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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 76/51

#8

10:00 a.m., March 24, 1976

H. J. Witteveen, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors

J. Amuzegar
P. Asbrink
S. Y. Cross

N. Deif
B. J. Drabble
R. Gavalda

S. Jagannathan

K. Kawaguchi

P. Lieftinck
H. R. Monday

E. Pieske

F. Suárez

R. J. Whitelaw

Alternate Executive Directors

C. P. Caranicas
J. H. Kjaer

H. G. Schneider
M. Finaish
D. Lynch
S. Sevilla
S. Arancibia, Temporary
W. M. Tilakaratna
W. Temple-Seminario
M. Wakatsuki
Sein Maung
T. de Vries

E. O. de Toledo
E. Sacerdoti, Temporary
G. Laske
P. J. Bull
R. Guarnieri
J. Foglizzo

S. Nana-Sinkam

W. L. Hebbard, Secretary
B. J. Owen, Assistant

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Also Present

G. D. Popovic, Alternate Executive Director, IBRD. African Department: M. Toure, Director. Asian Department: D. A. Scott, S. M. Thakur. European Department: T. Gudac, L. Hansen, R. P. Hicks, A. F. Mohammed, G. Tyler, C. Wollan. Exchange and Trade Relations Department: E. Sturc, Director; M. Allen, E. H. Brau, K. B. Dillon, S. Mookerjee, T. Sweeney. Legal Department: J. Gold, General Counsel and Director; J. G. Evans, Deputy General Counsel; G. P. Nicoletopoulos, Deputy General Counsel; R. C. Effros, P. R. Lachman, A. Liuksila, J. K. Oh, S. A. Silard, J. V. Surr. Research Department: J. J. Polak, Economic Counsellor and Director; A. D. Crockett, J. S. Smith. Treasurer's Department: D. S. Cutler, D. Williams. Western Hemisphere Department: E. W. Robichek, Deputy Director; S. T. Beza. Bureau of Language Services: J. S. Haszard, Director. Information Office: L. R. Azocar, H. Hartmann. Internal Auditor: J. W. Lowe. Personal Assistant to the Managing Director: D. W. Green. Advisors to Executive Directors: J. K. E. Cole, F. K. Hussein, A. Malek. Technical Assistants to Executive Directors: V. Amiel, E. Avillez, C. J. Batliwalla, M. Berger, D. Berthet, I. M. Cobbold, B. Goos, G. Heyden Q., R. Khonsary, H. Kuroda, E. Leung, C. J. Lohmann, A. G. Morris, K. Nakayama, A. B. Nymark, C. C. Ozumba, S. K. Panya, M. Pietinen, S. B. Satyal, S. P. Upasani, A. van Dorssen, L. F. Vilches, P. Zimmer, A. G. Zoccali.

1. OIL FACILITY - YUGOSLAVIA - INTENTION TO REQUEST PURCHASE

The Executive Directors considered the intention by Yugoslavia to request a final purchase under the oil facility (EBS/76/120, 3/12/76, and Sup. 1, 3/19/76).

Mr. G. D. Popovic, Alternate Executive Director, IBRD, was present.

Mr. Lieftinck recalled that when the previous drawing by Yugoslavia under the 1975 oil facility had been discussed (EBM/76/15, 2/9/76), questions had been raised about the export/import linking arrangements organized by the Yugoslav Chamber of the Economy. It had been understood that that feature should be further explored, and he was grateful for the accurate description of the arrangements in the staff paper, prepared as a result of a brief mission to Yugoslavia. He did not believe the arrangements created any difficulties at the present time in connection with the request for make a purchase under the oil facility. However, he welcomed the intention to discuss the subject further with the Yugoslav authorities during the forthcoming Article XIV consultation discussions.

Mr. Temple-Seminario and Mr. Monday recorded their support of the proposed decision.

Mr. Laske said that he also fully supported the request by Yugoslavia. He had read with interest the explanation of the linking system and welcomed the proposal to discuss it further on the occasion of the Article XIV consultation; he still felt that it might have restrictive aspects.

Mr. Bull observed that the description in the staff paper of the linking arrangements organized by the Yugoslav Chamber of the Economy went a long way toward clarifying the position. It did not, however, altogether remove the doubts of his authorities about the exact nature of the decision by the Federal Executive Council, published in the "Official Gazette" No. 27 of May 31, 1975, as described in EBS/76/120, Supplement 1. He had also noted that the Federal Government was considering a proposal to abolish the decision, since it had not proved necessary to implement it. Nevertheless, the staff had raised valid points in an area of Fund concern in referring to the implications, both for economic efficiency in Yugoslavia and for the interests of other members, of an emerging structure in which decisions concerning foreign trade were made under "self-management" agreements among enterprises. Thus, he hoped the staff would pursue the matter with the Yugoslav authorities during the forthcoming consultations.

Mr. Caranicas joined other Executive Directors in supporting Yugoslavia's request for a final purchase under the oil facility.

