April 24, 2002

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Seminar 02/1

2:30 p.m., February 8, 2002

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Executive Board Attendance

S. Sugisaki, Acting Chair
E. Aninat, Deputy Managing Director

Executive Directors	Alternate Executive Directors
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C.D.R. Rustomjee	
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	Jin Qi
	Y.G. Yakusha
J. de Beaufort Wijnholds	
K. Yagi	
A.G. Zoccali	

S.J. Anjaria, Secretary
Z. Ahmed, Assistant

Also Present
African Department: N. Kirmani. External Relations Department: G. Berre, D. Hawley. International Capital Markets Department: W.E. Alexander. Legal Department: P. de Boeck. Policy Development and Review Department: S. Kashiwagi, P. Perone. Secretary's Department: A.S. Linde, Deputy Secretary; L. Hubloue, T. Turner-Huggins. Treasurer's Department: E. Brau, Treasurer; M.G. Kuhn, Deputy Treasurer; B.S. Newman, Deputy Treasurer; S. Ding, H. Hatanpaa, F. Lakwijk, O. Roncesvalles, P. Ross, H. Trines. Western Hemisphere Department: A.L. Coronel, A.M. Jul. Office of the Managing Director: R.S. Teja. Advisors to Executive Directors: S.A. Bakhache, A. Baukol, M.P. Bhatta, W.-D. Cho, S.S. Farid, O.A. Hendrick, S. Kropas, Liu F., F. Manno, J. Milton, Y. Patel, C.E. Pereyra, H.E. Phang, E. Pinto Moreira, A.A. Tombini, F. Vermaeten, P.H. Whitehall, M. Yanase. Assistants to Executive Directors: M. Abbing A.S. Al Azzaz, D. Baasankhuu, J.G. Borpujari, N.J. Davidson, M. Di Maio, C.J. Faircloth, N.H. Farhan, C. Harzer, C. Josz, J.K. Kwakye, K. Maver, P. Moreno, T.P. Nguema-Affane, M.L. Nikitin, K.S. Oo, J. Sipko, A. Stuart, Tong Y., Wei X., Yu J.

1. TWELFTH GENERAL REVIEW OF QUOTAS—PRELIMINARY CONSIDERATIONS AND NEXT STEPS

Documents: Twelfth General Review of Quotas—Preliminary Considerations and Next Steps (SM/02/22, 1/22/02)

Staff: Brau, TRE; Ross, TRE

Length: 2 hours, 45 minutes

Mr. Kelkar submitted the following statement:

The increasing uncertainties in the global environment as well as the difficulties in anticipating utilization of Fund facilities point to the need for a larger Fund size.

In considering the question of optimal Fund size, it needs to be recognized that the relevant loss function is becoming increasingly asymmetric.

For emerging market economies, 'globalization hazard' is a more significant issue than moral hazard- requiring a stronger Fund.

The development of PSI is unlikely to ease the pressure on Fund facilities in the near term. The declining availability of resources from bilateral sources for financing large crisis management programs accentuates the need to strengthen Fund resources.

We agree to the inclusion of additional indicators for the determination of quota size; taking into account all factors discussed, we suggest that the size of the Fund may be increased at least by 50 percent to meet the needs of the global economy.

A reduction of evaluation period between quota reviews would be appropriate.

Issues of access to Fund facilities should be guided by financing needs and not by member quotas.

We compliment the staff for this insightful paper, which highlights issues relating to the changing global environment as well as recent changes in Fund facilities as part of the ongoing debate on quotas. As we have pointed out earlier, the quota formula has to adapt to the sharp changes in the global economy and we are glad that the staff has underlined these issues in the paper.

There is an overall need for increasing the quota size because of the growing global economy and increased uncertainties. There could be increased pressure on Funds resources in the context of the present global weakening. As highlighted in the WEO, the synchronicity of downturn stretching all regions seems to be emerging as a feature of the new global economy. This also implies a larger amplitude of downturn as seen recently in a marked way. However, as seen in Table 3, the size of the Fund relative to the global economy even with reference to conventional indicators has decreased. Our concern is that, in this situation, it may be difficult for the Fund to effectively fulfill its mandate with the existing limited resource base. The staff points out that with the increasing number of precautionary arrangements being approved by the Fund as well as the possibility that the CCL may be utilized, the predictability of purchases and consequent repurchases becomes less clear, while the commitment to provide such support, some of which will be large and upfront remains. Under such circumstances, the staff feels that the case for quota increase is strengthened. We agree with this conclusion and would like to highlight another perspective, on which we welcome the staff's comments. It appears to us that though the number of precautionary arrangements may have increased, the financial commitments associated with them are still small. Precautionary commitments may enable better management of localized uncertainties in respect of the membership involved, but the set of residual uncertainties is still large. It is so large that they warranted very large Fund commitments to a handful of countries during the last year. In the light of this significant uncertainty, a better way to manage this situation in the medium term is to strengthen the Fund's resource base.

There is yet another argument that suggests augmentation of Fund quotas. Amongst growing uncertainties of the global economy, a feature of greater certainty is that the costs of a crisis to the global economy and to the concerned national economy are increasing to unacceptable levels. In other words, in considering the question of optimal Fund size, it needs to be recognized that the relevant loss function is becoming increasingly asymmetric. For all these reasons, we strongly support the position that the Funds resources should be buttressed in a timely and forward-looking manner. As pointed out in Box 3, the Fund has previously agreed that its primary resource should be quota subscriptions, and dependence upon borrowing arrangements should be sparing. The issue of the relatively higher cost of borrowing is also a very relevant consideration. Further, it must be remembered that relying on a few lenders may dilute the cooperative character of the institution, as well as raise additional issues relating to democratic deficit and the governance in the functioning of the Fund.

We are not convinced by the argument that a larger Fund size would create moral hazard and influence the behavior of some of the members as well as the private sector. As recently pointed out by Professor Guillermo

Calvo in his thoughtful paper, there has been little empirical evidence to support this. Furthermore, while many countries may have limited access to private capital, net private capital flows to emerging markets have fallen since 1995, and most of it has shifted to portfolio flows where investors are more vulnerable. In any case, the issue of moral hazard will need to be better managed through appropriate design of fund facilities, streamlining conditionality, improving crisis prevention, and enhancing PSI. Fund participation in the global context should be viewed more as a positive and confidence building exercise for meeting viable financing needs of members, based on strong fundamentals backed by reforms and adjustment. Further, we would like to draw attention to the issue of ' globalization hazard' described by Professor Calvo as of much greater importance in explaining the origins of crises in emerging market economies. He points out that the large volume and unprecedented nature of capital flows—which have arisen in the nineties have not been adequately understood to be managed efficiently. Emerging markets have become more vulnerable to negative shocks after these flows, due to the phenomenon of sudden reversal. Under such circumstances, emergence of crises represent a " market failure not a moral failure." This can be addressed by improving the international financial architecture with a stronger Fund as its cornerstone. The staff's comments are welcome.

The drastic increase in net private capital flows in the early nineties followed by its equally sharp fall in the second half of the decade emphasizes the increasing role such flows have in crises, apart from the more traditional BoP issues. While important work on PSI is under discussion, including the latest initiatives on sovereign debt restructuring, it does not appear that these efforts would bear fruit in the near term. We therefore agree that the Fund would continue to have a prominent role in resolving liquidity crises. As pointed out in paragraph 23, the Fund's share in financing packages has gone up. Coupled with the fact that bilateral flows for crisis management have not increased significantly, there is an increased responsibility on the Fund, to be prepared to extend support.

We agree that additional indicators including volatility of capital flows as well as capacity to make new financial commitments would be useful additions to the existing tool kit for assessing the size of the Fund. However, we would also need to agree on the consequential steps to be taken based upon the trend these indicators highlight. We are not sure that this will always be the case. As pointed out earlier, the relative size of the Fund has declined significantly even on the basis of conventional indicators. We feel that the size of the Fund would need to be much larger. Taking into account all the factors we have discussed, we would suggest that the size of the Fund may be increased by at least 50 percent to SDR 320 billion so as to bring it more in line with the needs of the global economy.

The Articles of Agreement stipulate a five-year maximum interval between quota reviews. Considering the increased uncertainties highlighted in the document, as well as the fact that the Fund has been unable to agree on SDR allocations since 1981, Fund support to members facing difficulties becomes increasingly significant. Given that quotas will remain the basic source of Fund's financing, perhaps a more frequent review—say once in three years is warranted.

