

INTERNATIONAL MONETARY FUND

Minutes<sup>8</sup> of Executive Board Meeting 76/2

10:00 a.m., January 14, 1976

W. B. Dale, Acting Chairman

Executive Directors

J. Amuzegar  
P. Asbrink  
S. Y. Cross  
  
N. Deif  
B. J. Drabble  
  
S. Jagannathan  
A. Kafka  
K. Kawaguchi  
B. Kharmawan  
P. Liefertinck  
H. R. Monday  
F. Palamenghi-Crispi  
E. Pieske  
W. S. Ryrie

Alternate Executive Directors

C. P. Caranicas  
J. H. Kjaer  
T. Leddy  
H. G. Schneider  
F. K. Hussein, Temporary  
D. Lynch  
S. Sevilla  
  
W. Temple-Seminario  
M. Wakatsuki  
  
J. B. Zulu  
  
G. Heyden Q., Temporary  
J. Foglizzo  
R. S. Deane  
S. Nana-Sinkam

W. L. Hebbard, Secretary  
R. S. Franklin, Assistant

1.	Approval of Minutes . . . . .	Page 3
2.	Qatar - 1975 Article VIII Consultation and Exchange System . . . . .	Page 3
3.	Liberia - Stand-By Arrangement . . . . .	Page 9
4.	Technical Assistance - Council of Arab Economic Unity and Economic Community of West African States . . . . .	Page 11
5.	Resident Representatives - Temporary Arrangements for Certain Posts . . . . .	Page 19
6.	Peru - Gold Tranche Purchase Transaction . . . . .	Page 22
7.	Executive Board Travel . . . . .	Page 23

Also Present

Administration Department: P. Thorson, Director; K. N. Clark, Deputy Director; P. N. Kaul, Deputy Director; G. Mott, R. J. Powell. African Department: D. Boushehri, C. Enweze, J. G. Keyes. Asian Department: Tun Thin, Director; W. J. R. Woodley, Deputy Director; P. R. Narvekar. Exchange and Trade Relations Department: H. W. Gerhard, S. Mookerjee, T. Sweeney. Fiscal Affairs Department: W. A. Beveridge, Deputy Director; N. N. Choudhry, R. S. Latham. Legal Department: R. C. Effros, P. R. Lachman. Middle Eastern Department: J. W. Gunter, Acting Director; A. K. El Selehdar, Deputy Director; R. C. Barth, F. Drees, A. S. Gerakis, B. A. Karamali, S. Kavar, W. M. Taha. Treasurer's Department: A. Watkins. Western Hemisphere Department: F. A. Vera, Deputy Director; S. T. Beza, C. E. Sanson. Advisors to Executive Directors: C. Bouchard, J. K. E. Cole, A. Malek. Technical Assistants to Executive Directors: V. Alipui, V. Amiel, S. Arancibia, C. J. Batliwalla, M. Berger, D. Berthet, I. M. Cobbold, A. Doizé, B. Goos, R. Khonsary, H. Kuroda, K. Nakayama, A. B. Nymark, C. C. Ozumba, M. Pietinen, S. B. Satyal, D. M. Sullivan, S. P. Upasani, M. A. Wasfy, P. Zimmer.

1. APPROVAL OF MINUTES

The draft minutes of Meetings 75/137, 75/143, 75/144, 75/145, 75/146, and 75/148 were approved.

2. QATAR - 1975 ARTICLE VIII CONSULTATION AND EXCHANGE SYSTEM

The Executive Directors discussed the staff report for the 1975 Article VIII consultation with Qatar (SM/75/300, 12/22/75) together with a paper on the exchange system (EBS/76/9, 1/6/76). They also had before them a report on recent economic developments in Qatar (SM/76/2, 1/8/76).

Mr. Deif made the following statement:

I wish to thank the staff for the excellent reports for the 1975 Article VIII consultation with Qatar and the paper on the change in Qatar's exchange system (SM/75/300, SM/76/2, and EBS/76/9). The reports assemble the available information on the economy of Qatar and present a comprehensive analysis of the country's recent economic developments and near-term prospects.

The sharp increase in the financial resources of Qatar since 1973 has resulted in an acceleration of investment activity, continued expansion of government services and social programs, and growing financial assistance to various Arab and Islamic countries. The overall balance of payments was in substantial surplus in 1974 and is expected to record another large surplus in 1975. Present indications, however, are for the surplus in 1975 to be about half that in the preceding year owing to reduced earnings from oil exports, a more than doubling of imports, and larger transfers and capital flows. It is noteworthy that in 1974 more than 12 per cent of the Qatari Government's oil revenue was used in providing loans and grants to other countries, and this assistance is expected to absorb about 28 per cent of the oil revenues in 1975.

Oil production and exports in Qatar declined very sharply between January and September of 1975 following disagreements between the Government and its foreign partners in the two operating oil companies regarding adjustments in the prices of Qatari crudes in the face of weakening market demand. Although production picked up in October after a new set of prices was agreed upon, the full year's production is expected to be about 17 per cent below the 1974 level. Meantime, the Government's budget revenues in 1975 are expected to turn out lower than in 1974, reflecting thereby the combined effects of the decline of

production and the increased per barrel revenue. The authorities intend to stabilize production during 1976 at 480,000 barrels per day, thus implying an increase of 12 per cent relative to 1975.