Mr. Cross said that he thought the points raised by Mr. Bull merited careful attention. It was not necessary to re-examine Yugoslavia's economic situation in detail since it had been considered in connection with the previous request for a purchase under the 1975 oil facility. But he was curious about what appeared to have been an unexpected spurt in monetary expansion late in 1975, and he wondered whether the target of an 18 per cent increase in money supply for 1976 continued to be realistic. The financial program for restraining aggregate demand was expected to yield only a marginal improvement in the current account, and it was essential for the authorities to be able to adhere to the monetary and fiscal targets if there was to be a strengthening of the balance of payments in the medium term.

The staff representative from the European Department explained that the surge in credit in the last quarter of 1975 had been largely associated with a revival in domestic activity. The authorities were concerned about remaining within the target of an 18 per cent increase in money supply for 1976 and, to that end, proposed to do their best to keep the expansion of credit below that rate.

With regard to the wider issue of the export/import linkage arrangements, the staff representative noted that, as stated in the staff appraisal, the matter would be considered in depth on the occasion of the forthcoming Article XIV consultation discussions.

Mr. Lieftinck thanked Executive Directors for their support.

The Executive Directors then turned to the proposed decision, which they approved.

The decision was:

1. The Fund has received a communication dated March 10, 1976 from the Government of Yugoslavia informing the Fund of Yugoslavia's intention to request a final purchase under Executive Board Decisions No. 4634-(75/47), adopted April 4, 1975 and No. 4954-(76/16), adopted February 11, 1976. Yugoslavia has made representations in accordance with paragraph 5 of Decision No. 4241-(74/67), adopted June 13, 1974.

2. The Fund determines that a purchase in an amount equivalent to SDR 56.15 million would be in conformity with the decisions cited above, agrees to the purchase, notes the representations made by the Government of Yugoslavia in accordance with paragraph 5 of Decision No. 4241-(74/67), and grants the necessary waiver of the conditions of Article V, Section 3(a)(iii), of the Articles of Agreement on the repurchase terms set forth in the communication dated December 19, 1975.

Decision No. 5012-(76/51), adopted
March 24, 1976

2. AMENDMENT - REPORT TO BOARD OF GOVERNORS, DRAFT RESOLUTION, AND
DECISION

The Executive Directors considered the second draft of their report to the Board of Governors on the second amendment of the Articles of Agreement, together with a draft Resolution to which the proposed amended Articles were attached, and a draft Decision (DAA/76/11, 3/22/76; DAA/76/10, 3/19/76). They also had before them a list of changes of more than editorial interest that had been made in the revised draft of the report as the result of recent discussions in the Executive Board (see Annex).

The General Counsel said that he had received a number of suggestions for editorial improvements in the report, which he proposed to incorporate unless there was any objection to that procedure.

Mr. Cross referred to paragraph (f) on page 64 of the report, dealing with the interpretations and conventions for calculating whether a member had the right to appoint an additional Executive Director. He believed that it had been accepted in the discussions in the Executive Board that there was a strong presumption that past techniques would continue to apply. Therefore, he proposed that paragraph (f) should end after the words "existing interpretations and conventions would continue to apply"; the remainder of the paragraph would then be deleted.

Mr. Liefstinck said that he understood Mr. Cross' concern; but he wondered whether it would not be more in line with language used elsewhere in the report if the sentence cited by Mr. Cross were to be prefaced with the words "it is the intention" or "the expectation" that "existing interpretations and conventions would continue to apply." Such a formulation would offer more flexibility.

The General Counsel remarked that either formulation would be acceptable, with the understanding that there would be no legal reason why a future Executive Board should not change a particular interpretation for good reason, whichever formulation was adopted.

Mr. Cross agreed with the General Counsel that there was no intention to bind future Executive Boards. He had a preference for not adding the words proposed by Mr. Liefstinck because they tended to suggest the contrary.

Mr. Caranicas suggested that instead of deleting the last sentence, it could be prefaced by the term Mr. Liefstinck had mentioned. His impression was that the last sentence of paragraph (f) had been the subject of a long discussion and of a delicately balanced agreement.

Mr. Laske noted that he could accept either the formulation of Mr. Liefstinck or that of Mr. Cross for the penultimate sentence. The

meaning of the last sentence was unclear to him, and he would prefer to drop it unless it could be amended to explain that the provision would only be modified in the future for good cause.

Mr. Cross observed that he would prefer Mr. Liefstinck's proposal to that of Mr. Laske. He was not sure that the last sentence accurately reflected the practice of the Fund.

The General Counsel recalled that the last sentence had been inserted only because questions had been raised about the purpose of the provision. It could certainly be omitted from paragraph (f).

The Chairman proposed that the penultimate sentence should read: "It is the intention that existing interpretations and conventions would continue to apply."

Mr. Bull accepted the Chairman's proposal, mentioning that he understood it to mean that replenishment and loans would be included in the calculations in future, and that Fund creditor positions up to 75 per cent of quota would be the normal basis for the calculations. In that connection, it would be helpful if the staff could provide a detailed explanation of the techniques used in making the calculations.

