded for the coverage to be widened to include all food items and not only cereals. It was recognized that the problem with cereals was perhaps the most acute and should be addressed first, although once the facility was in place consideration should perhaps be given to covering other food imports such as vegetable oils.

Commenting on the question of conditionality, Mr. Narasimham stated that he had no difficulty with the requirement that the excess of cereal imports must be due to factors beyond the member's control and that the member should have a balance of payments need and should undertake to cooperate with the Fund in finding appropriate solutions to the problem. Nonetheless, he was not enthusiastic about Mr. Drabble's suggestion, which implied that more severe conditionality tests should be applied beyond 50 per cent of the combined quota limits.

On point 7, he was in favor of the facility--in whatever manner it was instituted--floating in the reserve tranche, just as was done with the compensatory financing facility, Mr. Narasimham remarked. Finally, while all Fund members should have access to the facility, he presumed that the industrial countries would exercise self-restraint as they had done under the compensatory financing facility; and he hoped that the capital surplus oil countries would do the same.

Mr. Price, commenting on the main policy issues in Section V of the staff paper, noted that his authorities could support a scheme of limited duration that was fully integrated into the compensatory financing facility and clearly confined to cereals rather than to food in general. His authorities were not willing to support a separate scheme, for reasons he had outlined in previous discussions. The Fund's primary objective should be to meet the overall balance of payments needs of its members, an objective that would be fully taken into account in the integrated scheme. The staff simulations showed that such a scheme would be technically feasible and would provide considerable additional resources with low conditionality, especially as quotas had recently been increased under the Seventh General Review; and the prospective cost of the facility should be manageable for the Fund, even bearing in mind existing liquidity constraints.

More specifically, Mr. Price continued, his authorities could support a fully integrated scheme with limits of 100/100/125 per cent of quota, which was presented as case 2 in Tables 3 and 8 of the staff paper. Such a scheme had the advantage of flexibility and should allow members to draw up to 100 per cent of their quota solely for an excess in cereal imports, which was more than would be available under two variants of the separate scheme. Additional drawings under the proposal

could average between SDR 330 million and SDR 590 million in the short term. Moreover, the latest Interim Committee communiqué had envisaged that low-income countries would be the main beneficiaries of any such facility; as pointed out by the staff, with an integrated scheme, additional drawings by the low-income countries were "substantially higher" relative to drawings by other countries.

Regarding the period of application of the facility (point 1), Mr. Price considered that the new arrangements should be for a limited period, given the uncertainties involved. The termination date should be clearly written into the decision, although the Executive Board could, of course, decide later to extend the period in light of experience. It might be preferable to set the date for termination as the effective date of the Eighth General Review of Quotas or four years, whichever came first. He could also agree to an interim review after two years, which should give an indication of how the scheme was operating.

He could endorse the staff's recommendation on the exercise of the option (point 2), Mr. Price continued. The case for permitting early drawings on the basis of data estimated for up to 12 months of the excess year was understandable and might be necessary in some instances where the prospective financing of excess cereal imports had to be related to a crop failure that had only just occurred. However, he expected that, where possible, cereal imports would be treated on the same basis as commodity exports for which estimates for up to 6 months of the shortfall year were allowed. Such an approach would be more consistent with an integrated scheme.

The staff proposals with respect to double compensation, coverage, and floating were all acceptable, Mr. Price remarked; however, as the coverage was to be limited to cereals, it might be best to avoid misunderstanding and change the title of the scheme from "Food Facility" to "Cereal Facility." As far as conditionality was concerned, the cereal import excess should be temporary and largely beyond the member's control; moreover, the member should demonstrate a balance of payments need and should cooperate with the Fund. Any member drawing beyond 50 per cent of quota under the compensatory financing facility, whether to finance an export shortfall or an excess of cereal imports, should be required as at present to meet the stricter test of cooperation. Where a member had cereal import problems of a persistent or long-term nature, the cooperation requirement should be similar to that under the compensatory financing facility and should require appropriate measures aimed at dealing with the member's problems so that the overall balance of payments could be strengthened. Finally, the cereal option should in theory be open to all Fund members so as to be consistent with the principle of uniform treatment. However, in practice, he expected that both industrial countries and major oil exporters would exercise self-restraint, as they did at present with the compensatory financing facility.