On an issue related to the broader quota debate, we would like to draw attention to Table 2. This highlights the important fact that during four of the last five years, more than eighty percent of the new financial commitments have been made to three borrowers (out of an average of about 13 commitments per year). Further a significant portion of this is in the form of exceptional access. This reinforces a point we have made during the previous quota discussion- that the issue of access should be guided by financing needs and not by country quotas. Quotas should be used principally to determine a member's contribution to Fund resources. We plan to return to this issue during the discussion on quota formulae.

Mr. Yagi and Mr. Yanase submitted the following statement:

The increase in global capital flows has increased the demand for Fund resources significantly. To respond to this, the resource base needs to be substantially larger.

PSI will not be able to stem the increasing trend of demand for Fund resources because of the fundamental inadequacy of the current quota size to the demand for Fund resources and various difficulties the PSI initiative is facing.

New indicators are necessary to assess the adequacy of the Fund's resource base to reflect the increase in international capital transactions.

Current Fund resources have become too small to respond to further needs of members. Indeed, Fund resources would almost evaporate if crises of the size of those in 1997 and 1998 hit. A substantial increase in quotas is urgently needed. We need to accelerate the review process.

More weight should be given to the selective increase element in the next quota increase to reflect the reality of the current world economy.

We thank the staff for the concise and well-organized paper and welcome the start of the discussion on the Twelfth General Review of Quotas. We believe there is an urgent need to increase the size of Fund resources given the recent developments in the world economy and international capital markets. Below, we will explain in detail the basis of our evaluation, generally following the issues for discussion.

The dramatic rise in cross-border capital transactions has led to an exponential increase in the demand for Fund resources. At the same time, it has become harder to predict when resources will be needed. The reform of the Fund's facilities, establishment of the CCL, and the increased use of precautionary arrangements have accelerated this trend. Given these developments, we should recognize that in assessing the adequacy of Fund resources we are now more likely to underestimate the need for resources than to overestimate it. Moreover, as noted in the staff paper, it is better for the Fund's resource base to be "too large" than "too small." A resource base that is "too small" may be insufficient to address a global systemic crisis, while a resource base that is "too large" is unlikely in itself, in our view, to create moral hazard. For these reasons, we need to set a higher benchmark for assessing the adequacy of the Fund's resources. In our view, to be adequate, substantially larger resources are required.

As the paper notes, the PSI initiative has the potential to put the brake on the increasing trend of demand for Fund resources; however, it is too optimistic to think that the initiative will substantially change the picture in the near term. The initiative is currently facing various difficulties, and it is unrealistic to believe that we will be able to resolve these difficulties soon and thereby be able to limit the scale of Fund financing. We should also not forget that the Prague Framework does not exclude the possibility of the Fund's providing a substantial amount of its resources in order to catalyze private flows. This means that even after PSI has progressed considerably, the possibility of large-scale Fund assistance will remain.

In considering the effect of involving the private sector on the degree of access to Fund resources, we should not lose sight of the fact that the recent increase in Fund assistance as a percentage of quotas is the result of the inadequate level of Fund resources--quotas--compared to the increase in global capital flows in the last decade. Nowadays, significantly high access to Fund resources is no longer limited to SRFs. The approval a few days ago of augmentation of Turkey's stand-by arrangement is a good example of how small individual members' quotas have become and how inevitable it has become to provide larger access relative to quotas than assumed under Stand-By Arrangements and EFFs. Simply criticizing the size of recent Fund assistance relative to quota and insisting on restraining it by involving the private sector and getting more money from bilateral donors without paying due attention to the inadequate size of Fund quotas will not lead to a sustainable solution.

We agree that there is a need for new indicators to take into account the recent changes in the global economy that led to unprecedented large-scale

Fund financing. We also agree with the staff that the new indicators should particularly reflect the increase in the amount and volatility of capital transactions. This is consistent with our work on new quota formulas, where there was broad support for including variables to reflect international capital flows. Among traditional indicators, the liquidity ratio is particularly outdated, in our view. The ratio is based on reserve tranche disbursements as liquid liabilities, but higher tranche disbursements have now become the norm. Moreover, as Mr. Kelkar mentions in his statement, we should also note that even using the traditional indicator of the ratio of total amount of actual quotas to calculated quotas, which does not reflect the impact of the increase in international capital transactions, it is obvious that past quota increases did not keep pace with the growth of the world economy and that the relative size of the Fund's resources has declined considerably.

On the newly proposed indicator of the forward capacity to make financial commitments, we believe further evaluation of its pros and cons is necessary. We would like to make two comments in this connection. First, the staff uses SDR 40 billion as the minimum floor. Using the traditional liquidity ratio, this translates to 22 percent. In the Eleventh Review of Quotas, the liquidity ratio of 70 percent was used as a point of reference to indicate the possible need for a quota increase. We understand from bilateral discussion with the staff that the SDR 40 billion figure and the 70 percent liquidity ratio are different in nature, and a figure substantially higher than SDR 40 billion will be needed to indicate the possible need for a quota increase in future quota reviews. Second, on the NAB/GAB, the staff assumes SDR 30 billion of the total commitments of 34 billion would become available. We should note, however, that an 80 percent majority among the participants is required to activate the NAB. Moreover, in a crisis situation, some of the participants might not be able to lend to the Fund. Thus, SDR 30 billion out of 34 billion might be too optimistic.

Before concluding, we would like to provide some figures to illustrate how dire the need for a substantial quota increase is, using the forward capacity to make commitments. Let us assume hypothetically that the Fund will commit another $10 billion (SDR 8 billion) to Argentina as some of the press has reported. Since the beginning of this year, the Fund has made an additional commitment of SDR 5 billion to Turkey. If we subtract an additional SDR 8 billion for Argentina, the remaining resources that can be committed over the next two years will be only SDR 45 billion. In the light of our previous experiences—commitments of SDR 30 billion in 2001 and SDR 44.5 billion in 1997 and 1998—we believe it is clear that the Fund's resource base will not be strong enough to respond to a further deterioration of member countries' economic situations.

In conclusion, we are convinced that there is a clear and present need to increase quotas substantially and without delay. To avoid the Fund's finding itself seriously constrained in its reaction to calls from the international community, we need to speed up the process of the Twelfth Quota Review.

Last, we would like to comment on the annex. We welcome the historical and technical accounts of selected quota increases and the basic votes. While these are interesting to read, we believe it would be more constructive to discuss them in the future, in conjunction with other issues, when we are at a more advanced stage of the discussion on the quota increase. At this stage, we would only stress the particular importance of allocating substantial weight to the selected increase element in our next quota increase in order to make the Fund quota allocation consistent with world economic realities, thereby contributing to better governance of the institution.

Mr. Djojosubroto and Ms. Phang submitted the following statement:

This review is timely particularly as the Fund is now placing increased emphasis on crisis prevention, and recent developments have highlighted a significant rise in instability owing to excessive volatility of capital flows, which have more than doubled between 1990 and 1998. These developments and the high degree of integration of the global economy all point to a need for a quota increase. While the staff has provided a clear, concise, and balanced report, we would like to highlight several observations.

The staff has provided a succinct analysis of the implications of the usual range of factors on the demand for the use of fund resources. Table 3 clearly shows that the quota increase has not kept pace with the increase in potential demand for fund resources as demonstrated in the declining trend in the ratio of agreed size of Fund resources to the variables used in the quota formula. Looking back, events in 1997/98 demonstrated clearly that increased capital mobility also meant increased risk of sudden reversals of capital flows, which caused a sudden and unexpected surge in demand for use of Fund resources. Consequently, the Fund had to resort to borrowing from the GAB and NAB but for governance and prudential reasons, the Board was unanimous in its view that the primary source of funding should still be Fund-owned resources. Hence, the subsequent replenishment of resources through the Eleventh General Review in 1999. It is therefore important to note that Table 2 shows that the new financial commitments and total purchases in 2001 were even higher than in 1998, suggesting that current resources may not be sufficient to meet the potential and unexpected demand for resources.

The staff has correctly argued that given the greater uncertainty in the present environment and the fact that demand for Fund resources is increasingly being driven by sudden, sharp and unpredictable shifts in capital flows, it is more prudent to replenish the resources of the Fund in a timely and forward-looking manner. Undoubtedly, increased mobility of capital flows have had a positive impact on financing development in developing countries in general and emerging markets in particular. However, the expansion of gross capital flows to six times net flows since the mid-1980s has meant that even countries with relatively low net financing requirements could be subject to considerable and often unexpected volatility, as clearly shown in recent experiences. Furthermore, the high extent of integration of the global economy has also meant the increased risk of contagion, which further magnifies the potential demand for large, upfront disbursements for precautionary purposes.