Mr. Cross observed that the last sentence of paragraph (xi) on page 71 of the report was a stronger statement than he recalled having agreed to.

The General Counsel explained that there was no intention to go beyond the scope of the general obligations, which of course imposed no specific obligation on a member. If the way in which the reference to Article XXII and existing provisions had been mentioned was too severe, the words "it is expected that" could be added.

Mr. Cross added that he would prefer language suggesting that it was hoped that members would collaborate in the Special Drawing Rights Department as they would under Article XXII.

The General Counsel said that the last sentence could be redrafted to meet Mr. Cross' point by making it read: "It is hoped that participants in the Special Drawing Rights Department will collaborate regarding the exchange of freely usable currencies provided in transactions with designation, as would be normal practice pursuant to Article XXII."

Mr. Bull accepted the General Counsel's proposal, on the understanding that it did not represent a weakening of the provision.

The Executive Directors accepted the amendment proposed by the General Counsel.

Mr. Laske asked why the last sentence of paragraph 2(iii) on page 25 of the report had been added, and whether it represented a change in substance.

The General Counsel replied that there was no change in substance. The explanation had been added at the request of an Executive Director. It should be understood as referring, not to the outer limits of the repurchase period but to the timing of installments between the beginning and end of the period.

Mr. Cross suggested that Mr. Laske's point might be met if the words "as at present" were added.

The General Counsel agreed that that change could be made.

Mr. Drabble referred to paragraph 14 on page 22 of the report, dealing with currencies that did not meet the Fund definition of a freely usable currency. It would be helpful to his Canadian authorities, and perhaps to other members with currencies in a similar position to that of the Canadian dollar, if the third sentence were to read: "For example, a currency that does not fall under Article XXX(f) for the Fund's purposes may nevertheless be a currency that can be freely exchanged for other currencies in one or more major exchange markets, but is not widely used for international payments." Also, he proposed the insertion of the word "only" in the following sentence, which would then read: "...regarded as freely usable by the Fund only if the Fund determines... ."

Mr. Bull suggested a simplification of the language to state that the currency "may nevertheless be freely exchanged for other currencies although not widely used."

Mr. Drabble said that he would accept Mr. Bull's amendment.

Mr. Cross suggested that the words "for example" were unnecessary.

The Executive Directors accepted Mr. Drabble's amendment, as modified.

Mr. Kawaguchi, referring to paragraph 13 on page 15 of the report, asked whether a uniform proportionate change in par values could be made, without affecting the value of the SDR.

The Economic Counsellor explained that that would depend on the method of valuation of the SDR. Under the present method, a uniform proportionate change in par values would not alter the value of the SDR.

The General Counsel informed the Executive Directors that a further small change was needed in Article XXI, paragraph (a)(ii) and Schedule D, paragraph 5(b) of the amended Articles as a result of the recent agreement

that an additional appointed Director might nevertheless continue to cast the votes of member countries that had formerly been in his constituency. A sentence would be inserted at the end of both paragraphs to provide that, on matters affecting exclusively the special drawing right, if an agreement had been entered into under Article XII, Section 3(c) with a member that was also a participant in the Special Drawing Account, an appointed Executive Director or Councillor would be entitled to cast the votes of the participant. Those votes would be counted, for example, for the purpose of determining whether or not a quorum existed.

Mr. Bull remarked that the report and the proposed second amendment had been discussed at considerable length, but his authorities had not had time to study the latest version. Therefore, he proposed that the Executive Board should not endorse the text presently before it until national authorities had had time to study it.

Mr. Cross said that he understood the concern expressed by Mr. Bull, but he was strongly in favor of endorsing the final version without delay so that the ratification process could begin.

Mr. Whitelaw and Mr. Laske supported Mr. Bull's request.

Mr. Åsbrink, Mr. Kawaguchi, Mr. Liefstinck, and Mr. Monday agreed with Mr. Cross.

Mr. Foglizzo, supported by Mr. Drabble, suggested that the report and the proposed amendment should be approved on a lapse-of-time basis, say, on March 31, 1976.

After further discussion, the Executive Directors agreed that unless any changes of substance were submitted to the staff by Directors before noon on Friday, March 26, 1976, a final version of the report and the proposed second amendment, incorporating certain editorial changes, should be circulated, together with a list of corrigenda. The Executive Directors also agreed that the report and the proposed second amendment could then be submitted to the Board of Governors on March 31, 1976, for a vote by mail, with votes to be received in the Fund by April 30, 1976.

Mr. Bull referred to the draft Resolution in Part IV of DAA/76/11, and suggested that paragraph 1 should be amended to read "the proposed modifications are incorporated in the Articles of Agreement," because it was no longer clear from the text of the amended Articles what the modifications were.

The General Counsel explained that it would be extraordinarily complicated and difficult for Governors and members to follow the changes if a detailed catalogue of changes were presented to them. Moreover, the

proposals for modification would not be incorporated into the Articles until the amendment became effective. Perhaps Mr. Bull's point could be met if the language was amended to read: "The proposals for modifications (Proposed Second Amendment) that are included in the attachment to this Resolution and are to be incorporated in the Articles of Agreement of the International Monetary Fund are approved."