Mr. Polak noted that there seemed to be growing support for the proposed food facility and considered that it was important to consolidate

views and settle as many details as possible before the meeting of the Interim Committee in Gabon. His own preference was for a facility that was fully integrated, with limits of 100/50/125 per cent of quota, and with the same conditionality as that applied in respect of the compensatory financing facility. Based on the Fund's principles, the case for integration seemed overwhelming; and he had not been convinced by Mr. Narasimham's argument that an integrated scheme would produce less money than a separate one. The Fund should deal with members' overall balance of payments problems and not divide those problems, for the purposes of financing, into difficulties that would be dealt with by separate facilities. Indeed, there was a danger in separate facilities that had been evidenced in the Fund's own experience. The oil facility had been patterned along the lines of the compensatory financing facility, although no one at the time had given any thought to integrating the two; the net result had been that a number of countries with very high export proceeds had nevertheless drawn on the oil facility because they had been able to show some increase in oil import costs. When those cases had come to the Board they had been accepted because the drawings had been technically justified, although a number of Executive Directors felt that the requests were not appropriate. The Fund should not create a similar situation by setting up a separate food facility under which, perhaps because of inflation, countries with high export proceeds and high import costs for cereals would be able to draw for the cereal costs even though they could easily finance those costs out of the high export proceeds.

The case for a combined quota limit of 125 per cent was a good one, Mr. Polak remarked. First, it was important to be careful about the Fund's liquidity in present circumstances, and even more so because the compensatory financing facility had recently been increased. Second, the data in Tables 4 and 7 in the staff paper suggested that the limit of 125 per cent would be sufficient in almost all cases. Very few countries would be added by moving from a combined ceiling of 125 per cent to 150 per cent; it would therefore be prudent to operate at the lower figure. Similarly, the subceiling for cereals of 50 per cent would be adequate in almost all cases. Indeed, the simulations showed that moving from quota limits of 100/50/125 to 100/100/125 would have produced additional money in the past for only two countries, India and Egypt. Given the indication by Mr. Narasimham that the figures for India were irrelevant, as the country had become self-sufficient in cereals in recent years, a 50 per cent subceiling for cereal drawings was sufficient. There was also the more general argument that data for the past were not necessarily an effective indicator for the future, and it might therefore be worth looking at the original proposal for a food facility that had been prepared by the Food and Agricultural Organization and the World Food Council. In that paper, six sample cases had been selected with an eye to achieving adequate compensation in particular situations, and the simulations had led to the conclusion that "assistance under a facility could be adequate even if it were limited to 50 per cent of members' quotas in the Fund."

On the matter of conditionality, the staff had been somewhat vague, Mr. Polak considered. With the integration of the cereal option into the compensatory financing facility, conditionality should remain as it was at present in the compensatory financing facility; the causes of the higher food import costs should be largely attributable to circumstances beyond the control of the member and the conditionality should become more severe after 50 per cent had been spent under the facility. Finally, he had no difficulty with the staff comments or proposals mentioned in the other points on pages 35 and 36 of the staff paper.

Mr. Kafka, noting that he was not prepared to take a position on the various aspects of the food facility at the present stage, stated that he would be interested in simulations based on a scheme with quota limits of 100/100/175 per cent.

The staff representative from the Research Department indicated that the simulation requested by Mr. Kafka would be produced before the end of the day.

Mr. Sigurdsson remarked, first, that he agreed with others that Executive Directors should proceed to a decision in principle on the establishment of a food facility and its main characteristics before the Gabon meeting of the Interim Committee. On the specific issues for consideration on pages 35 and 36 of the staff paper, his authorities had a strong preference for a scheme fully integrated with the compensatory financing facility. He particularly welcomed the work the staff had done in finding ways of overcoming the technical difficulties it had earlier seen as obstacles to integration. He could accept the definition of the shortfall as the sum of an ordinary compensatory financing facility shortfall based on a five-year geometric average for exports and the excess of cereal imports based on a five-year arithmetic average. Still, it seemed that a better method of integrating food import costs might be to adjust exports for changes in food import costs in a multiplicative manner by dividing through the export series used for compensatory financing facility purposes with a food-cost adjustment factor reflecting the relative weight of food imports in total imports and fluctuations in food import costs and then by proceeding with the usual geometric technique of the compensatory financing facility for the adjusted export figures. That calculation would be more in line with the basic purposes of the compensatory financing facility than the hybrid sum of a deviation from a geometric average for exports and a deviation from an arithmetic average for cereal imports as proposed by the staff.