The authorities have been striving to build up the infrastructure, with emphasis on the transportation system, facilities for the generation and transmission of power, water desalinization plants, and new housing. Moreover, a number of government-sponsored industrial projects were launched in 1975 as part of the continued effort to diversify the economy. The outlays on these activities as well as the increased outlays for other government services and domestic transfer payments, and the boom in private sector economic activity, have strained supply capabilities; and strong inflationary pressures developed in both 1974 and 1975. The authorities have tried to alleviate these pressures through a number of measures including cost of living adjustments, subsidies and direct importation of essential food items, appreciation of the Qatar riyal relative to other currencies, expansion of port handling facilities, and arrangements to facilitate the inflow of foreign workers. As pointed out by the staff, the application of demand management policies, however, is hampered by the absence of an effectively functioning central bank and by shortages of senior staff in the public sector. The authorities are taking measures to augment the staff of the Qatar Monetary Agency so as to enable it (the Agency) to expand its operations. In this connection, they are seeking assistance from the Central Banking Service.

In the international sphere, the Qatari authorities are pursuing liberal and enlightened policies. The trade and exchange system is virtually free of restrictions, and tariffs are low. The authorities' policy as regards foreign reserves has been one of asset diversification, the spreading of exchange risks, and the avoidance of disruptions to international financial markets.

Mr. Liefstinck observed that Qatar was faced by several major difficulties. The first was the problem of diversifying an economy with a large balance of payments surplus and a low absorptive capacity. Infrastructure, both social and economic, had to be improved; and, while a number of important projects for the further diversification of the economy had been decided upon, they had yet to be implemented. The scarcity of manpower and bottlenecks--particularly in transportation--made diversification difficult. The Qatari authorities would be wise to expend a good deal of money on education and training in order to improve the manpower supply.

Another problem, integrally related to those previously mentioned, was how to contain inflation, Mr. Liefstinck remarked. The bottlenecks

and lack of skilled manpower made it difficult to spend locally large amounts of money without causing excess demand and inflationary pressures. Thus, it was necessary for the authorities to limit local expenditures to what could be absorbed without aggravating inflation to an unbearable degree.

The third difficulty, Mr. Liefstinck commented, was related to the exchange rate system, as discussed in the paper before the Board (EBS/76/9). It was important for Qatar to avoid a depreciation of its currency; and, in that respect, the steps which the authorities were presently proposing were well taken. If approved, they would effectively make the Qatar riyal a floating currency, providing the kind of flexibility necessary to protect its value vis-a-vis certain other currencies.

He wished to commend the Qatari authorities for the generosity they had shown in coming to the assistance of other countries in less enviable balance of payments positions, Mr. Liefstinck said. Such largesse was all the more commendable when one considered the large amounts Qatar would eventually have to spend to improve the structure of its own economy.

Mr. Pieske remarked that Qatar's small size limited the scope for conventional policy prescriptions. While it was understandable that the authorities should attempt to translate the country's new wealth into increased welfare for its citizens, he agreed with Mr. Liefstinck that there were clear limits to the expansion of domestic demand, and he hoped that the authorities would succeed in avoiding excessive pressures on resources and prices.

The provision of free education and medical care and of subsidized housing to certain needy groups showed that Qatar was making progress toward greater welfare for its citizens, Mr. Pieske continued. Development efforts were also well directed, with primary emphasis on energy and capital-intensive projects such as oil refining, fertilizers, petrochemicals and cement. He had been somewhat surprised to find an iron ore reduction plant among the projects mentioned in the report on recent economic developments; perhaps the staff could expand its comments about the economic justification for such a project. In general, development required a network of supporting trade and industries. He therefore shared the staff view that it would be advisable to put additional emphasis on the creation of small-scale industries and vocational training in Qatar's plans for growth. Like Mr. Liefstinck, he welcomed the significant volume of grants and loans extended by Qatar to other developing countries. However, he would have appreciated some breakdown or interpretation of the figures, which would have made possible a better understanding of the economic significance of those activities. Perhaps some information could usefully be incorporated in future consultation reports.

Qatar should be commended for its liberal trade and payments regime and the rapid expansion of its imports, as well as for the decision of its authorities to allow its currency to be used in Fund transactions, in which Qatar set an excellent example for other neighboring countries, Mr. Pieske added.

Finally, Mr. Pieske remarked, he had no difficulty agreeing to the decision on Qatar's exchange rate regime. The effective appreciation of the riyal, which Qatar intended to achieve, appeared appropriate in view of the country's circumstances, especially its present high rate of inflation. One might, of course, have asked whether the same result might not have been achieved with a straightforward revaluation; but, he had to agree that the exchange rate change--which gave the authorities of Qatar some added flexibility--was within the spirit of the new Article IV of the Fund Agreement.

Mr. Lynch noted that previous speakers and the staff appraisal had, to a great extent, emphasized the organizational aspects of creating infrastructure in Qatar. While such needs were perhaps not so commonly highlighted in Fund consultations, they were nonetheless important. He hoped that the measures taken by the Qatari authorities to solve the problem of infrastructure would soon give positive results. Another difficulty, mentioned in the staff appraisal, was that of balancing "the pressures of increased aggregate demand with the resource availabilities, without subjecting the economy to inordinate inflationary pressures." The several guidelines suggested by the staff to achieve that balance should certainly be of help to the Qatari authorities. Finally, the new exchange rate arrangements appeared to be reasonable, and his chair would give its support to the proposed decision.

Mr. Temple-Seminario remarked that, in 1975, 28 per cent of Qatar's oil revenue had commendably been used to provide loans and grants to other countries. Also commendable was the Government's policy toward an expansion of economic infrastructure. He understood, of course, that such expenditures might lead to an increase in prices--particularly with present problems of bottlenecks and port facilities--but that unfortunately was a situation that could not be solved easily. Finally, he was impressed with the foreign exchange and reserve policies of the Qatari authorities and expressed his support for the proposed decision on the exchange rate regime.