Mr. Bull accepted the General Counsel's proposal and asked for a similar amendment in the language of Section I(b) of the draft Decision.

The General Counsel suggested that Section I(b) of the draft Decision should read: "...propose the introduction in the Articles of Agreement of the modifications included in the Proposed Second Amendment attached to the Resolution in Part IV of the Report;... ."

The Executive Directors then adopted the decision, as amended, on the understanding that the date of submission to the Board of Governors and the date before which votes must be received at the seat of the Fund might have to be changed if matters of substance were raised by Friday, March 26, 1976.

The decision was:

I. Pursuant to Resolution No. 29-10 of the Board of Governors at the 1974 Annual Meeting the Executive Directors:

- (a) adopt the Report of the Executive Directors to the Board of Governors on the Proposed Second Amendment of the Articles of Agreement of the International Monetary Fund;
- (b) propose the introduction in the Articles of Agreement of the modifications included in the Proposed Second Amendment attached to the Resolution in Part IV of the Report; and
- (c) recommend the adoption by the Board of Governors of the Resolution in Part IV of the Report.

II. The Executive Directors note that the Secretary has been authorized and directed by the Chairman of the Board of Governors of the Fund to bring before the Board of Governors on his behalf by rapid means of communication the proposal of the Executive Directors introducing modifications in the Articles of Agreement pursuant to Resolution No. 29-10. The Executive Directors authorize and direct the Secretary to send to each member of the Fund this proposal of the Executive Directors together with the Report, with a request for a vote by each Governor on the Resolution in Part IV of the Report.

III. The Board of Governors is requested, pursuant to Section 13 of the By-Laws, to vote without meeting on the Resolution in Part IV of the Report. Pursuant further to this By-Law, the Executive Directors waive the requirement that Governors shall not vote on any motion presented by the Executive Directors until seven days after the dispatch of the motion. To be valid, votes must be received at the seat of the Fund on or before April 30, 1976. Votes received after that date will not be counted.

IV. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

V. The Secretary is authorized to take such action as he shall deem necessary or appropriate to carry out the purpose of this decision.

Decision No. 5049-(76/51), adopted
March 24, 1976

The Chairman proposed that, in accordance with the procedure followed in connection with the first amendment of the Articles, the report and the proposed second amendment should be issued to the press, after they had been submitted to the Governors, at which time he planned to hold a press conference to explain various aspects of the amendment. Of course, an embargo would be placed on the text until Governors had had ample time to receive the report and the proposed amendment. He would inform the Executive Directors in good time of the date of the press conference and of the time at which the embargo would be lifted.

The Executive Directors agreed to the procedure outlined by the Chairman.

3. TRUST FUND - TERMS

The Executive Directors considered a revised text of paragraph 8 of SM/76/33, Rev. 1, (3/2/76) on the terms of Trust Fund assistance, reflecting the proposal made by the Chairman at EBM/76/31 (3/3/76). The revised text read:

8. Terms

Assistance by the Trust to each qualifying member will be in the form of a ten-year loan with an interest rate of 1 per cent per annum, or in exceptional circumstances in the form of grants. The loan will have a grace period of five years and will be repayable in semiannual installments over the next five years, provided that,

if the Trustee finds that any repayment on the due date would result in serious hardship for the member, that repayment may be rescheduled or canceled. The Trustee would be able to establish criteria for these purposes.

Mr. Bull stated that his authorities had not found it possible to accept the compromise proposal put forward by the Chairman. They continued to attach the greatest importance to making grants available on a significant scale in order to help the most seriously affected countries. The only satisfactory solution at present appeared to be the proposal made at the previous discussion of the Trust Fund (EBM/76/30 and EBM/76/31, 3/3/76) to the effect that its resources should be disbursed on a 50 per cent loan and 50 per cent grant basis.

Mr. Cross observed that he could accept the Chairman's compromise, if the phrase "or in exceptional circumstances in the form of grants" was omitted from paragraph 8. He acknowledged that provision should be made for rescheduling or canceling repayments, when the repayment period began, in particular cases of serious hardship. In effect, the loan would then become a grant. But his authorities considered that although the Trust Fund being set up had a separate identity, it was close enough to the International Monetary Fund for it to provide financing essentially on a loan basis, the traditional operational basis of the Fund itself. It was extremely important that the Trust Fund should not appear publicly to move into the grant or aid fields. After all, the terms of the proposed assistance--ten-year loans with an interest rate of 1 per cent per annum--were exceedingly generous. Any mention of grants in exceptional circumstances would place too many difficulties in the way of the Trust Fund, because of the differences of view that would emerge in deciding what those exceptional circumstances were.