There is no doubt that the shift in the Fund's approach to place greater emphasis on crisis prevention is a move in the right direction but in view of the factors cited, the demands on Fund resources are much greater than before. Although the staff has acknowledged this, in paragraph13 they tried to balance the call for an increase in the Fund's resources with the argument that the potential call on the Fund's resources would be diminished to the extent that precautionary facilities such as the CCL are able to prevent the occurrence of such crises. While we can agree that the potential drawdown on Fund's resources is likely to be less than the total amount of precautionary facilities granted, nevertheless, as acknowledged by the staff in paragraph 9, recent developments in the capital markets strongly suggest that there will be increased use of such precautionary facilities as part of the Fund's efforts towards crisis prevention and resolution. Hence, the total amount of precautionary facilities that the Fund will commit to is likely to be significantly larger than in the past. To maintain credibility, the Fund will need to have a significantly larger resource base to ensure adequate financing for its precautionary facilities in the event of a drawdown; otherwise, it will run counter to the main purpose of the precautionary facilities, which is to build market confidence.

The staff highlighted in paragraph 19 the concern for moral hazard if the Fund's resource base is "too large." In this respect we support Mr. Kelkar's view that this is a misplaced concern. There is no reason for the Fund to extend large financing packages and to delay repayments just because the Fund has more resources than needed at the moment. The terms and amount of financing in a program should be based on sound assessments of the financing needs and the ability and commitment of the country to undertake the necessary reforms. In contrast, the danger of the Fund having "too small" a resource base far outweighs whatever potential moral hazard there is of "too large" a resource base because the credibility of the Fund in maintaining stability of the international financial system would be at stake.

The staff has also highlighted that the demand for Fund resources would be reduced if there were greater private sector involvement (PSI) in crisis resolution and if there were increased emphasis on early warning systems (EWS) and enhanced surveillance. This argument is appealing in theory but in practice, it is a somewhat naïve expectation. In the case of the use of the EWS, the Fund has always used to varying degrees the EWS but experience has shown that while they are often helpful, there is no set of EWS that is foolproof and there are many instances where they can have the negative effect of being alarmist.

In the case of PSI, Argentina and Turkey are the best and most recent cases that have shown clearly that PSI as envisaged thus far has been far from successful. Indeed, this is not surprising. It would be naïve to assume that the private sector would willingly invest huge sums of money to bail out an economy that is not clearly out of the woods yet. After all, the private sector does not have the clout to ensure that the necessary reforms are in fact implemented. As the private sector is driven by the bottom line, they can only be attracted to complement the bail out efforts only after the authorities or multilateral agencies with sufficient emergency funds and clout have "bailed in" by facilitating the flow of funds during a crisis and ensuring that the necessary reforms are implemented. Hence, the Fund will need to strengthen or enlarge its usable resources to ensure that it has sufficient resources to catalyze the re-entry of the crisis countries to regain access to private capital markets.

In view of the size and the unpredictability of crises generated by sudden capital reversals, the staff's suggestion of a new indicator measuring the forward capacity of the Fund to make financial commitments certainly merits further consideration as it is questionable whether the liquidity ratio is an appropriate indicator of the adequacy of Fund resources. The liquidity ratio measures the excess of usable Fund resources over the Fund's liabilities. In other words, it measures the Fund's current ability to lend but does not provide any indication of expected future demand for Fund resources. However, the concept of forward capacity proposed by the staff is also open to the same criticisms that the staff have noted in the case of the concept of the gross financing needs (GFN) if there is no flexibility or transparency in the assumptions used to take account of changing circumstances. We would appreciate the staff's views on this.

In conclusion, we strongly support Mr. Kelkar's view that there is a need to replenish and enlarge the Fund's resources through a quota increase. Based on past trends, the quota should be increased by between 45 to about 70 percent and so we can support Mr. Kelkar's call for an increase of at least 50 percent. In addition, to improve the distribution of quotas to better reflect the change in the relative position of countries in the world economy as well as for equity and governance reasons, we feel there is a need also for a selective increase in quotas. On the timing of possible increases in quotas, the Articles of Agreement provide for a maximum of a five-year interval but do not preclude shorter intervals. As the whole process for a quota increase to materialize is time consuming, we can go along with a shorter time interval should the need arise.

Mr. Padoan and Ms. Manno submitted the following statement:

Any discussion on quotas should always consider that quotas serve several and interrelated purposes.

Discussion is concentrated on the suggestion to increase the size of the Fund. The new challenges the Fund faces should be addressed first of all through better quality of policy.

A reconsideration of the size of the Fund should not push to the background the need to improve PSI and to consider new proposals for debt restructuring.

New forward-looking indicators can be useful. They should take into account debt-sustainability aspects in addition to capital flow volatility.

We thank the staff for the papers prepared for our discussion today. However, we have to say that reading the paper has prompted more questions than answers.

What is the appropriate sequencing for the discussion on quotas? We have had some difficulties in understanding the "sequencing" that the debate on quotas is taking. Such a debate should be based on a sound assessment of the purposes of quotas. Two main avenues are possible. Quotas could determine only the size of the Fund and no longer be considered as a basis for access to Fund resources or voting power. Alternatively, quotas could continue to be used for these purposes as well as for determining contributions to the Fund. In the paper we are discussing today, only this last aspect is taken into consideration, but it goes without saying that it is clearly related to the other two (and indeed the two annexes, as well as the Information Note on Representation and Quotas are there to remind us of this). Therefore, it would greatly clarify the debate to make these links explicit and to set out a convincing sequencing in the discussion.

What is the focus of our discussion? The question in front of us is this: is the size of the Fund appropriate to deal with the current and future challenges coming from the evolution of the international financial system? Not a minor issue to say the least, and the paper offers several useful points in looking for an answer. The bottom line can be found in paragraph 18: "In view of the increased uncertainties regarding the prospective magnitude of the Fund's commitments and the volatility in its credit outstanding, it is important that the resources of the institution be replenished in a timely and forward-looking manner."

Should the size of the Fund be increased? The staff paper argues that both the development of capital account transactions and financial market integration have put (considerable) pressure on Fund resources. Figure 2 and table 3 in the staff paper clearly show that the agreed size of the Fund has decreased over the past two decades in relative terms.

These two points, taken together, might suggest that a substantial increase in the size of the Fund is due. In his lucid statement Mr. Kelkar argues that such developments, as well as the increasing uncertainties of the global environment, justify a substantial increase in Fund's resources, which should be as large as 50 percent.

We are inclined to a different interpretation. While it is possible to look at a relative decline in use of Fund resources as a source of concern, we tend to consider it an indication of success, as it signals that the institution is using its resources with increasing efficiency.

Should we not aim at improving quality before increasing size? The main lesson for the Fund that we draw from the development of capital account transactions and financial market integration is that it requires further improvements and adaptations in the way the Fund operates and in its instruments, much more so than it requires an increase in the size of the Fund itself.

In addition, lessons have to be learned from the changes that are under way in both policy implementation and in performance of markets.

As confirmed in the WEMD discussion only two days ago, encouraging signs of diminished contagion risk suggests that markets are becoming more selective and that sound and transparent policies are paying out in terms of effectiveness in attracting investors.

The Fund, on its part, has aimed, with some success, at improving its policies and implementing them carefully, so as to accomplish its mandate while protecting its resources. Up to now the Fund has enjoyed an excellent repayment record and there is little evidence that Fund lending has generated implicit transfers. We could deduce, therefore, that in the past, the amount of resources available to the Fund has been appropriate. While the past is not necessarily a guide for the future, these results should encourage us to sharpen crisis prevention mechanisms and improve surveillance.

Progress has been made in adjusting Fund policies and instruments with the goal of avoiding excessively large financing packages. The Fund has adapted its facilities so as to encourage countries not to rely too much, or for too prolonged periods, on Fund resources, shifting the emphasis toward good policies and sound institutions. Of course, the adjustment-financing trade-off will always be there. However, trade-offs can, and should, be improved and not taken for granted.

The claim for more resources should not draw attention away from other items on the agenda.

The scope for better quality of policy and market behavior is far from being exhausted.

We are working to put in place a sound and effective framework for PSI, and we are considering proposals for Sovereign Debt Restructuring. We will be discussing access limits.

Any substantial increase in quota could be justified only if we assume that there is no further scope for qualitative improvement in the way the Fund operates, and that the increase in efficiency in the use of Fund resources has reached its limit. It would also imply that there is little scope for improving the quality of national policies, market performance, and private sector involvement.

The introduction of forward-looking indicators in assessing quotas can be useful in monitoring the future adequacy of Fund resources.