Mr. Jagannathan said that he would agree with the thoughtful observations on Qatar presented by Mr. Lieftinck earlier in the meeting. He would add only that the attention accorded the situation of Qatar by the staff and Executive Directors was, considering the small population of the country, a refreshing confirmation of the principle of uniformity of treatment of Fund members.

Mr. Ryrie noted that the problems in Qatar were of an unusual sort; and it was interesting, so soon after the discussion on the World Economic Outlook, to be able to study the position of one of the low-population countries with low absorptive capacity that had been mentioned in those papers. He agreed with most of the comments that had been made about the policies being followed to build up Qatar's infrastructure and welfare services, and he would suggest that it should not be surprising if the country's rather sudden accretion of wealth should have resulted in a degree of inflation.

The staff had made some comments about current difficulties within the Qatar Monetary Agency, Mr. Ryrie observed. He would agree with those remarks and welcome anything more which could be done by the Fund and the Qatari authorities to develop that Agency. He understood that, at present, it was lacking in experienced management as well as a properly constituted board with clearly defined responsibilities and powers. Finally, the proposal by the Qatari authorities on the exchange rate appeared to be a sensible one, and his chair would support it. He hoped that, if experience proved it to be necessary, the authorities would be prepared to go even beyond the new margins presently suggested.

Mr. Cross agreed with those who had suggested that the Qatari authorities were doing a rather effective job of meeting the problems posed by an economy with a low absorptive capacity, especially given the shortage of infrastructure and management personnel. On the exchange rate paper, while he had no difficulty agreeing with the proposal that Qatar's currency should fluctuate around a wider margin of 7.25 per cent, he was somewhat perplexed about what terminology to employ in describing what was happening. The concern of the authorities appeared to be to assure that the currency did not depreciate vis-à-vis the dollar or the currencies of Bahrain and the United Arab Emirates; and, because those currencies were pegged to the dollar, the proposal before them would appear to place the riyal in the position of being pegged. On the other hand, there was in the staff appraisal the suggestion that the Qatar riyal should be regarded as a floating currency. Could the staff shed some light on his difficulty?

The staff representative from the Middle Eastern Department, leader of the mission, responded first to Mr. Pieske's query about the iron ore reduction plant in Qatar. While the staff mission had been in no position to assess the justification of individual projects, it had been given by the authorities two main reasons for Qatar's investment in that particular project. The first was the use of cheap fuel, and the second was the project's proximity to markets. As had been mentioned in the staff paper, the Japanese companies associated with the iron ore reduction plant would be responsible for marketing the product. Since, in the region itself, there was apparently a growing market for iron ore,

the plant would doubtless save on shipping costs from Japan. In any event, the staff had indicated in its appraisal that the authorities would need "to develop some capacity in respect of building materials and some small-scale industries."

A request had also been made by Mr. Pieske for a breakdown of aid figures, the staff representative recalled. All the information that the mission had been able to obtain had been placed in the report, and the only breakdown given had been the reference to fact that almost all aid flows had been channeled to Arab and Islamic countries.

On Mr. Cross' inquiry on the exchange system, the staff representative noted that the primary motive of the Qatari authorities was apparently to maintain stability of the currency vis-à-vis the Bahrain dinar and the United Arab Emirates dirham. That did not mean that the full 7.25 per cent margin requested would necessarily be used; it merely gave the authorities some additional flexibility for maneuver.

Mr. Deif thanked Executive Directors who had spoken for their comments, which he would convey to his authorities. With respect to Mr. Jagannathan's point about the uniform treatment of member countries in staff analyses and Executive Board discussions, he would remark that such treatment would help to give all member countries a feeling of importance, irrespective of their size.

The Executive Directors then turned to the proposed decision on the exchange rate regime of Qatar, which they adopted.

The decision was:

1. Qatar has notified the Fund that, while continuing to maintain exchange rates for the Qatar riyal on the basis of QR4.76190 for one special drawing right, it will with effect from January 15, 1976 permit rates within margins somewhat wider than 2.25 per cent but not exceeding 7.25 per cent.

2. The Fund notes the action taken by the Qatari authorities and welcomes their intention to collaborate with the Fund in accordance with the Articles of Agreement and the decisions of the Fund. The Fund will remain in close contact with the Qatari authorities and in this regard the Managing Director will take appropriate initiatives.

Decision No. 4930-(76/2), adopted  
January 14, 1976

3. LIBERIA - STAND-BY ARRANGEMENT

The Executive Directors considered the request by Liberia for a stand-by arrangement for a period of one year in an amount equivalent to SDR 5.0 million (EBS/75/474, 12/17/75).

The staff representative from the African Department informed the Executive Directors that a new Minister of Finance--James Phillips--had been appointed January 12, 1976. Second, in the 1976 Budget, revenues were expected to increase from the revised estimate of \$120 million in 1975 to \$125 million in 1976. Total expenditure, including debt amortization, was expected to increase from \$126.5 million in 1975 to \$130 million in 1976.

Mr. Monday indicated that there had been a reshuffling of personnel within the Government of Liberia and that the request for the stand-by arrangement would continue to stand. The request was, in his view, reasonable, and he hoped that it would have the support of his colleagues.

Mr. Liefertinck remarked that 1975 had been a prosperous year for Liberia, with generally high prices for its main export products. 1976 looked somewhat less promising, since contracts had come to an end, and Liberia was faced with a sharp decline in the prices of its major exports--iron ore and rubber. Still, he was not overpessimistic, and he hoped that the decline would be temporary.