Mr. Amuzegar remarked that he was basically in agreement with Mr. Cross' position, although he could accept the proposed redraft of paragraph 8 if it met with the approval of the majority. The Fund had been criticized, unfairly, for trying to supplant the functions of other aid institutions. The provision for rescheduling or canceling repayments should satisfy those who sought a large grant element in the assistance by the Trust Fund. At the same time, the deletion of the specific reference to grants would avoid leaving the impression that the Trust Fund, and the Fund itself, were moving into the field of aid. The preference of his own authorities when dealing with OPEC funds had always been for lending without any interest rate charge, because making grants involved drawing distinctions between countries that were eligible and those that were not. As for the Trust Fund, the Executive Board had had enough difficulty already in deciding on the list of members eligible to benefit from it.

Mr. Drabble noted that if there had been any evidence of a consensus on Mr. Bull's proposal, his authorities would probably have been able to accept it. However, they also appreciated the problems mentioned by Mr. Amuzegar and Mr. Cross, and they could go along with the suggestion by Mr. Cross that the reference to grants in exceptional circumstances should be deleted. As to the provision for rescheduling or canceling loans at a subsequent date, he recalled his earlier proposal for allowing sufficient leeway to enable the terms for repayment to be reviewed after all the resources of the Trust Fund had been disbursed. As the redraft of paragraph 8 read at present, it allowed for that possibility but only for particular members. He wondered whether it would not be possible to modify the language to permit the Executive Board, in five years' time, to undertake a review and to reach a decision, based on the circumstances at that time, to waive repayments--perhaps to the extent of 50 per cent of the loans--across the board. In that way, Mr. Bull's proposal would be accepted in effect but without raising publicly the issue of grants at the present time, which would of course be difficult for Mr. Cross.

Mr. Liefstinck noted that he had been prepared to accept the Chairman's compromise, even though his authorities would have preferred larger scope for grants by the Trust Fund. He continued to believe that Mr. Cross' position was based on a misunderstanding. The Fund as the Trustee was simply acting as the administrator of resources provided on a voluntary basis by members to the Trust Fund. Those resources were not the Fund's own resources. Thus, there would be no dilution of the Fund's traditional policies if the Trust Fund were to distribute its resources by way of grants as well as by way of loans. In his opinion, the fact that the Fund would be the administrator would be sufficient assurance that the Trust Fund would operate consistently with the purposes of the Fund.

The proposal by Mr. Bull for a 50 per cent grant and 50 per cent loan basis for the operations of the Trust Fund was too automatic, Mr. Liefstinck considered. Also, there seemed to be no real justification for settling on that particular ratio. He agreed that the administrator of the Trust Fund would have a difficult task if criteria had to be established for deciding when assistance should take the form of a loan and when it should be in grant form. But the Fund was in a position to work out certain sound and equitable criteria, some of which had already been mentioned, for instance, the external indebtedness of a country.

In conclusion, Mr. Liefstinck said that he hoped that the compromise proposal by the Chairman could be accepted; it seemed reasonable and it was an effort to make the most of the Trust Fund.

Mr. Monday supported the position taken by Mr. Liefstinck. His chair continued to feel that the Trust Fund should be able to make grants.

Mr. Whitelaw repeated that his first preference would have been for the disposition of all of the Trust Fund's resources in the form of grants, because any public criticism of the Fund for becoming an aid institution would have been confined to a brief period, whereas 10-year loans at an interest rate of 1 per cent would make the Fund vulnerable to such criticism for more than 10 years. His second preference would be for a 50/50 loan/grant ratio, which had the advantage of being precise and would not give rise to arguments about eligibility. Moreover, it would still be possible to review the loan element at a later date.

The attempt that had been made to reach a compromise was likely to lead to interminable arguments, Mr. Whitelaw considered. The Trust Fund would agonize at length over the definition of "in exceptional circumstances" and "serious hardship." If it was necessary to fall back on such a compromise, he would like to add a provision to permit all repayments to be dispensed with, at a certain point of time, so that all future disbursements would in effect be made in grant form. Perhaps a sentence could be added to paragraph 8 stating that the terms on which the Trust Fund provided assistance and the conditions for repayment would be subject to review by the Trustee. If it was understood that such a review could also include changing 10-year loans into grants, Mr. Drabble's point might also be met.

Mr. Nana-Sinkam observed that his chair had always been in favor of an important grant element in the activities of the Trust Fund but had also seen the advantages of the revolving use of its resources. Recognizing that loans at an interest rate of 1 per cent, for 10 years, and with a 5-year grace period, already contained a significant grant element, he was ready to accept Mr. Cross' proposal to delete the specific mention of grants, in the interest of setting up the Trust Fund as soon as possible.

A problem remained, however, Mr. Nana-Sinkam continued, because some members would make voluntary contributions to the Trust Fund. It would not be appropriate for such resources to be transferred to the General Resources Account on the liquidation of the Trust Fund, and he wondered whether it could be stated in the decision on the Trust Fund that such transfers would be made pursuant to Article V, Section 12(f)(ii).

Mr. Bull reiterated that his authorities had always been in favor of bringing the Trust Fund to an end as soon as possible, letting the most seriously affected countries make speedy use of its resources. As Mr. Whitelaw had commented, the references to grants in exceptional circumstances and cases of serious hardship would lead to long arguments over what was meant. Also, the possibility of rescheduling or canceling repayments would involve the Trust Fund in a great deal of work and lead to invidious distinctions between member countries. Moreover, the Fund should not enter into the field of loan rescheduling.