As the paper suggests, improvements can be made in the assessment of quota adequacy. In past quota reviews, the adequacy of Fund resources was mainly assessed on the basis of the ratios of actual quotas to the variables in the quota formulas and the liquidity ratio.

As for the former, any revision is obviously related to the discussion on quota formulas that is currently under way. As we indicated at the outset this requires taking into account all the purposes for which quotas are calculated and not just resource allocation.

Regarding the latter, in paragraph 24 the paper states that the liquidity ratio has been subject to considerable debate and that its usefulness may be limited at best. We agree on this point, given the high volatility of the ratio and its dependence on the activation of precautionary arrangements.

The staff considers the gross financing needs (GFN) as not fully adequate, given its somewhat mechanical computation. While we agree on this aspect we feel that the GFN could represent a useful indicator if only in providing a "baseline" medium-term scenario. The paper argues that such a baseline would be of little use if one takes into account sharp and unpredictable shifts in capital flows as well as the large deviation from GFN when SFR-type arrangements are involved. We agree with the point but we suspect that such an objection could be extended to medium-term projections in general, including those carried out for debt sustainability analysis.

The above considerations support the idea of introducing forward-looking indicators. These should reflect the increasing variability of capital flows but they should also take into account factors affecting debt sustainability, including the determinants of long-term growth and the relationship between short-term instability and longer-term performance.

To clarify the point, reconsider the case of Turkey. The initial assessment was that the crisis was acute but of a short-term nature, consequently an SRF was granted. When it became clear that the problems were of a longer-term and more structural nature, the instruments had to be changed. In other words, an assessment of forward needs only, or predominantly, on the basis of short-term capital account variability, may be misleading and, ultimately, require a change in the nature and extent of the financial commitment.

Mr. Junguito and Mr. Tombini submitted the following statement:

All evidence provided in the report, through both traditional and new indicators, points to the necessity of increasing the size of the Fund.

The future demand for official support shall be increasingly met by owned Fund resources to mitigate problems of governance and to preserve the cooperative nature of the Fund.

Progress in defining a meaningful framework for private sector involvement does not preclude the need for a larger Fund.

The moral hazard issue of a larger Fund should not be over emphasized, as the empirical evidence indicates.

Without progress in reformulating existing quota formulas, any increase in the size of the Fund should be equiproportional to minimize distortions in the relative economic position of member countries.

We would like to thank and compliment the staff for preparing a very thoughtful, comprehensive, and balanced paper on a complex and difficult subject that is of critical importance for the future of the Fund. Preserving the capacity of the Fund to fulfill its role depends on the ability to adapt its size to the new realities of the global economy, characterized by deepened economic integration in the areas of trade and finance, by greater volatility of international financial flows, and by increased synchronicity amongst member countries' economic cycles. Arriving at a consensus on a general increase of the aggregate quota is an important step to strengthen the new architecture of the international monetary system.

The rapid growth of international transactions in goods and services and the increasing dependence on volatile international capital flows impose a progressively more important role for the Fund in adjusting its financing policies to help prevent crises. Traditional indicators to assess adequacy of Fund resources appear less useful today due to additional sources of demand. The more volatile financial environment, the need to respond to a sudden impairment of market access, and to meet financing requirements when PSI is uncertain, all signal to the need for additional resources.

New indicators should contemplate these potential new sources of demand and, therefore, take account of the volatility of capital flows. The use of the liquidity ratio (uncommitted usable resources/liquid liabilities) provides a good static picture of the availability of Fund resources, but ignores the uncertainty regarding the expected use of precautionary arrangements. The use of the forward capacity concept seems more adequate as it allows planning for the worse scenario even if it is not the most probable. The forward capacity concept makes a number of "prudent" assumptions; namely, that all scheduled purchases under already-approved arrangements are made, all repurchases are extended from the expectation to the obligation schedules, and that a minimum prudent level of uncommitted usable resources remains.

The question is whether the apparently wide forward capacity measure is by itself sufficiently encompassing to take account of all potential sources of demand. In particular, it should be recalled that the MD's report to the IMFC noted that for countries undertaking sound economic adjustment the Fund can consider an augmentation or rephase the access when the policy framework is strong and appropriate to the emerging circumstances, consider new programs supported by the Supplemental Reserve Facility (SRF) and/or stand-by arrangements, and approach eligible countries to encourage consideration of the Contingent Credit Line (CCL).

All evidence provided in the report points to the necessity of increasing the size of the Fund, and of replenishing the resources of the institution in a forward-looking manner. We would support a quota increase even before the actual need arises. We also support the view that primary reliance should be given to Fund-owned resources, and less to borrowed resources. Borrowed resources should remain as a back-up facility in case that cyclical circumstances require Fund resources beyond what is foreseeable with the new indicators.

Progress in defining a meaningful framework for private sector involvement does not preclude the need for a larger Fund. Over the years, the aggregate quotas of the Fund increased at a considerably slower pace than world GDP, international trade, and international capital flows. For instance, as the report shows, to reestablish the original size of the Fund with respect to GDP the aggregate quota would have to increase threefold to above SDR 600 billion. The shrinking size of the Fund, along with under representation of a number of fast-growing, emerging market economies has required the financial support of the Fund to become a large multiple of the member's quota, and it is usually supported by some bilateral official financing. Progress in designing a meaningful framework for private sector involvement would certainly be a useful complementary initiative to strengthen the crisis resolution tool kit. However, the significant lack of appetite of official bilateral creditors to participate in crisis resolution is a strong indication that the multilaterals will have to play a central role in members' financing, in spite of all the progress that can be achieved with PSI.

The empirical evidence on moral hazard stemming from large Fund packages is inconclusive, to say the least. The majority of the work done on this issue suggests that there is no statistically significant moral hazard related to Fund lending activities. As pointed out in Box 3.4 (IMF-Supported Programs in Capital Account Crises – Design and Experience), the evidence of lower and more stable spreads of emerging market bonds after Fund financing (a commonly used indicator to suggest the presence of moral hazard) could be interpreted as not only having the Fund programs reducing the likelihood of default events, but also reducing the probability and severity of sovereign crisis themselves. If one is not convinced that the social benefits for the countries in crisis and for the global economy altogether outweigh the costs of Fund lending, at least, should accept, as the literature suggests, that the potential moral hazard problem should not be over emphasized. We support Mr. Kelkar's view that the problem of moral hazard should be mitigated by a series of initiatives including the proper design of Fund facilities, the streamlining of conditionality, and the improvement of crisis prevention tools, among others.

Appendix I presents a summary of the experiences with the previous general increases of Fund quotas, highlighting the two basic elements behind them; namely, the equiproportional and the selective increases. As we have pointed out in previous discussions on quotas, to preserve the legitimacy of the Fund it is critical that the new quota structure better reflects the changes in the world economy and the relative position of member countries, and gives proper representation to those countries that are the most affected by the Fund's decisions. In case that the Twelfth General Review moves forward without agreement being reached on a new quota formula, we will insist on an essentially equiproportional increase in quotas. An eventual selective quota increase with the current quota formulas would aggravate the already existing distortions in the relative economic position of member countries.

Ms. Lundsager and Mr. Baukol submitted the following statement:

Various quantitative measures of the Fund's current financial position indicate that it is strong and comfortable. This is particularly evident in the liquidity ratio, which is quite high, even abstracting from the staff's overly cautious interpretation of its result. The staff's new preferred measure—forward capacity—employs a range of further conservative and tenuous methodological assumptions, but even it suggests that the Fund's financial resources are strong.

Therefore, we see no need for a quota increase at this time or for an extensive work program on this issue.

More broadly, despite the reduced share of Fund resources relative to private capital flows, the Fund remains at the center of the international monetary system. Our objective should be to recognize that official resources will remain relatively limited and cannot and will not keep pace with private sector flows. Thus sound policy implementation will remain key for countries to attract the desired funding from both external and domestic sources. The Fund will have a central role in this policy dialogue, even without an increase in quotas.

As there is no need for a general quota increase, a discussion of selective increases is largely a moot point. Nevertheless, we would note that ad hoc quota increases that reduce the quota shares of all other members would impose an unfair burden on other countries whose weight in the global economy may be understated by its current quota share.

Quotas should reflect members' relative weight in the world economy and ability to contribute to the financing of the Fund. While we understand concerns about the declining share of basic votes, it is important to respect the basic functions of quotas given the Fund's fundamental role as a financial institution. Therefore, we do not believe it is necessary to address the question of basic votes and would not support any changes to the Articles on basic votes.