Fund experience with Liberia regarding stand-by arrangements had been generally good, Mr. Liefertinck observed; and he considered the program before the Board to be reasonable. The authorities would apparently continue foreign borrowing, but it would be used for development purposes; and, for their potential balance of payments need they had rightly come to the Fund for assistance. He would agree with the staff that under the present circumstances an increase in taxation would not be the best course. The economy was moving toward a depressed situation, and, in that light, the policies proposed by the authorities made sense. It might of course be that Liberia would not finally have a need for the stand-by, but the close cooperation that such arrangements had established in the past between Liberia and the Fund would be to the country's advantage. For those reasons, he was prepared to support the proposed decision.

Mr. Kharmawan also expressed his support for the request made by Liberia; the program was adequate, and the country's record had been good. His only further comment would be in the form of a question to the staff concerning the position of the Liberian Government, and similar governments, with respect to the changed policies that had recently been found acceptable by the Interim Committee in Jamaica. Specifically, would Liberia be eligible later in the year to make an additional drawing in the expanded first credit tranche?

Mr. Temple-Seminario said that he hoped that the expected small recession in Liberia would not force the authorities to cut back proposals for new projects or for the expansion of existing ones. On the other hand, since Liberian reserves were relatively low, he would offer his full support to the proposed decision.

Mr. Cross observed that the proposed stand-by would help the authorities to deal with the current weakening in demand for Liberia's major exports without requiring them to restrict too severely their domestic demand. The authorities appeared to be following reasonably prudent fiscal and monetary policies, and he hoped that the newly appointed Finance Minister would continue those measures.

On the burden of adjustment, Mr. Cross commented that present circumstances made it understandable that such a burden would be borne more by a cut in current expenditures than by development outlays. Finally, with regard to a point raised by Mr. Kharmawan, while the expansion of the first credit tranche would make it necessary to reopen some outstanding drawings, the issue surely did not arise in the case of Liberia, which had requested the equivalent of only 17 per cent of quota.

Mr. Jagannathan and Mr. Sevilla indicated their support for the stand-by proposal.

Mr. Lynch agreed with others that Liberia's previous record with the Fund had been a good one, and he felt that the gradual revival in world economic activity would make the anticipated decline in Liberia's exports only temporary. In that connection, he wondered whether the question of a request under the compensatory financing facility had arisen. While he appreciated the reasons for the approach adopted, the Liberian situation appeared to fall into the category of those that might be considered under the compensatory financing facility. Could the staff comment?

The Acting Chairman, responding to questions that had been raised about the implications of agreements reached in the Interim Committee for stand-by arrangements in general, noted that there were specific steps that would have to be taken. First, the Executive Directors would have to adopt an implementing decision on access to the expanded tranches. Moreover, the question whether a given set of policy commitments would be sufficient to justify an increased purchase or stand-by proposal would doubtless be a matter of judgment. For example, in the case of any member that had a stand-by that had been outstanding for a number of months, the Executive Directors might wish to examine the performance achieved in determining whether the additional resources should be made available.

The staff representative from the Legal Department indicated that a memorandum and proposed decision dealing with outstanding stand-by arrangements would shortly be issued to Executive Directors.

The staff representative from the African Department, answering a question by Mr. Lynch, noted that the issue of compensatory financing had not arisen at the time of the stand-by discussions with Liberia. The situation with regard to 1976 exports was still unclear, primarily because price provisions in the 1976 contracts for iron ore had yet to be determined. The market was presently weak, and the undelivered portion of the 1975 contracts would be sold in the present year at 1975 prices. Where 1976 contracts were concerned, there were some grounds for anticipating a price rise. In the past, Swedish mines selling to German steel manufacturers had generally set the pattern of prices; but the Brazilian and Australian producers had become much more influential in the market process of price determination. Since the break-even point of those producers was high, because of heavy capital investment costs, there might be some increase in 1976 contract prices. That factor complicated the question whether or not there would be an export shortfall justifying access to the compensatory financing facility by Liberia in the immediate future.

Mr. Monday, thanking those who had spoken, said he would transmit their comments to his Liberian authorities.

The Executive Directors turned to the decision on the stand-by arrangement with Liberia, which they approved.

The decision was:

The Government of Liberia has requested a stand-by arrangement for a period of 12 months and for an amount equivalent to SDR 5.0 million. The Fund approves the stand-by arrangement attached to EBS/75/474, Supplement 1.

Decision No. 4931-(76/2), adopted  
January 14, 1976

4. TECHNICAL ASSISTANCE - COUNCIL OF ARAB ECONOMIC UNITY AND  
ECONOMIC COMMUNITY OF WEST AFRICAN STATES

The Executive Directors considered requests for technical assistance by the Council of Arab Economic Unity (EBD/75/278, 12/22/75) and by the Economic Community of West African States (EBD/76/1, 1/12/76).

Mr. Cross remarked that he had always doubted the advisability of the Fund providing nonreimbursable technical assistance to other than its members. The two requests before the Board had come from international organizations, and no provision had been made for reimbursement.

Mr. Liefertinck said that he had no difficulty in general with the Fund providing technical assistance, so long as that assistance fell within the competence of the Fund. As such, he welcomed the proposal to comply with the request by the Economic Community of West African States. However, with respect to the request by the Council of Arab Economic Unity, he would question the competence of the Fund in the field of investment codes, the purpose for which the technical assistance had been requested. It was his impression that advice on investment codes could much better be given by the World Bank than by the Fund, and he wondered whether it had been consulted on the request.