If it was acceptable to Mr. Cross, Mr. Bull said, he would be prepared to consider deleting the clause "or in exceptional circumstances in the form of grants," if the rate of interest on the 10-year loans could be reduced to 0.5 per cent, which should both cover the administrative costs and provide a helpful increase in the grant element. Also, he could accept the deletion of the language in the second half of the redraft of paragraph 8, referring to repayment in cases of serious hardship, if a provision along the lines suggested by Mr. Whitelaw could be inserted to permit the Trustee to undertake a full review of the Trust Fund before the end of the grace period, in order to determine how outstanding loans should be handled. Although it need not be explicitly stated, it would be understood that all loans could be canceled at that time, and the Trust Fund brought to an end.

Mr. Schneider said that throughout the lengthy discussions of the Trust Fund his chair had taken the position that provision should be made for a certain grant element. The text presently before the Executive Board seemed to represent a modest compromise solution that would retain a grant element and also be in line with the original idea of having a Trust Fund only on a temporary basis. However, if Mr. Cross had difficulty accepting explicit mention of grants, he would be receptive to wording that implicitly retained the idea of a grant element.

Mr. Whitelaw said that he would be happy to support Mr. Bull's latest proposal.

Mr. Jagannathan also considered that, since the explicit mention of grants was unacceptable to some Executive Directors, the compromise solution that had emerged from the remarks made by Mr. Drabble, Mr. Whitelaw, and Mr. Bull, which would retain the possibility of a grant element, represented the best solution.

Mr. Amuzegar said that he was prepared to accept Mr. Bull's suggestions for an interest rate of 0.5 per cent. In fact, he could accept a lower rate of interest, provided that the administrative costs were covered. He could also accept the proposal for the replacement of the second half of the paragraph with a simple statement that the terms and conditions of the Trust Fund should be reviewed prior to the onset of the repayment period.

Mr. Monday also lent his support to Mr. Bull's latest proposal. However, he wondered whether the absence of any reference to exceptional circumstances or to serious hardship for members might not mean that the review in five years' time could not lead to a hardening as well as to a softening of the terms and conditions.

The Chairman observed that loans that had been granted could not unilaterally be made more onerous, but the repayment of the loans could of course be made easier or canceled.

Mr. Sacerdoti said that he could support Mr. Bull's proposal, as amended by Mr. Amuzegar. There was merit in the idea that the resources of the Trust Fund should be disbursed quickly so that the Fund did not appear to be going into the aid field.

Mr. Foglizzo recalled that his authorities had not been in favor of the principle of grants. However, Mr. Bull's earlier proposal for a certain automaticity, with grants and loans being extended on a 50/50 basis, was sensible because it would avoid the difficulty of drawing a line between members eligible for grants and members eligible for loans. Similarly, he would prefer a uniform treatment of members under any review that would be undertaken, according to the latest proposal by Mr. Bull, in order to avoid the possibility that some members might have their loans canceled whereas others might not.

Taking the same view as Mr. Nana-Sinkam, Mr. Foglizzo considered that if the resources of the Trust Fund were transferred to the Special Disbursement Account, they should be used for the benefit of developing countries. Thus, it might be useful to make reference to Article V, Section 12(f)(ii), excluding specifically the application of Section 12(f)(i).

The Chairman remarked that the possibility of providing for equal treatment of all members would have to be considered at the time of the review. The results of that review could not be anticipated.

Mr. Pieske said that he could support Mr. Bull's latest proposal, although, like Mr. Foglizzo, he believed it would be desirable to retain the element of flexibility provided in the present text of the last half of the second sentence of paragraph 8. It was not certain that changes in repayment conditions or in other terms would be desirable in five years' time across the board for all countries. Conceivably, countries suffering particular hardship might need special treatment. Certainly, an important element in Mr. Bull's proposal was his willingness to delete the words "or in exceptional circumstances in the form of grants." He was less sure about the proposal to halve the rate of interest, because the grant element in a 10-year loan with an interest rate of 1 per cent per annum was already substantial. As the Director of the Exchange and Trade Relations Department had explained at EBM/76/30, the grant element was in the area of 50 per cent. Since that went a long way toward meeting the concerns of those who would prefer a 50/50 grant loan treatment, he doubted whether it would be appropriate to reduce the interest rate further.

Mr. Suárez recalled that his chair had consistently expressed its preference for full grants. Once the Trust Fund had been established, it would hardly be possible to delude anyone with references to quasi-grants. In one sense, all countries would be receiving a grant through

their share in restitution. His second preference was for Mr. Bull's proposal. It would be most desirable to avoid difficult discussions of individual cases of hardship or special circumstances. He was in favor of a uniform rule, and Mr. Bull's proposal had a definite advantage in that sense, in addition to delaying the final decision for five years until it could be seen whether or not a full grant element was feasible.