The staff paper describes a number of changes in the world economy and in Fund operations that could have a bearing on the demand for Fund financial resources. Some factors appear to support the need for more Fund resources in the staff's view, while others convincingly indicate that Fund resources are strong. The latter arguments are more persuasive, in our view.

One, the paper notes the growth in private capital flows, greater volatility in capital flows, the shift toward portfolio investment and FDI (away from official and bank finance), and more frequent and larger scale financial crises, suggesting a need for more Fund resources.

In our view, the size of the Fund has naturally declined over time relative to measures of the world economy, reflecting the welcome growth in the role of private financial markets. The growth of private capital flows, however, has clearly not led to a diminution in the Fund's global role. The Fund remains at the center of the international monetary system – perhaps even more so than in the past. That role will remain, even without a direct link between the size of Fund resources and measures of the global economy.

Two, the paper notes that increased use of large-scale precautionary programs and SRFs, as well as the potential for large up-front CCL commitments, create greater uncertainty about the demand for Fund resources.

In our view, the shortening of the Fund's average maturity under the SRF, the reduction in the number of EFFs, and the use of repurchase expectations should mean that Fund resources revolve more quickly. Also, improved crisis prevention, greater ex-ante conditionality – in general and we hope, under the CCL, and more focused and efficient selective lending practices in general, should make crises less likely and diminish the demand for Fund resources. Our work in promoting a more predictable framework for sovereign debt restructuring will reinforce this.

Three, the paper notes that prospects for countries to regain medium term viability may be hard to gauge and that the infusion of bilateral resources is less likely going forward.

In our view, better success at crisis prevention and diminished prospects for large-scale official financing can play an important role in promoting early and effective policy adjustment. This will require a continued strong role for the Fund that is not directly related to its size as a creditor.

The paper considers several quantitative approaches for assessing whether the Fund's quota resources are sufficient. Two measures are particularly important, and they indicate that the Fund's current financial position is strong.

Liquidity Ratio—This remains the foremost measure of Fund financial resources. It stands (as of mid-January) at a strong 115 percent, well above the level of about 30 percent when many past quota increases were initiated. As the staff suggests, the calculations underlying the liquidity ratio have been subject to considerable debate and we have consistently been among those viewing the staff's interpretation of the results as excessively cautious. In particular, we find quite unpersuasive the argument that a decline below the historic average of 70 percent figure is a possible signal of a need for a quota increase—it is simply an average, and to calculate an average, figures must be both above and below that number.

Forward Capacity—This new indicator proposed by the staff involves even more conservative assumptions than imbedded in the liquidity ratio by assuming that all precautionary commitments are disbursed, all other commitments are disbursed (even in programs that are off-track), and all repayments are made on an obligations timetable rather than expectations. We find these assumptions excessively conservative if not most unrealistic. However, even with these assumptions, the forward capacity measure sets aside SDR 40 billion for working balances, reserve tranche coverage, and 'unexpected needs'. On top of the SDR 40 billion, the current forward capacity is SDR 42 billion.

Further Considerations: The review of the Fund's liquidity position last fall considered demand for Fund GRA resources in an adverse case scenario. Total new demand for one year was estimated at SDR 20 billion. The paper concluded that "in an adverse case scenario ... the Fund's forward capacity to make new financial commitments from its own resources should be adequate to accommodate foreseeable demand and [that] recourse to the NAB/GAB would not be necessary." Further, if every country that does not already have a program, is not PRGF eligible, and is not a creditor country asked the Fund for a program at 100 percent of quota, the demand for Fund resources would amount to less than SDR 25 billion, a sum that easily falls within the SDR 42 billion forward capacity.

The staff paper includes two interesting annexes on the distribution of selective quota increases and basic votes. The staff usefully observes that in the context of general quota reviews, selective quota increases have been undertaken through a range of techniques. Obviously, given that there is no need for a general quota increase, a discussion of selective quota increases in some ways is a moot point.

However, we would like to offer a further reflection on selective or ad hoc quota increases. All of us are well aware that there are important discrepancies between many members' calculated and actual quotas, whether one assumes the existing methodology for calculating quotas or some of the more promising avenues that have been discussed over the past year.

In principle, we believe that a convergence of actual quotas to calculated quotas is warranted to reflect the increasing relative weight of faster growing countries in the world economy. That said, a common practice in this institution with ad hoc quota increases, for example, has been to layer these on top of the existing quota structure, thus spreading the consequent share reduction among the entire membership without considering whether share reductions were warranted for each and every member. While we understand that no member can be compelled to accept a nominal reduction in its quota share, we are hard-pressed to understand the logic whereby a country whose relative weight in the world economy is already in excess of its actual quota should witness a further proportionate reduction in its quota share.

As the paper notes, basic votes have become an increasingly small share of total votes. In our view, voting shares should very closely reflect Fund quotas, which in turn should reflect countries' relative weights in the world economy and ability to contribute to the financing of this institution. Increasing small countries' basic votes (or adding a constant in the quota formula) would only create greater inequities in the Fund's quota structure and further de-link quotas/voting shares from countries' relative economic weight. Additionally, the Articles should rarely be amended, and only in circumstances in which a strong consensus exists to undertake a fundamentally needed change that can command support in our respective countries.

Mr. Rustomjee submitted the following statement:

The design of new Fund facilities and the strengthening of the Fund's surveillance mechanisms are important to take account of in considering whether or not to increase quotas.

The reasons for increased quota at this time are however overwhelming, namely, the need for internationally acceptable ways to provide critically needed financing for development for low-income countries; the medium term outlook for the global economy appears to have improved recently. However, significant risks still exist; the PSI framework is not functioning as envisaged during its implementation; and the globalization process brought about benefits to many countries, but also significant risks.

The Fund's safeguards policy substantially reduces the potential for moral hazard. The design of more robust indicators to determine the future liquidity needs of the Fund is worth pursuing. The basic vote should be restored to its original level.

African representation at the Fund should be addressed sensitively but as promptly as possible. African members suffer in their ability to be represented largely by only two Executive Directors in the Fund's Executive Board. In addition, the very low share of overall African voting power at the Fund Board, of 4.4 percent of total voting power, significantly impedes Africa's ability to represent itself, and can be argued to compromise the cooperative nature of the Fund.

Significant work pressure exists in the constituency offices of African Executive Directors that negatively influences efficiency, both within the constituencies and within the overall affairs of the institution.

The current Fund arrangement of African representation precludes the development within the Executive Board of greater African regional homogeneity.

Specific proposals to improve African representation in the Fund include: the establishment of one or more new African constituencies in the Executive Board; an increase in the basic vote for the benefit of the lowest income and smallest members of the institution in a manner which sustains any decision to establish an additional constituency or constituencies for African members; and an increase in the human resource capacity in large multi-member constituency offices at the Fund.

I have divided my statement on the matter of the Twelfth General Review of Quotas into two parts. First, our comments on the substantive issues raised for discussion in the staff paper. Second, our comments on the linked issue of representation of the large multi-country constituencies in the Fund, specifically the large African constituencies and within this, specifically my constituency.

I thank the staff both for the clarity and for the detail contained in their useful document on the complex issues associated with the Twelfth General Review of Quotas. This paper helps conceptualize many of the issues and in doing so will hopefully enable us to advance our discussion promptly on the issue.

Our discussion is taking place at a time when the global community faces dire but complex challenges, that need to be urgently addressed. These include: the prevalence of persistent, widespread poverty throughout the developing world, with little clarity as to how poverty will be seriously addressed in the foreseeable future; the perpetual eruption of financial crises in the global economy, with the scale of each new crisis often seeming to dwarf that of its predecessors. Intertwined with these primary challenges are the difficulties that we continue to grapple with, in better defining the role of multilateral organizations in dealing with these challenges, and the growing sense of a democratic deficit in the decision making structures of multilateral organizations. Moreover, all of this is overlaid by the need to ensure that adequate international resources are available to effectively tackle these challenges. The review of quotas should be considered against this background. Quotas play a crucial role not only in determining the level of liquidity at the Fund, but also in determining the level of access of members to Fund financial resources, as well as the nature of country representation at the Fund. For all these reasons we view this discussion as being of very significant consequence for the ability of the institution to address the variety of challenges which our mandate requires to address.

A judgment as to whether or not a general increase in quota is required at this time, is complex and in our view not one sided. In the ensuing paragraphs we have set out firstly the reasons why it could well be suggested that no increase in quota may be required at this time. Subsequently, we have outlined a range of reasons, which, on balance, we consider compelling and which in our view to considerably outweigh the reasons for not having a general increase.