Mr. Palamenghi-Crispi, observing that he had on many occasions expressed his general support for technical assistance, said that he shared Mr. Liefertinck's doubts with respect to the request by the Council of Arab Economic Unity. Approval of the proposal might well open the door to other requests for technical assistance that were not within the competence of the Fund.

His second point related to the general comment made by Mr. Cross, Mr. Palamenghi-Crispi continued. It was his view that there was little substantive difference between technical assistance offered to a member country and technical assistance offered to a group of member countries. Indeed, the technical assistance offered to a group of member countries might even be more helpful, both to the countries themselves and to the Fund. Mr. Cross had also used in his intervention the term "nonreimbursable." He, himself, was under the impression that, when technical assistance was provided to member countries, those countries were usually asked to pay at least a portion of the cost. The practice was a wise one: not only had it always been applied with flexibility; it had also placed a certain restraint on member countries in limiting what otherwise might be an indiscriminate number of requests. An example of the kind of reimbursement that a country might provide was described in the footnote on page 1 of the paper just discussed on Liberia (EBS/75/474). There, the staff had stated that secretarial assistance had been provided to the mission by the Office of the Fund Resident Representative; he would hope that such secretarial assistance had been paid for by the country concerned. Finally, if his assumption was correct that member countries were asked to share some portion of the cost of technical assistance, he would ask whether the same flexible rule should not also be applied to the organizations in the papers before the Board.

Mr. Jagannathan said that he agreed with Mr. Liefertinck that the request by the Council of Arab Economic Unity for technical assistance on investment codes did not fall so much within the competence of the Fund as of the World Bank. He had no difficulty regarding the request to furnish technical assistance to the Economic Community of West African States. Second, while he had some sympathy with Mr. Cross' point about

providing technical assistance only to members, he did believe that when a request for what would in fact be assistance to members came from an international organization that was made up of those members, it should be met. Finally, with respect to the argument by Mr. Palamenghi-Crispi, he would support the principle of asking member countries to provide in local expenditure at least a portion of the cost of technical assistance.

Mr. Nana-Sinkam gave his full support to both requests. In general, fulfilling the type of request presently before the Board was in the interest of the Fund itself, and he wondered whether, in the future, decisions on such requests could not be made on a lapse-of-time basis.

With respect to Mr. Cross' belief that technical assistance should be given by the Fund only to its members, Mr. Nana-Sinkam remarked that the cost of such a move would be prohibitive. Using the request by the Economic Community of West African States as an example, he noted that if the 15 countries involved had to come to the Fund individually to ask for technical assistance merely to study the impact of a decision by the Community on the member countries' economies, they would place the Fund in the position of perhaps having to supply 15 separate staff members. The formation of an organization like the Economic Community of West African States to solve the common problems of its members was precisely the type of unity that it would be in the Fund's interest to support; and in that respect, he did not share Mr. Cross' belief that technical assistance provided to such organizations should be reimbursable. If, as Mr. Palamenghi-Crispi had suggested, countries were in the future expected to pay a portion of the cost, he would hope that such cost sharing would be highly flexible, since some countries simply could not afford to pay.

Mr. Sevilla considered that the request by the Economic Community of West African States for technical assistance for the "assessment of revenue losses of the member states due to trade liberalization" was an important one. Countries that were attempting to create common markets and to liberalize trade among themselves should be encouraged; and when the Fund had the opportunity to help to direct the policies of its members toward the purposes of the Fund, it should not deny such assistance.

A similar case could be made for the request by the Council of Arab Economic Unity, Mr. Sevilla remarked, although since some of its members were somewhat more wealthy, they might be asked to pay for that assistance. Thus, he would recommend that the Fund supply technical assistance to the West African States at no cost and that the Council of Arab Economic Unity be asked to reimburse the Fund for its assistance. But in neither case should the assistance be denied.

Mr. Pieske commented that he had mixed feelings about the proposals under consideration. On the one hand, it might be regarded as a waste of resources if the expert manpower of the Fund were not put to full use when assistance of the type requested was appropriate, especially as the provision of technical assistance could help to further the purposes of the Fund itself. On the other hand, it was common knowledge that a growing number of organizations were under the constant temptation to expand their operations; and care must be taken that such expansion did not result in overlapping or duplication of work. He would, therefore, approach the issue with two questions.

First, Mr. Pieske said, he would ask whether the Fund had sufficient expertise in the fields for which assistance had been requested; or whether the assistance could be provided more competently by others. Second, he would ask the staff what effect the provision of such technical assistance would have on the manpower situation in the Fund departments concerned. It might be advisable to have such potential problems in mind when discussing the forthcoming administrative budget. Finally, he tended to share the feelings of some previous speakers that there was a greater justification for the request by the Economic Community of West African States than for that by the Council of Arab Economic Unity. However, he would withhold his judgment until he had heard from other speakers and from the staff.

Mr. Ryrie indicated that, while he was not necessarily unsympathetic to the requests before the Board, he wished to reserve his judgment until the staff had provided answers to certain pertinent questions raised by Executive Directors, specifically, those regarding reimbursement and the competence of the Fund to fulfill the request by the Council of Arab Economic Unity.

The Acting Chairman said that reimbursement had not been requested in the two cases before the Executive Directors because the assistance, if granted, would be on a short-term basis. It had been the practice of the Fund not to ask for reimbursement in the case of short-term staff visits, but only in the case of long-term assignments, for which individuals were typically recruited from the Fiscal Panel, or from the Panel of Central Bank Experts rather than from the Fund staff. In that latter case, Mr. Palamenghi-Crispi was correct in understanding that the Fund did ask for reimbursement that was flexibly related to the capacity of the member to pay. While the requests before the Executive Board were from international organizations rather than from individual members, he would assume that the same policy on reimbursement would apply.