Mr. Deif noted that he found himself in great sympathy with Mr. Bull with respect both to the reduction of the rate of interest and to the suggestion for a review of how to handle outstanding loans later the five-year grace period. Nevertheless, he also wished to associate himself with Mr. Foglizzo in his concern over the question of automaticity as opposed to discretionary decisions by the Executive Board in that respect.

Mr. ^OAsbrink remarked that if Mr. Bull's proposal was an acceptable basis for a compromise, he would be happy to go along with it.

Mr. Temple-Seminario said that his first choice was for grants, and not loans. His second preference would be to reverse the emphasis of paragraph 8 and state that the assistance by the Trust Fund would take the form of grants, and, only in exceptional circumstances, the form of loans. As a third option, Mr. Bull's first proposal for 50 per cent in grants and 50 per cent in loans would be a reasonable solution because it would have the definite advantage of applying automatically. Loans raised the serious problem of implying conditionality, which it was difficult for him to accept. Nonetheless, as a compromise, he could go along with Mr. Bull's latest proposal, including the halving of the interest rate. Finally, he supported Mr. Nana-Sinkam's suggestion with respect to the use of the Trust Fund's resources on liquidation.

Mr. Arancibia stated that his chair could accept Mr. Bull's latest proposal.

Mr. Drabble remarked that it would be clear from his earlier remarks that he could support the basic thrust of Mr. Bull's proposal, because it met his own concerns. Mr. Amuzegar had touched on a relevant point in suggesting that the interest rate should approximate the cost to the Fund as Trustee in managing the Trust Fund.

Mr. Sein Maung stated that he could accept either the Chairman's compromise or Mr. Bull's proposal.

The Chairman asked Executive Directors whether they could accept a compromise along the lines outlined by Mr. Bull. It would consist of a reduction in the rate of interest, the extent of which could be left aside for the time being; the elimination of the phrase "or in exceptional

circumstances in the form of grants," thus meeting Mr. Cross' difficulty as well as the problem of determining the exact nature of the exceptional circumstances; and the replacement of the second half of the second sentence with a clause providing for a review to take place within the five-year grace period with respect to the repayment of the loans.

On the rate of interest, which Mr. Bull had suggested should be reduced to 0.5 per cent, Mr. Amuzegar had suggested that it should not exceed the cost to the Fund, the Chairman observed. It would be difficult to calculate accurately what the cost would be, although it might well be less than 0.5 per cent, which was, however, already an extremely low interest rate.

Mr. Amuzegar said that he was simply seeking an assurance that the Trust Fund was not intended to be a profit-making arrangement. He would not ask for an exact calculation of the costs. As he had already stated, he could also accept the replacement of the last four lines, but in order to accommodate Mr. Monday's point, perhaps it might be mentioned that serious hardship would be taken into account. Of course, the presumption was that the terms and conditions of loans would be eased, but it might be helpful to give some assurance that that would be the case.

The Deputy General Counsel said that the introduction of the concept of hardship would require the establishment of criteria, and detailed specification of the criteria would require distinctions to be made. On the question of changing the terms and conditions of a loan that had been made, the position was that the Trust Fund could not make the terms more onerous, although it could make them less onerous.

The Chairman suggested that the best formulation would be simply to make provision for a review of repayment conditions before the end of the first grace period of five years.

Mr. Monday said that he was ready to accept that formulation, on the understanding that the conditions would not be made more onerous.

Mr. Pieske reiterated his question as to whether or not the formulation would leave open the possibility of changing the repayment condition only for countries in particular circumstances.

The Chairman stated that provision was being made for a review in order to avoid having to reach such decisions at the present stage.

Mr. Cross considered that 1 per cent was an exceedingly concessional rate of interest; a rate of 0.5 per cent seemed to make little sense. The strong preference of the U.S. authorities was for a Trust Fund to be established on a genuine loan basis. Since there were many issues still

to be resolved in connection with the Trust Fund, he wondered whether it was necessary to reach agreement on the text of paragraph 8 at the present meeting.

The Chairman expressed the hope that, since Mr. Cross had been able to accept the reference in his compromise text to the possibility of rescheduling or canceling repayments, he would also be willing to postpone the decision on repayment as a whole until toward the end of the five-year period.

Mr. Liefstinck commented that Mr. Bull's proposal held several helpful elements, including the reduction of the interest rate to 0.5 per cent. However, the absence of any explicit reference to the possibility of grants made it necessary for him to reserve the position of the Netherlands authorities on their previously expressed willingness to make a voluntary contribution to the Trust Fund.

Mr. Cross said that he recognized that Mr. Bull's proposal embraced the provision in the Chairman's compromise for converting loans into nonrepayable loans in certain circumstances. But it also embraced many other elements, on which he was not able to take a position at present.

Mr. Bull suggested that it would be helpful to circulate a further revision of paragraph 8, for consideration at the next meeting.

The Executive Directors accepted Mr. Bull's suggestion, and adjourned.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/76/50 (3/22/76) and EBM/76/51 (3/24/76).