Results of simulations based on the multiplicative method of calculation were close--at least in the aggregate--to the results of the method actually proposed by the staff, Mr. Sigurdsson commented. Hence, while he could accept the staff's proposal, he continued to feel that the multiplicative method was both formally and in substance better suited to the task of modifying what was essentially a facility dealing with export fluctuations in order to take account of the effects of food import cost increases that occurred suddenly. Under the multiplicative

method, the cereal imports in excess of total exports were not accepted as the basis for drawings, which were always based on a positive transformation of export earnings.

He also had two minor comments of a technical nature, Mr. Sigurdsson continued. The first related to the proposed definition of net shortfall under paragraphs a, b, and c on page 3 of the staff paper. It seemed obvious that, in an integrated scheme, the excess in cereal imports should always be calculated on a gross basis; however, he was puzzled by the description in paragraph b and in footnote 1. In his view, the references to net cereal imports in those paragraphs could be deleted because they seemed to be redundant. Any fluctuations in exports should, of course, be taken care of on the export side of an integrated scheme, which was what the staff had done in its simulations. If the details of the scheme as described on page 3 were written out formally, the text would indicate double counting of shortfalls of cereal exports if the net concept of cereal imports was used. A clarification would be helpful.

His second comment concerned the comparison of the two schemes in Section II of the staff paper and was related to Mr. Narasimham's remarks, Mr. Sigurdsson said. In the summary of results on page 15 it was stated under item (4) that under the integrated scheme the gains by a few countries accounted for a significant share of the total gains. While that was of course true for the integrated scheme--as confirmed in Table 4--it was equally true of the separate scheme, again judging by the evidence presented in Table 4. It seemed that the two countries with more than 5 per cent in gains accounted for 49 per cent of total gains under the integrated scheme, but the two countries with more than 5 per cent in gains had 36 per cent of total gains under the separate scheme. In the next two columns in the table, the figures showed two countries with 45 per cent of the gains for the integrated scheme and two countries with 38 per cent of the gains for the separate scheme; the figures could hardly be regarded as conclusive evidence of a difference between the two schemes, and he would appreciate staff comment on that point.

Turning to the other issues of operational policy on pages 35 and 36 of the staff paper, Mr. Sigurdsson said that his authorities supported a fully integrated scheme with the quota limits of up to 100/100/125 per cent. The Fund's liquidity position clearly placed constraints on the quota limits, and in view of the fact that the subceiling on cereal drawings was in a sense the "new" feature, he would appreciate elaboration by the staff of the effects of varying the subceiling in the range of 25 per cent to 100 per cent of quota and perhaps beyond. His own impression was that the effect would be small.

He agreed with the staff on point 1, that the food facility addition to the compensatory financing facility should be established for an initial period of four years with a biennial review, Mr. Sigurdsson continued. Moreover, he joined Mr. Drabble in suggesting that Ministers at the Gabon meeting of the Interim Committee might consider that, during the initial period, the Fund should be in contact with other international

agencies to study the possibilities of a suitable form for food financing outside the Fund. He also agreed with the staff's recommendation in point 2 that members should declare their decision to join the integrated facility on the occasion of their first request after the facility had entered into force.

His authorities had no difficulty going along with the staff recommendations with respect to points 3-8, Mr. Sigurdsson remarked, although the recommendation on conditionality should perhaps have gone further. The conditionality currently applied to the compensatory financing facility should also apply to the integrated scheme; changes in food import costs would have to be seen to be beyond the member's control and, if the drawing was substantial, the undertaking of cooperation with the Fund should be spelled out clearly as was the case at present with the compensatory financing facility. It seemed likely that the determination of which events were beyond the control of members would be even more difficult for the food facility than for the compensatory financing facility. Some of the food shortage situations presently plaguing the world were not only the result of a limited and temporary food shortage resulting from a natural calamity but were, in part, the result of man-made disasters, notably civil strife. And the distinction between what was within and outside the control of governments could become even more of a problem when the cereal facility entered into operation.

The Economic Counsellor, responding to Mr. Sigurdsson's question regarding the use of the word "net" to refer to cereal imports in paragraph b and footnote 1 on page 3 of the staff paper, said that it was important to talk about net cereal imports when dealing with the excess in cereal imports as was done in paragraph b.

Mr. Sigurdsson indicated that he had no objection to the definition of net cereal imports as such; he had only suggested deleting the reference because it had no relevance to the simulations that had been made in the staff paper and was therefore not appropriate under an integrated scheme. The paper could therefore be simplified by deleting the reference.