The Deputy Director of the Fiscal Affairs Department remarked that, if the Council of Arab Economic Unity had approached the IBRD with its request, the Fund staff was not aware of it. Indeed, he would have been

surprised if such a request had been made. First, there was a long-standing agreement between the Fund and the World Bank that the Bank would not generally undertake technical assistance in the public finance area. Moreover, the Council of Arab Economic Unity had already received technical assistance from the Fund in another area.

The Fund staff had in the past undertaken some work especially related to investment codes, the Deputy Director recalled. In a great number of cases the question of investment codes arose in the staff's work in dealing with general tax matters; and investment codes had some effect on lessening the flow of tax receipts to members' budgets. The area of work was hardly a new departure for the Fund staff.

With respect to Mr. Cross' concern about providing assistance to intergovernmental organizations, the staff had taken the view--expressed by a number of Directors--that such provision of assistance was an economic use of staff time, the Deputy Director explained. In that respect, the staff would agree with Mr. Nana-Sinkam that the provision of "generalized" advice to an intergovernmental body was more useful and less costly than the provision of assistance to a large number of individual member countries.

A point had been raised by Mr. Pieske, the Deputy Director of the Fiscal Affairs Department recalled, about the effect that the type of assistance requested by the Council of Arab Economic Unity would have on the availability of Fund staff. He had already noted that the staff did not regard the area of investment codes as a new departure in its technical assistance work. Certainly, the time in the field and the time taken to produce a paper would add to the work of the Department concerned; but that would not in itself be something to be taken into account in formulating staffing needs for 1976.

Mr. Hussein said that he hoped that Executive Directors would give their support to both requests under consideration. While he appreciated Mr. Liefstinck's point about Fund competence in the field of investment codes, denying the Council's request at the present stage did not seem appropriate; the request had been submitted to the Fund some time ago, and much preparation had already taken place. Had objections to the nature of the request been anticipated before the preparation had been made, the difficulties presently being encountered might have been avoided. Finally, on the issue of reimbursement for technical assistance, Executive Directors should note that, of the countries comprising the Council of Arab Economic Unity, only two were oil producing countries.

Mr. Ryrie commented that, on the basis of remarks made by the Deputy Director of the Fiscal Affairs Department, he was prepared to support both proposals, making only three brief points. First, it seemed to him

that one would expect that the giving of advice through the medium of technical assistance would be to the advantage not only of the individual members, but of the international community and of the Fund in securing greater acceptance of the Fund's philosophies and practices. Second, he did not feel that Executive Directors should make too much of an issue of the fact that the assistance proposed was to be given to international organizations rather than to individual members; the problem was one of semantics, and they should perhaps regard the requests as coming from groups of members. Finally, if it had been Fund practice not to ask for reimbursement in cases of short-term assistance, he saw no reason to break with that tradition in the cases under discussion.

Mr. Lieftinck remarked that the staff's answers to his questions had not been convincing. He agreed that the Fiscal Affairs Department had regularly given advice to countries on tax erosion resulting from investment facilities and had provided assistance with special facilities for new investors, tax holidays, and so forth; and that was precisely the kind of technical assistance that the Fiscal Affairs Department of the Fund should give. On the other hand, the area of investment codes designed for the purpose of creating a favorable climate for foreign investment was one in which the World Bank had particular expertise. Indeed, it had a special unit dealing with such problems, as well as a regularly updated publication on the subject. Therefore, as a minimum, he would request that, before the Board took any decision on the request by the Council of Arab Economic Unity, some contact be made with the World Bank. Naturally, if it considered that the topic was one for the Fund, he would be prepared to go along.

Mr. Cross and Mr. Deane said that they would reserve further comments until the question of Mr. Lieftinck's proposal had been answered.

The Deputy Director of the Fiscal Affairs Department remarked that discussions on the request by the Council of Arab Economic Unity had been going on for the better part of 12 months, and the staff had thus already accumulated a great deal of information on the investment codes of the member countries of the CAEU.

Mr. Palamenghi-Crispi expressed his support for Mr. Lieftinck's proposal to postpone a decision on the request until the World Bank had been consulted. While it was true that the Fund had already provided technical assistance to the Council of Arab Economic Unity, the paper showed that such assistance had been provided "in connection with the drafting of the Articles of Agreement for the Arab Monetary Fund." Although that advice had been within the Fund's field of competence, that did not mean that the present request might not better be met by the World Bank. The Deputy Director of the Fiscal Affairs Department had also suggested that there was an understanding between the Fund and

the Bank that the Bank did not provide technical assistance in the fiscal field. However, the Bank had increased its staff greatly in the past several years, and he was certain, as was Mr. Lieftinck, that its staff presently had experts in the fiscal field in general and in the area of investment codes in particular.

On other issues raised by Executive Directors, Mr. Palamenghi-Crispi indicated that he was generally in favor of technical assistance to regional groups of Fund members and that a flexibly applied policy of reimbursement by individual countries or international organizations--even in the short term--was reasonable. Reimbursement did not necessarily have to take the form of payment of a portion of the salary of the staff member on assignment; depending upon the ability of the country or organization to pay, even such token reimbursement as assistance with office space, hotel rooms, or local transportation would be helpful. It was not so much a question of reducing the Fund's cost, but rather one of encouraging some participation by the applicants. If applied flexibly, such a policy would help to restrict requests for assistance to those that were really necessary and would allow even the poorest members or groups of members to show appreciation for the assistance given.

Mr. Nana-Sinkam said that he had been under the impression that a consultation between the Fund and the Bank always took place when a request of the present type was received. Had such a consultation not already taken place with respect to the request for assistance by the Council of Arab Economic Unity?