4. KOREA - REPRESENTATIVE RATE FOR KOREAN WON

The Fund finds, after consultation with the Korean authorities, that the representative exchange rate for the Korean won under Rule O-3, paragraph (c)(i), against the U.S. dollar, is the selling rate applied by commercial banks in Korea for spot delivery of U.S. dollars to customers, as ascertained by the Bank of Korea. The Bank of Korea will immediately communicate to the Fund any change in the representative rate when it occurs (EBD/76/55, 3/19/76).

Decision No. 5013-(76/51) S, adopted
March 23, 1976

5. PAPUA NEW GUINEA - GOLD TRANCHE PURCHASE OF SPECIAL DRAWING RIGHTS

Papua New Guinea has requested the Fund to provide Papua New Guinea with SDR 1.9 million from the General Account in exchange for kina. Pursuant to Article XXV, Section 7(f) the Fund agrees to the request of Papua New Guinea (EBS/76/143, 3/23/76).

Decision No. 5014-(76/51) G/S, adopted
March 23, 1976

6. PAPUA NEW GUINEA - PURCHASE TRANSACTION

Papua New Guinea has submitted a request to purchase SDR 1,900,000 and the equivalent of SDR 3,101,063 in U.S. dollars, totaling the equivalent of SDR 5,001,063, as set forth in its request attached to EBS/76/143. The use of special drawing rights in this purchase is made pursuant to Article XXV, Section 7(f) and Executive Board Decision No. 5014-(76/51) G/S, adopted March 23, 1976. The Fund determines that Papua New Guinea is entitled to make the purchase and notes the statement of the Government of Papua New Guinea that it will comply with the principles set forth in Executive Board Decision No. 102-(52/11), adopted February 13, 1952 (EBS/76/143, 3/23/76).

Decision No. 5015-(76/51), adopted
March 23, 1976

7. "CLUB DES AMIS DU SAHEL" - INAUGURAL MEETING - FUND REPRESENTATION

The Executive Board approves Fund representation at the Inaugural meeting of the "Club des Amis du Sahel" to be held in Dakar as set forth in EBD/76/56 (3/19/76).

Adopted March 23, 1976

8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/76/58 (3/19/76) and EBAP/76/59 (3/22/76) is approved.

9. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/76/61 (3/23/76) is approved.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 76/102, July 12, 1976

WILLIAM B. DALE
Acting Chairman

W. LAWRENCE HEBBARD
Secretary

The following changes of more than editorial interest have been made in the Second Draft of the Report on Amendment (DAA/76/5, Revision 1) as the result of the latest discussions of the Executive Directors. All references are to the new version of the Report.

<u>Page</u>	<u>Chapter-Section</u>	<u>Subject</u>
3	Introduction - (b)(iii)	reference to acceptance of gold by the Fund
3	" - (b)(v)	authorization of the Fund to dispose of gold holdings
4	" - (b)(viii)	description of collaboration regarding reserve assets
4	" - (c)	general description of changes in SDR provisions
4	" - (c)(ii)	deletion of examples of possible SDR operations between participants
6	" - (f)(first paragraph)	appointment and election of Executive Directors
6	" - last paragraph	explanation of changes in nomenclature
8	B - 1	subscription by new members - continuation of established practice
11	B - 13	addition of sentence regarding investment of a member's currency only with the member's concurrence
12	C - 2 (second paragraph)	explanation of "due regard to its circumstances"
13	C - 5	principles regarding exchange rate policies
14	C - 8	description of margins that the Fund may establish
15	C - 13	uniform proportionate changes in par values

<u>Page</u>	<u>Chapter-Section</u>	<u>Subject</u>
17	D - 2	explanation of decision making under Article V, Section 2(b)
20	D - 10	collateral (reorganization of text)
20-22	D - 11-15	explanation of "freely usable currency" and exchanges of currency
25	E - 2(iii)	maximum period for repurchase and installments
28	E - 2(x)	exchanges of currency for repurchase
40	I - 1	deletion of reference to agreement on dealings in gold by some members of the Fund
40	I - 1(c)	reference to acceptance of gold by the Fund
42	I - 5	description of disposal of gold before the effective date of the amendment
42	I - 6(b)	"profits or surplus value" of gold
43-49	I - 13(f)	termination of the Special Disbursement Account
56	L - 18	termination of Investment Account
61-64	O - 2	appointment and election of Executive Directors
65	P - 2	attendance of Alternate Executive Directors at meetings of the Council
68	Q - 2	characterization of changes regarding the SDR
69-70	Q - 2(vii)	deletion of examples of possible SDR operations between participants
70	Q - 2(viii)	collaboration regarding SDR transactions by agreement between participants

<u>Page</u>	<u>Chapter-Section</u>	<u>Subject</u>
71	Q - 2(xi)	exchanges of freely usable currency in the Special Drawing Rights Department
72	Q - 3 (last sentence)	explanation of uses of SDR
75	S - 1(ii)	obligatory discharge with SDR of repurchase obligations accrued in gold
77	S - 4(ii)	description of disposal of gold, "profits or surplus value"
81	Annex: XII - 3(b)	change of number of elective Executive Directors