In the period since the last review of quotas, the Fund has adapted significantly its policies and practices to try to effectively address the challenges of the current global environment. We have had to deal with multiple crises. Significant and far-reaching changes have been made our surveillance practices of the Fund. We have developed new standards and codes, and a wide array of ROSC modules. The FSAP framework has been established. In addition new financial instruments, including the SRF, have been launched and have acquired a significant place in our instrumentation toolkit when large-scale crises emerge. We have also developed the new CCL, although thus far there have been no users of the facility. All of these additions to policies and facilities have clearly evolved in response to the ever present threat of large scale crises, and offer some comfort that should a significant crisis emerge, our repertoire of responses will be much more robust than was the case, for example, at the time of the Asian crisis.

The participation of member countries in the Fund's standards and codes framework has also increased the transparency of their policy frameworks. Participation in the ROSCs, FSAPs, and financial surveillance within the context of the Article IV missions has also helped member countries to address weaknesses in their macroeconomic and financial environment and to strengthen their economic and financial fundamentals. These efforts have begun to enable market participants to better discriminate among countries in terms of risks, vulnerabilities and crises. For these reasons it could be argued that member countries, in cooperation and with the assistance of the Fund, are now better positioned to address weaknesses and vulnerabilities in their economies, and that for this reason no need exists to increase the Fund's resource base to deal with potential vulnerabilities.

These are all important reasons, in our view, to consider in deciding on the merit or otherwise of a general increase in quotas and on the size of any potential increase.

There are, by contrast many reasons, which we consider make a compelling argument in favor of a general increase in quotas.

First, a pressing need exists to find internationally acceptable ways of providing critically needed funding for the development of the economies of low-income countries. At this time, the need for such funding has never been greater, with several recent authoritative studies showing that the financing required to achieve the Millennium Development Goals is enormous and will only be able to be possible through innovation and a pro-active, internationally acceptable methodology. A general increase in quota, coupled with innovation by the international community in the use of such resources will be a means to achieve this objective. On a related matter, we wish to record our request, made shortly after finalization of the Eleventh Quota Review and following a review of access policy, that access levels for PRGF members be significantly increased and that the diminution in actual access levels which took place following the review of access policy after the Eleventh Quota Review, be restored.

Second, global economic and financial uncertainty continues to prevail at the current time. We have been heartened by the evidence presented during the WEMD session that the depth of the downturns both in the US and the Euro zone have been less severe that initially expected. We have also been pleased to note that contagion from the recent Argentine crisis appears to have been limited. We acknowledge that this may reflect an increasing capacity of markets to differentiate among emerging market economies. However, we believe that significant uncertainties continue to prevail. There is no certainty that the current downturn will significantly ameliorate; there is a strong evidence of continued stagnation of the Japanese economy; the Argentine crisis has yet to play itself out; and the range of policy measures which still need to be taken both by emerging markets, and advanced industrial countries, including in the areas of financial reform, trade and regional convergence, are so significant and remain enmeshed in such great uncertainty, that we feel uncomfortable in placing reliance on the ability of the financial markets to continue their current refreshing aptitude to differentiate among strong and weak performers. In short we see the prospect of contagion as being ever present. Coupled with the ongoing drive toward strengthened and more sustainable globalization, which past experience clearly shown to be accompanied by increased volatility of financial flows, this suggest to us that the financial resources of the Fund will need to be bolstered, through a general increase in quota.

Third, a further reason why we see the need for an increase in quota is the fact that after very considerable bona fide efforts by the Fund to improve and strengthen the role of the private sector in addressing crises, we seem to remain far from a satisfactory outcome. In acknowledging our limited financial capability to address financial crises, particularly in the event that substantial resources are required, the Fund has sought to contribute to developing a workable PSI framework, in which the Fund's catalytic role in the resolution of these crises is recognized. However, experience so far suggests that the PSI framework is not working as planned, and the private sector has not been forthcoming in providing financial resources in dealing with crises as they have emerged. Furthermore, developed.countries have demonstrated their preference to work with the Fund in dealing with crises. Substantial resources have just recently been made available to Turkey to help contribute to the process of addressing their difficulties, and an expectation exists that the Fund might provide substantial resources to Argentina once the authorities have designed an acceptable policy framework to deal with their difficulties. In our view, these examples serve to highlight the facts that large-scale resource usage should be anticipated; also that in the process of developing meaningful PSI in the resolution of crises, considerable progress still needs to be made.

Fourth, the global economic environment has changed substantially since the completion of the Eleventh Review. The globalization of economic and financial relations among nations has deepened, and world trade, particularly that of developing countries has expanded substantially, as trade barriers have been reduced. Nevertheless, several significant steps are now required by the advanced industrial countries in order to remove their own trade barriers to the products of developing economies. The opening up of capital markets since the last quota review has resulted in much increased cross border capital, FDI and portfolio flows. These changes to the international environment have benefited the global economy, particularly but not exclusively the prospects of advanced economies. Participation in the global economy has however, brought about many risks, among others, the risk of disruptive reversals in financial flows, currency risks, terms of trade shocks, and the risks of contagion which member countries are obliged to deal with on an individual basis, often with the assistance of the global community, especially the relevant multilateral organizations. These changes require that those multilateral organizations, such as the Fund, that are intimately engaged with their members in the process, should be adequately equipped and have at their disposal adequate financial resources, to support their members and to help maintain global financial stability.

Fifth, despite the considerable efforts by the Fund to design a framework to contain the spread of vulnerabilities and contagion, it seems clear that contagion has not been eliminated. Countries can despite very substantial efforts to stabilize their economic financial and economic environment, still experience a sudden and disruptive loss of market confidence.

Sixth, recent experience suggests that we can expect significant future demands on our resources. The number of Fund arrangements has already increased substantially since member countries started to avail themselves to the SRF. Furthermore, member countries have increasingly requested Fund support under the Stand-By Arrangement, although we recognize that some of these have been precautionary arrangements. This trend is clearly illustrated in Table 1 of the staff paper, which highlights the presence of a substantial and growing number of programs since the Eleventh Review of the Quotas and an increased use of Fund resources. The table also reveals that there is now a much higher level of outstanding credit, which has almost doubled since the last quota review. These statistics clearly illustrate the increased actual demand by Fund members for access to Fund resources. Moreover, in view of the upward trend in use of Fund resources over time, provides a strong case for considering a general increase in quotas.

The staff has raised the issue of debtor as well as creditor moral hazard within the context of the need to increase Fund resources. As regards the Fund as a creditor it is our view that the safeguards policy of the Fund when extending credit to member countries which include frequent staff reviews of member countries' economic and financial policies, Board discussions, as well as the expectation of early repurchases should a member's economic condition improve after obtaining Fund resources, substantially reduces the potential for moral hazard for the Fund. A greater risk exists in our view should the Fund experience insufficient resources at a time of crises to support members. This would prevent the Fund of fulfilling its mandate to promote international financial stability. In our view debtor moral hazard would also be eliminated should the Fund continue a policy of not providing resources to member countries that fail to make the needed adjustments to their policy frameworks to ensure sustainable macroeconomic and financial conditions. Nevertheless, the Fund would fundamentally fail in fulfilling its mandate should members facing balance of payments difficulties be unable to assisted due to lack of resources.

The Fund has been using various indicators including key economic indicators in the quota formula, gross financing needs, and the liquidity ratio to determine the optimal size of overall quota. The size of the quota has however seldom reflected the direction of the indicators. We could therefore agree that more robust indicators may need to be developed to provide improved forward-looking capacity to new financial commitments.

Quota reviews are a long and cumbersome process. We see merit both in trying to streamline the process and in seeking to make the review process more flexible, in order to provide the Fund with the ability to adjust the overall size of the quota whenever global conditions demand such a change. We would be open to considering proposals to bring about this flexibility, including greater frequency of reviews.

It has been our long-standing position that the level of the basic vote has declined to a level incommensurate with the intention of the founders of the Fund. We are therefore pleased to note the valuable analysis provided by the staff on this issue and wish to reiterate our position, contained in my intervention during the Managing Director's luncheon, that the level of the basic vote should be restored to its original level, proportionate to the total vote.

I would like to make a few remarks on the issue of sub-Saharan African representation as part of my overall remarks on the Twelfth Review of Quotas. As colleagues are aware, the Secretary has kindly circulated an Information Note on Representation and Quotas on 28 January 2002, comprising the staff's Information Note, summaries of the interventions of Mr. Portugal and myself during the Managing Directors' luncheon for Executive Directors hosted in August last year and a summary of the levels and types of consent which would be required if any of the possible options contained in the staff's Information Note were to be considered by the Executive Board and subsequently initiated.