Mr. Drabble remarked that he had initially been sympathetic to both requests for the reasons expressed earlier by Mr. Sevilla and Mr. Ryrie. After listening to the discussions, he continued to have no difficulty with the request put forward by the Economic Community of West African States. However, he did have sympathy with Mr. Lieftinck's proposal to postpone the decision on the request by the Council of Arab Economic Unity until after the Bank had been approached on the matter.

The suggestion by Mr. Palamenghi-Crispi for reconsidering Fund policy on reimbursement, even when a short-term mission was involved, was a good one, Mr. Drabble considered. Even with missions as short as one or two months--such as those suggested in the papers--the local currency costs were still quite significant, and it did not seem to him unreasonable for countries receiving such assistance to make at least a partial repayment of costs.

Mr. Pieske remarked that because the Fund had always encouraged coordination of policies and actions between members, it should not neglect coordination between organizations. He would therefore support Mr. Lieftinck's proposal to discuss the request by the Council of Arab Economic Unity with the World Bank before a final decision was taken.

Mr. Sevilla agreed with others who had spoken that an opportunity to consult with the World Bank should not be bypassed. If such a consultation revealed that the Bank could better provide the technical assistance requested he would agree to pass the request to that organization; he did, however, hope that no further discussion would be necessary in the Executive Board.

Mr. Cross stressed that he strongly favored technical assistance as an area in which the Fund could make important contributions. However, while he supported the provision of technical assistance to members individually and to members in groups, he was disturbed by the provision of such assistance to other international organizations.

Mr. Deane indicated that his chair was generally sympathetic toward the provision of technical assistance and wished to see the practice promoted rather than discouraged. He would have been happy to go along with both requests before the Board in the light of the explanations that had been provided by the staff, but he appreciated the validity of Mr. Liefertinck's point and was content to accept the procedure suggested.

Mr. Nana-Sinkam expressed the hope that Mr. Cross' subtle distinction between international organizations and subregional groups would not, because of semantics, prevent the Economic Community of West African States from achieving its objectives in line with the general objectives of the Fund.

Mr. Kharmawan stated that the position of his chair with respect to requests for technical assistance was basically sympathetic; he was therefore inclined to go along with the two requests before the Executive Directors. Moreover, he felt that the Fund should follow its customary practice of not requiring reimbursement for what were essentially short-term assignments.

He would agree to follow the proposal of Mr. Liefertinck to make contact with the World Bank on the request for technical assistance on investment codes, Mr. Kharmawan remarked. However, the matter of investment codes went beyond fiscal affairs into the realm of the exchange regime. After all, investors wished to have some assurance that their returns would be safeguarded. Since exchange rate questions might well come up in any discussion of investment codes, it was not clear that the World Bank was better equipped than the Fund to deal with the particular request from the Council of Arab Economic Unity. Nonetheless, he would support the proposal to take up contact with the World Bank in order to clarify the situation.

Mr. Monday also expressed the sympathy of his chair toward the provision of technical assistance by the Fund to members individually

or in groups, and its support for the two requests before the Board under current financial arrangements. Mr. Liefertinck's proposal was, however, reasonable and should be granted.

The Acting Chairman, taking note of Mr. Cross' general view on technical assistance to intergovernmental organizations, observed that in both the papers before the Executive Board there was an indication that the requests for technical assistance had been cleared with the members concerned. He would conclude that Executive Directors would give approval to the request by the Economic Community of West African States but would postpone any decision on the request by the Council of Arab Economic Unity until the results of a consultation with the World Bank on that matter had been received.

A review of the present policy of not asking for reimbursement in the case of short-term technical assistance had been suggested by Mr. Drabble, the Acting Chairman recalled; the staff would keep the suggestion in mind, although he could not promise an early review.

Mr. Palamenghi-Crispi suggested that, in the future, each staff paper on proposed technical assistance be accompanied by the request from the member or organization concerned.

Mr. Hussein asked what the procedure would be if it were determined that the Bank could better provide the technical assistance requested by the Council of Arab Economic Unity. Would, for example, a new request have to be submitted to the World Bank?

The Acting Chairman said that Mr. Hussein's question would be among the matters that would have to be taken up with the Bank.

The Executive Directors then turned to the proposal for technical assistance to the Economic Community of West African States, which they approved.

The decision was:

The Executive Directors approve the proposal set forth in EBD/76/1 (1/12/76).

Adopted January 14, 1976

5. RESIDENT REPRESENTATIVES - TEMPORARY ARRANGEMENTS FOR CERTAIN POSTS

The Executive Directors, at the request of an Executive Director, discussed a staff paper and proposed decision on temporary arrangements for certain resident representative posts (EBAP/75/267, Sup. 1, 12/16/75).

The Acting Chairman said that it was presently planned to place the paper on the general review of resident representative posts on the agenda for Wednesday, January 28, 1976.

Mr. Amuzegar indicated that he had had three reasons for asking for the paper to be placed on the agenda, although at least one of them had been satisfied by the Acting Chairman's opening statement. He had, first, been somewhat concerned about the frequency with which so-called "temporary arrangements" had been appearing pending the review of the basic decision. Moreover, he had seen no indication in recent work programs that a specific date had been decided for the general review. Finally, he had been given the uncomfortable impression from the Managing Director's prebudget memorandum that it had been intended, pending the general review, to maintain some resident representatives in their posts through 1976.

Mr. Drabble remarked that he found it entirely reasonable, in view of the heavy pressures on the Board, to postpone the discussion on the question of resident representatives. He had no difficulty in agreeing to the proposed extension and to a deferment of decisions on the specific cases until such time as the general review was completed.