The Economic Counsellor remarked that, given the technical nature of Mr. Sigurdsson's point, he would prefer to discuss it outside of the meeting.

A staff representative from the Research Department, commenting on Mr. Sigurdsson's second point, agreed that the reference in item (4) in the summary of results should have been to drawings under both schemes rather than only to the integrated schemes.

Mr. Schneider observed that the comprehensive staff paper served to demonstrate how difficult it was to fit a segment of the balance of payments into the framework of the Fund's general policy. As he had noted in previous discussions, he was not convinced that the Fund, as an international monetary institution, was the most appropriate agency to provide the sort of aid that was being contemplated under the food facility. He

did not deny that the problem of rising food costs was a serious one, particularly for low-income countries; but there were other international institutions better suited to deal with it.

In EBM/80/179, he had indicated as the first preference of his chair a kind of "disaster" tranche that would have enabled the Fund to deal with the problem of food shortages beyond the control of the authorities in a rather flexible way, Mr. Schneider continued. However, since it appeared that the majority of the Board was willing to look toward an assistance scheme within the existing compensatory financing facility, he would not press his point. From among the proposals suggested by the staff, he preferred a fully integrated scheme, with a combination of quota limits that would not unduly burden the liquidity of the Fund with potential claims on its ordinary resources. In that context, special attention should be given to the Fund's financial position, especially in present circumstances. Section III of the staff paper provided sufficient guidance to assess the financial requirements for the short and medium term and, considering the range of potential drawings under different assumptions and integrated schemes as outlined in Table 8 of the paper, he would opt for an overall limit of 125 per cent of quota. As far as the subceiling for cereals was concerned, a limit of 50 per cent was a reasonable starting point, although he was not fully wedded to that figure.

Commenting on points 1-8 on pages 35 and 36 of the staff paper, Mr. Schneider stated that he preferred a limited period of existence for the facility--either four or five years, or the effective date of the Eighth General Review of Quotas--after which it could be decided in the light of experience whether or not the facility should be continued. In addition, he could agree to biennial reviews of the facility.

He agreed with the staff that members should have an option to declare their decision whether or not to join the integrated facility on the occasion of their first request (point 2), Mr. Schneider continued. And he could support the possibility under point 3 of early drawings, in order to be responsive to an urgent need in the event of crop failures; and such drawings should be subject to an early repurchase provision.

Remarking on the issue of double compensation (point 4), Mr. Schneider said that he did not object to deducting the grant element of food aid from the total value of cereal imports. However, regarding adjustments for any stock accumulation during a year in which the increase in stocks was calculated, he wondered whether it would be possible to define a reasonable or traditional level of cereal stocks and make the adjustment only for the accumulation of stocks beyond that level. In other words, he wondered whether a country should be allowed to renew its cereal stocks to a normal level without facing adjustment.

On the matter of conditionality, Mr. Schneider remarked that he had the impression that the relevant paragraph (point 6) was somewhat weak. First, there was no reference to the temporary character of the cereal

import excess, which seemed to be an important element in the Fund's policies. In addition, the somewhat stricter test of cooperating with the Fund in finding appropriate solutions beyond the threshold of 50 per cent for drawings under the compensatory financing facility should also apply to a modified facility regardless of whether the threshold was surpassed by regular compensatory drawings or by drawings for covering a cereal import excess. He had no difficulty with points 5, 7, and 8 in the staff paper. Finally, like others, he hoped that it would be possible for Executive Directors to agree in principle on a decision before the Gabon meeting of the Interim Committee.

Mr. Hirao reiterated the support he had expressed on an earlier occasion for the fully integrated scheme. It was important to avoid the proliferation of new facilities for each specific source of balance of payments difficulty, and the allocation of available resources under the fully integrated scheme was more rational in the sense that member countries suffering from increased food import costs and/or shortfalls in exports could receive Fund assistance more in line with their balance of payments needs than if the assistance were accorded under a separate scheme.