I would first like to record my gratitude to the Secretary and to the Treasurer's Department for preparing the information note. The matter of African representation and quotas is a complex matter, which in a potentially zero-sum context, needs to be dealt with sensitively. The information note has provided a non-committal, objective outline of potential options, in a manner that I very much appreciate, recognizing that a possible challenge exists, but refraining from pressing any particular option. It is a welcome and appropriate step and I hope it can be built upon.

Second, let me express the hope that any resolution of this matter will attract the full consensus of the Executive Board. This is in my view the only way to proceed on this matter.

The issue of representation is of course closely linked to the issue of quota, for all members. In my view, the linkage is all that much more acute for the large, multi-country constituency members, particularly the African members. As my own intervention during the Managing Director's luncheon noted, these members suffer from a combination of two particular deficiencies: first, a compression in their ability to represent their interests, broadly into two chairs, with a combined country membership of 44 countries; second, a very low voting share of 4.4 percent of total voting share in the Board. Each of these represents a striking deficit in these members' rightful claim to equitable ownership of the institution. The presence of each factor severely circumscribes capacity to represent and leads to lack of efficiency certainly for my constituency, but also to the Board as a whole. Each aspect requires to be addressed. From the perspective of the African members, I believe that each aspect is considered important and urgent.

There is a strong case to suggest that inability to fully represent African interests at the Fund represents a wider, significant set of concerns for the institution as a whole. In our view this takes two forms. Firstly, a concern focused on a cluster of issues pertaining to legitimacy, the cooperative nature of the Fund as a multilateral institution, a sense of fair play and meaningful ownership. There is a sense that these objectives are significantly compromised by having 44 members represented in two chairs with 4.4 percent of the vote and I have tried to highlight these in my comments during the August luncheon of the Managing Director. Second, a concern focused on the internal efficiency of the Board and on whether the current arrangement of our affairs as regards the two large African chairs optimizes efficiency. There is a sense here that internal efficiency is being compromised. Comprising about a quarter of the institutions' membership, any inefficiency in the current representation and voting share arrangement magnifies itself across the institution and makes for inefficiency in the conduct of our work. For example, in the case of my own constituency, the current arrangement has resulted in a disproportionate workload. Work stress is acute, not only for the professional staff, but also for the administrative staff, who require to maintain very high-level servicing of the needs of effectively 42 institutions (21 Ministries of Finance and 21 Central Banks). Travel places an acute strain on the professional staff. Communication times in the continent lag those of possibly every other region, adding to office inefficiency and translating into lack of optimal output. All of these factors influence efficiency and result in a less-than-optimal capacity to represent. In turn, they deny the Board the benefit of complete and adequate representation of views, of up to a quarter of the membership. It would be in the interests of the membership as a whole if this predicament were to be ameliorated.

A further factor that is not optimized by the current arrangements, in the case of the large multi-country African chairs, is the inability, based on current arrangements, for the Executive Board to benefit from a greater homogeneity of regional arrangements in Africa. If agreement were to be found, by African members and by the Executive Board, an orderly rearrangement of constituencies within the continent premised, or additionality of constituencies, could offer the possibility of greater homogeneity among constituency members, greater capacity to represent region-wide views within the constituency and improved capacity of the institution to focus on group-wide interests. I believe that this would be a significant advantage to the institution, of any rearrangement of constituencies within sub-Saharan African countries, if it were made possible in the context of flexibility to increase the number of seats available to these members in the Executive Board.

As the discussion on the Twelfth Quota Review proceeds, I would like at this stage to make three basic proposals:

First, consideration of a proposal to establish one or more additional African constituencies at the Fund Executive Board.

Second, consideration of a proposal to increase the basic vote, so as to benefit the lowest-income and smallest members of the institution, in a manner that restores the relative status they were assigned at the founding of the Fund. Linked to this is a suggestion, included in my comments during the Managing Director's lunch, to find some method of establishing a floor on the voting strength of the African members in the Fund. This would be particularly important in order to establish a firm foundation, on the basis of voting share, for all African constituencies in the Board and to avoid a sense of half-belonging, or begrudging belonging to the Board. In doing so, it would provide a very strong impetus for our institutions' ongoing attempts to restore ownership to the lowest income members of the Fund.

Third—and particularly in the absence of any early consideration of my first proposal—consideration of a proposal, as an initial and short-term step, to strengthen both the professional and administrative resources in the large multi-country constituency offices at the Fund.

I would suggest consideration of these short-term measures into two categories. First, as regards professional staff, I would request that consideration be given to providing more Advisors and Assistants to the offices of the large multi-country constituencies, on a basis which can be agreed upon by the Executive Board, after thorough analysis and proposals, perhaps by the Secretary's Department. I would hope that this analysis could take account of the relative numbers of countries per constituency, but also adequate account of the extent of program intensity. I believe that from this, a fair case would emerge to grant some additional staff to qualifying large multi-country constituencies.

Second, as regards the administrative staffing I propose shortly to submit a proposal to the Chairperson of the Committee on Administrative Matters which offers what I hope will be considered a reasonable set of short-term steps, to help offices such as mine to better share the ongoing administrative burden and to address valid concerns that thus far the work load may have been disproportionately onerous to the administrative staff of the large multi-country constituencies. I hope that this proposal could secure the support of Board colleagues.

Mr. Al-Turki submitted the following statement:

Given the Fund's strong liquidity position, any need at present for a quota increase is not evident.

The staff should provide a suitably updated and extended analysis along the lines of the presentation made under the Eleventh Review on The Size of the Overall Increase in Quotas – Quantitative Factors (EB/Cquota/96/1).

The staff's projections should be balanced with due stress on the factors likely to ease the prospective demand for use of Fund resources, including increased private sector involvement.

The staff should highlight the role of alternative sources of Fund financing, especially the actual and potential scope for borrowing to meet exceptional surges in demand.

The staff paper sets out to provide a preliminary conceptual overview preparatory to further work on the twelfth general review of quotas. The key issue is whether a case can be made for a rise in quotas after the 45 percent increase agreed under the last review in 1998. The membership thus has to agree on the extent to which the Fund's current SDR 212 billion quota size is adequate to meet the projected demand for the use of Fund credit under the General Resources Account. In the past, an initial task for such a quota review was to provide a staff projection of the appropriate quota size through a quantitative analysis of the prospective net demand for Fund resources and the evolution of the Fund's liquidity position. While this was not done in this paper, the available assessment from the liquidity paper of October 2001 (EBS/01/171) concludes that the Fund's capacity to meet the projected demand from own resources is adequate even under an adverse-case scenario." I will limit myself to a few preliminary remarks in that context.

The staff paper explicitly excludes any attempt to quantify the size of a needed quota increase at this stage. However, being essentially a quantitative exercise, substantive discussion of a quota review is only possible with prior completion of the requisite background work by the staff. Specifically, a sense of magnitudes on the likely demand for Fund resources is critical. Pending such an exercise, the Board's discussion of the issues could become wastefully speculative.

The staff makes the point that any quota size can be either "too large" in view of the implicit moral hazard or "too small" from the viewpoint of the Fund's credibility for meeting its critical responsibilities. The need here is to find a suitable point between the dangers of a Fund financing that is either so large that it raises serious issues of moral hazard or so little that it falls short of the scale needed to facilitate the necessary policy adjustments. Here, irrespective of any staff suggestion for an alternative conceptual framework, a useful starting point is a determination whether a quota increase is warranted under a suitable variation of the past framework of demand and liquidity projections as in, for instance, The Size of the Overall Increase in Quotas—Quantitative Factors (EB/Cquota/96/1; 1/17/96).

The staff provides a useful review of the recent innovations, including particularly the Contingent Credit Line (CCL) and the Supplementary Reserve Facility (SRF), that have enhanced the Fund's capacity to help in prevention and resolution of crises. In this regard, the staff mentions implications of the possible large scale and sharp spikes in the use of Fund credit under these headings. It should be stressed here that the turnaround time of SRF lending is much shorter than for other facilities. In addition, the CCL is a contingency facility that may not involve any disbursements.

Moreover, the Fund has repeatedly found innovative ways to address such exceptional demands. Indeed, the need to provide for large systemic crises is the motivation for the NAB. While I agree that borrowing should not be a substitute for quota increases, it is important to stress that quota enlargement is only one of the several means employed to ensure an adequacy of Fund resources. This also applies to the staff's final query on the need for augmentation of Fund resources for a greater possible use of contingent or precautionary commitments in support of crisis prevention.