Mr. Palamenghi-Crispi said that he had only two comments. The first concerned a noticeable lack of justification for the continuation of the specific posts. Indeed, the only justification he could find in the paper was that the posts in question had been open for more than three years. Second, the use of the word "temporary" to define the length of the extension was unclear. He would prefer an exact period, say six months.

The Acting Chairman indicated that the understanding of the word "temporary" in the particular circumstances to mean not more than six months would present no difficulty.

Mr. Ryrie inquired whether it was not possible to defer any decision on the particular posts in question--whether for a temporary period or otherwise--until the completion of the general review. In that connection, was it not possible to fit a discussion of the review into the agenda prior to January 28?

The Acting Chairman, responding to Mr. Ryrie's first question, noted that whenever a post had been open for three years it had to be reviewed and approved by the Board if there was to be an extension. On Mr. Ryrie's second question, he saw no difficulty in holding the general review on a date earlier than January 28, although the Managing Director had indicated a desire to be present for the discussion and he would not have returned to Washington until after January 21.

Mr. Deane commented that the procedure suggested in the memorandum for temporary arrangements pending completion of the general review was entirely reasonable, and that his chair had no problem in going along with it.

Mr. Liefstinck agreed with Mr. Ryrie that it would be useful to postpone a decision on the proposal for temporary arrangements for the three posts in question until the more general discussion had been held. In that connection, he noted that a proposal (EBD/76/2) had been submitted with respect to the establishment of a Fund Advisor post in the Persian Gulf States, the deadline for which was the close of business the following day. While that proposal appealed to him, he would suggest that the decision on it be postponed as well until after the general discussion on Fund Representatives. Furthermore, it might be useful in the future if some indication could be given in the proposal whether the post could be financed within the existing budget. If it could not, Executive Directors should seriously consider dropping one of the existing posts in order to accommodate the new one.

The Acting Chairman remarked that the staff generally made careful distinctions between Resident Representatives and Advisors. Aside from distinctions defining the duties, there were differences in financial arrangements for the two types of post; and, with respect to the proposal to which Mr. Liefstinck had made reference, the cash contributions of the four countries concerned went a long way toward paying for the post. He foresaw no budget difficulties.

Mr. Liefstinck remarked that, while distinctions between Resident Representatives and Fund Advisors might be made for administrative purposes, he saw little difference in duties. However, he would await further clarification of the distinctions mentioned by the Acting Chairman at the general review. He would be willing to postpone a decision on the Fund advisory post proposed for the Persian Gulf States if it was not urgent to establish the post.

Mr. Kafka indicated that, like Mr. Drabble, he considered the proposals made by the staff for temporary arrangements for the Resident Representative posts to be entirely reasonable. While he did not intend to go into any substantive justification for a continuation of the post in Haiti, he did wish to note that the Resident Representative in that country had traditionally played an important role in helping Haiti gradually to improve its policies in many areas; it would be a great pity to discontinue such a post and attempt to replace it with technical assistance or advisorships.

Mr. Palamenghi-Crispi asked about the effect that the choice of a date for the general review would have on the particular posts before them. If, for example, a decision were taken to extend the posts temporarily, and if "temporarily" meant in the range of six months or so, there would be no harm in not taking a decision at the present meeting. However, if the extension were to be for a period of somewhat less than six months, then the date on which the review should take place would become much more important.

The Acting Chairman remarked that the decision before them had been proposed merely as an interim measure designed to prevent an "illegal" maintenance of the posts until such time as the general review took place.

The Director of the Administration Department commented that the three particular posts in the paper happened to be coming to an end at the present time, and the proposal had been put forward only to bridge the period between the present and the point at which the basic paper would be discussed.

Mr. Palamenghi-Crispi noted that in the case of one of the posts, the present Resident Representative would be replaced by a new man who would be sent on the basis of the decision before them. Would not some difficulty be created if the replacement took place and the new Resident Representative was then asked to leave on the basis of decisions taken at the close of the general review?

The Director of the Administration Department indicated that no changes would be made until after the discussion in the Board on the basic paper; the present Resident Representative would remain until that time.

The Acting Chairman proposed that the Executive Directors agree, first, to maintain the discussion of the general review on the agenda for January 28; and second, that in not making arrangements between the present meeting and the end of the review the management and staff would be understood not to be acting improperly.

The Executive Directors agreed to the Acting Chairman's proposal.

#### DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/76/1 (1/12/76) and EBM/76/2 (1/14/76).

#### 6. PERU - GOLD TRANCHE PURCHASE TRANSACTION

Peru is making a gold tranche purchase in an amount equivalent to SDR 30,749,613 pursuant to its request dated January 12, 1976 as follows: the equivalents of SDR 5,749,613 in Austrian schillings, SDR 10 million in Deutsche mark, SDR 5 million in Irish pounds, and SDR 10 million in Japanese yen. The Fund notes Peru's request,

including its representation in accordance with Article V, Section 3(a)(i), and its statement that it will comply with the principles set forth in Executive Board Decision No. 102-(52/11), adopted February 13, 1952 (EBS/76/5, 1/13/76).

Decision No. 4932-(76/2), adopted  
January 13, 1976

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/76/1 (1/12/76), EBAP/76/2 (1/12/76), and EBAP/76/4 (1/12/76) is approved.

APPROVED BY THE EXECUTIVE BOARD:  
Meeting 76/77, May 21, 1976

H. JOHANNES WITTEVEEN  
Chairman

W. LAWRENCE HEBBARD  
Secretary