On the matter of the quota limits, Mr. Hirao said that he preferred an overall limit of 125 per cent of quota with a 100 per cent subceiling for export shortfalls and a 50 per cent subceiling for excess cereal imports. An increase in the total quota ceiling was necessary to provide a certain amount of additionality to the new scheme; however, in view of the need to maintain a balance in the use of Fund resources as between credit tranches and other less conditional facilities, the increase in the total ceiling should be relatively modest. He favored the 50 per cent subceiling for the excess of food imports because it had been Fund practice to give emergency assistance up to 50 per cent of quota to countries suffering from disasters; besides, the staff paper indicated in its simulation analyses that the 100/50/125 per cent of quota scheme would afford an appropriate level of average drawings, particularly given potential increases in the Fund's resources over the coming years.

On the period of application of the facility, Mr. Hirao supported the staff's suggestion to adopt the scheme for an initial period of four years with a biennial review. During that period, the Fund should take account of developments, if any, in various other agencies that might be providing food assistance.

The question of double compensation was an important one, Mr. Hirao continued, and he agreed with the staff that an appropriate deduction should be made when the period of two drawings overlapped under the facility. A similar deduction should be considered when sources other than the Fund provided assistance to the country concerned for the same problem. In implementing the deduction scheme, care should be taken to prevent the Fund's scheme from discouraging the relevant country from seeking assistance from other sources. In that connection, the staff had suggested that the grant element of food aid should be deducted from

the value of cereal imports for which the Fund assistance was being sought. He also supported the staff proposal that adjustment should be made to avoid compensation for any stock accumulation.

With regard to the question of conditionality, Mr. Hirao said that he supported the staff proposal. However, the staff had not presented a definite view about the application of a stricter test of cooperation, which he would like to see applied to any drawings that would bring the Fund's holdings of members' currencies under the modified compensatory financing facility scheme beyond 50 per cent of quota.

As far as access to the facility was concerned, it was important that the availability of assistance be effectively limited to developing countries, Mr. Hirao commented, and he expected that industrial countries would voluntarily refrain from making use of the facility. Finally, he could support the staff recommendations with respect to early drawings, coverage, and floating.

Mr. Askari remarked that, although some members of the Executive Board had recognized the need to deal with the food problem in its wider context of development, it had been accepted that the role of the Fund was fundamentally that of a source of finance to help countries meet "transient and reversible" situations. The idea underlying the proposal was to assist countries in times of difficulty arising from either an increase in world food prices or a domestic crop failure that resulted in increased food import costs. To the extent that the role of the Fund was confined to the provision of funds to meet increased food import costs, the assistance would be helpful in giving members recourse to additional financing. The mechanism to be chosen should ensure additionality with due regard to the financial position of the Fund. With those considerations in mind, he found the completely integrated scheme to be inappropriate. The major drawback of the integrated scheme was that it would implicitly penalize countries that experienced an improvement in their exports even though they were eligible for food import compensation; it would also discriminate against countries experiencing export shortfalls but recording increases in their domestic cereal production. While such discrimination might be acceptable for wealthy countries, it was inappropriate for countries that were operating on a very thin margin and that were experiencing a temporary and reversible difficulty.

During the previous Board discussion on the food facility (EBM/80/179), his chair had supported a separate scheme with no joint quota limits, Mr. Askari continued. He continued to favor such a facility, although--given the trend of views expressed at the previous meeting--he could accept a separate facility with joint quota limits. A modified separate facility, which would float in the reserve tranche, represented an alternative under which the Fund could help on a meaningful basis to meet the financial needs of members arising from fluctuations in food import costs. In accepting joint quota limits, his preference was for a ceiling on combined drawings of 150 per cent of quota with separate

quota limits of 100 per cent for drawings under the compensatory financing facility and under the food import facility. The scheme should be accessible only to countries experiencing balance of payments difficulties, and he urged the industrial countries to adopt the same policy of self-restraint as under the compensatory financing facility. Finally, before taking a position on the matter of double compensation, he would appreciate further staff comment on the references to adjustments for stock movements.

Mr. Buira welcomed the continuation of the discussion on the topic of world food security and the possibility for Fund assistance to member countries adversely affected by higher food import costs. The outlook of the world grain situation as provided by the staff gave a clear indication of the magnitude of the problem. It was worrisome to note that for the second consecutive year world grain production had fallen substantially below consumption. As a result, stocks would continue to be drawn down and would reach a level considerably below that considered safe for world food security. In the absence of substantial expansion in output, the workings of the market mechanism to allocate the scarce grain flows would give rise to sharper price increases in the next several years. Even assuming a significant expansion of grain output over the period, the need to replenish stocks would prevent prices from stabilizing; if production declined or stagnated, there would presumably be a sharp acceleration in price increases.

The fundamental problem of food production deserved urgent attention by countries and by development institutions, Mr. Buira said, but the situation was such that consideration of the matter by the Fund was also appropriate. At best, under current conditions of shortages in the cereal markets and of general international recession, numerous developing countries would have to cut other imports needed for development and for maintaining levels of activity in the short run if additional financial assistance was not available. The interrelationship between finance, trade, and output fell technically within the purview of the Fund, an institution designed to promote financial cooperation in order to "facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

Turning to the alternative schemes presented in the staff paper, Mr. Buira considered that the separate scheme was the only one that really provided significant assistance for higher food import costs because, under the integrated scheme, the excess in cereal imports might be offset by merchandise exports. Under the separate scheme, however, a member could draw for an excess in cereal imports irrespective of whether or not there existed an expansion in exports. In a number of developing countries facing a difficult balance of payments situation--including some in his own constituency--the so-called excess in merchandise exports was sometimes the result of restraints imposed on internal consumption in order to improve the balance of payments situation. Assuming

that a developing country was confronted by higher food import costs, its efforts to resolve the problem would be nullified under the integrated scheme because there would be no additional financial assistance available to ameliorate the situation. Faced by such a risk, many members might not use the scheme, even though they had a need for it. Even the staff had recognized implicitly that such a risk would not arise under a separate scheme.

The overall financial requirements of operating the separate scheme, subject to proposed quota limits, appeared to be reasonable and even modest in relation to the magnitude of the problem to be tackled and to the estimates for prospective operations in 1981, Mr. Buira said. He could be flexible with respect to quota limits, although his preference was for ceilings of 100/100/150 per cent of quota.

On other matters of operational policy, Mr. Buira remarked that he could agree with the staff recommendations. First, the facility should be established initially for a specific number of years, and it should be reviewed periodically. Second, if the integrated facility was established, members should be able to declare their decision whether to join the facility on the occasion of their first request after its entry into force. Third, in order to provide for a speedy response in the event of a crop failure, the staff should be permitted to estimate data on cereal imports for up to 12 months of the excess year. He agreed with the view that adjustment should be made to avoid double compensation along the lines suggested by the staff. On the question of coverage, cereals should be defined to include items under Standard International Trade Classification 041-046. Staff suggestions with respect to conditionality and floating were acceptable, and he believed that all Fund members should have access to the facility, although he expected that some groups of members would exercise self-restraint. Finally, since it was important for the Fund to establish a meaningful scheme that would provide significant additionality, he reiterated his reservations about establishing a fully integrated scheme subject to a 125 per cent quota limit. Such a scheme would be of little interest to several countries in his constituency since additionality would be negligible and the risks of joining the scheme would be considerable. He noted that his preference for greater additionality was shared by all potential beneficiaries.

The Executive Directors agreed to continue their discussion in the afternoon.

## DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/80/41 (3/13/81) and EBM/81/42 (3/20/81).

### 6. IVORY COAST - TECHNICAL ASSISTANCE

In response to a request from Ivory Coast for technical assistance, the Executive Board approves the proposal set forth in EBD/81/76 (3/10/81).

Adopted March 13, 1981

### 7. UGANDA - TECHNICAL ASSISTANCE

In response to a request from Uganda for technical assistance, the Executive Board approves the proposal set forth in EBD/81/75 (3/10/81).

Adopted March 13, 1981

### 8. RELATIONS WITH GATT - CONSULTATIONS WITH CONTRACTING PARTIES - FUND REPRESENTATION

The Executive Board approves Fund representation at the next round of GATT consultations to be held in Geneva, as set forth in EBD/81/81 (3/13/81).

Adopted March 18, 1981

### 9. WORKERS' COMPENSATION - WAIVER OF IMMUNITY

The Executive Board approves the proposal set forth in EBAP/81/81 (3/12/81).

Decision No. 6789-(81/42), adopted
March 17, 1981

### 10. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the proposal set forth in EBAP/81/83 (3/13/81).

Adopted March 17, 1981

11. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 80/157 through 80/160 are approved (EBD/81/77, 3/11/81).

Adopted March 17, 1981

12. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 80/161 through 80/164 are approved (EBD/81/80, 3/13/81).

Adopted March 19, 1981

13. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/81/85 (3/16/81) and EBAP/81/87 (3/17/81) is approved.

APPROVED: August 17, 1981

LEO VAN HOUTVEN
Secretary