As the staff stresses, the Fund's ability to meet increased demand has been evident in the sharp rise of the number and size of Fund-supported programs as well as the adoption of arrangements treated as precautionary. Also noted is the rise in the Fund's share of official financing due to the lack of adequate bilateral support. However, the implications of these developments for the adequacy of the Fund's quota size in the future can only be determined in the light of a realistic projection of the likely continuation or reversal of these trends.

Regarding the efforts for greater Private Sector Involvement (PSI) in crisis prevention and resolution, the staff asks Directors for suggestions whether significant Fund financing would continue to be required. Once more, an answer can only be ventured after review of possible alternative scenarios. Here, quantification is indeed particularly difficult. However, as the staff paper notes, progress in PSI should mean a reduction in the need for financing by the Fund. In that context, the staff should provide an assessment, however tentative, of alternative scenarios regarding prospective PSI and the likely demand for Fund credit.

I welcome the staff's proposed use of new indicators to determine the adequacy of Fund resources in the current more volatile economic and financial environment. Indeed, continual innovation in that regard is critical for the continued relevance of the exercise. However, the choices need to be further justified. While a case could be made for taking capital account variability into account, it is important to avoid the danger of moral hazard if the Fund is perceived as an "implicit guarantor" of international private capital.

Finally, I am yet to see any relevance here of the declining ratio of the Fund's quotas to the world economy. Indeed, as already noted, the downtrend is to be expected since regular private capital flows as well as increased PSI should the pressure on the Fund's resources. A falling use of the GRA resources is also to be expected because of the Fund's own surveillance effort. Against that background, the staff should consider a balanced scenario that eschews any necessary positive linkage between the world economy's expansion and the rise in the recourse of countries to the resources of the Fund.

Mr. Bennett submitted the following statement:

Despite an increase in the number and size of Fund programs, the Fund's resource level remains strong.

Ongoing initiatives to strengthen crisis prevention and resolution and to promote the more effective use of Fund resources have the potential to greatly reduce resource demands. These efforts should remain a priority, particularly in making concrete progress on the work program on private sector involvement.

It is therefore premature to discuss an increase in quota allocation based on a potential inadequacy of Fund resources. However, quotas serve many purposes and we continue to support making them more reflective of countries' positions in the world economy. Progress on the quota formula issue would be helpful in this respect.

Similarly, issues related to basic votes and other methods of dealing with the participation of the Fund's smallest member in decision-making should be addressed later in the review.

A discussion of the size of the Fund as it relates to quotas must take into account the evolution of the Fund in response to developments in the world economy. Over the past several years, the Fund has embarked on a number of initiatives to strengthen the international financial architecture and to increase its effectiveness within this overall framework. Many of these initiatives are works in progress and any discussion on a quota increase should be consistent with the underlying objectives we are seeking to achieve.

Is there a clear need for more Fund resources? I am not convinced there is given our efforts to bolster the prevention and management of international financial crises; increased emphasis on effective surveillance, transparency, and the development and implementation of internationally accepted codes and standards have the potential to greatly enhance crisis prevention and reduce the need to finance crises. We recognize, however, that the Fund may be exposed to potential financing spikes through the Contingent Credit Line facility.

In terms of crisis management, the staff illustrates that new policies to improve the Fund's capacity to resolve crises, such as the creation of the Supplemental Reserve Facility in 1997, could contribute to an increase in the size and volatility in the use of Fund resources. This consideration, however, must be balanced against the ongoing work at the Fund to develop and operationalize a new paradigm to manage contemporary crises that more actively engages private creditors in their resolution. The development of broader private sector involvement (PSI) strategies and their better understanding by financial market participants should help to lessen the need for Fund financing in the vast majority of crisis cases.

A number of additional issues also stand out as being relevant in assessing the adequacy of institutional resources.

First, one should bear in mind that the Fund's resource base is reasonably strong, despite an increase in the number and size of Fund programs and in the level and variability of Fund credit outstanding.

Second, an increasing number of countries are participating as creditors in the financing of the Fund's operations. We would expect this trend to continue as more countries adhere to internationally accepted standards and codes and implement the necessary measures to ensure macroeconomic and financial stability.

Third, we are encouraged by the trend in the Fund's forward capacity to make financial commitments.

Fourth, the incidence and scale of financial crises can be expected to decline given the ongoing shift towards more flexible exchange rate regimes.

Finally, efforts to streamline conditionality should also contribute to a more effective use of the Fund's resources, along with a reduction in the maturity of obligations as a result of recent changes in charges and repurchase expectations.

Thus, while we appreciate the need to be forward-looking with regards to the Fund's resource base, we are of the view that at this juncture it is somewhat premature to discuss an increase in quota allocations in this context.

The staff report's presentation of the evolution of the number and size of Fund programs is striking, but more so in terms of the benefits of pressing on with the various initiatives underway to improve the role of the Fund in an increasingly integrated global economy. This is particularly true as it relates to private sector involvement, which both acknowledges the "limited" nature of Fund resources and the fact that even were this not the case, it would be inappropriate to systematically manage crises with exceptional official financing that insulates creditors from the bearing of investment risk. It will be important, therefore, to move expeditiously with the work program to complement and enhance our options for crisis management beyond a catalytic approach, including through new proposals to facilitate a timely and coordinated restructuring of debt.

Mr. Zoccali and Mr. Hendrick submitted the following statement:

We welcome the opportunity to discuss some conceptual issues related to the size of Fund quotas, in light of the changes in the world economy and the role of the Fund. The staff has presented a concise and insightful paper that includes useful annexes on the past distribution of selective quota increases and basic votes. As noted earlier, the design of the quota formula governing future general quota increases should contribute the enhancing the relevance of the Fund, its cooperative nature, and its governance structure. In this regard, we look forward to the paper on quantification of alternative quota formulas as a means of building evolutionary consensus for completing the Twelfth General Review of Quotas, as originally scheduled.

On the issues for discussion, it is essential that both Fund size and quota formulas should reflect the Fund's financial functions in light of the changes in the world economy. In this regard, as Mr. Yagi and Mr. Yanase have eloquently argued in their statement, the exponential growth in the demand for Fund resources call for substantial general quota increase, to deal with the heightened volatility in real and financial markets and, as importantly, the nature of the corrections taking place. Additionally, as the staff clearly indicates in the report, the Fund's new emphasis on crisis prevention and resolution (CCL, a higher number of precautionary arrangements and SRFs) highlights the importance of adequate signaling associated with a strong resource base. A smaller Fund may be attractive to some. However, as Mr. Kelkar points out, Table 3 of the staff report indicates that the size of the Fund relative to the global economy has decreased, precisely when capital driven disturbances, often entailing major stock "adjustments" have become commonplace.

On the important issue of the size of the Fund, the staff has been cautious in providing arguments in both directions. We fall on the side of having a relevant Fund with an adequate resource base that is commensurate with the challenges facing the membership, knowing full well that the costs of crisis entail huge political economy risks. There are more efficient ways to deal with the moral hazard issue than undermining the Fund capacity to respond to members' financing needs. Additionally, as indicated in paragraph 7 of the staff report, due to the phenomenon of sudden reversal in capital flows, globalization has also brought about greater vulnerability to external shocks and financial crisis for many countries. We subscribe to what Professor Calvo calls "globalization hazard" referred to by Mr. Kelkar. The strengthening of the international financial architecture attempts to address this form of market failure. However, as several speakers have pointed out, these initiatives, including the still unfolding strategy of private sector involvement (PSI), will at best take time, and the strongest political will, to produce positive results.

The initial framework for PSI in crisis resolution, endorsed by the IMFC in 2000 at its Prague meeting is clearly described in Box 2 of the staff report. However, recent experience with members under Fund supported programs, has shown that even under the fourth category, where these had to resort to a temporary payment suspension or standstill, restoration of viability require not only the active support of private creditors but official financing to bring about cooperative and effective least-cost solutions. The limitations of the existing instruments to restore viability point to the importance of the incentive structure. At the same time, to catalyze the involvement of private creditors, and facilitate the adjustment process, we agree with Mr. Djojosubroto and Ms. Phang that the Fund will need to ensure sufficient usable resources.

On the issue of appropriate indicators, we believe strongly that new indicators are needed, in particular to take account of the increase in the size and volatility of capital flows, for assessing expected potential demand for Fund resources. In particular, variables that capture reversals in gross capital flows, including FDI, should be given due recognition in world where risk aversion and informational asymmetries particularly affect the sentiment towards developing and emerging market economies.

Regarding the timing of possible increases in quotas, we are persuaded by the staff arguments that the increased uncertainty regarding the actual needs for Fund financing calls for a conservative strategy. We concur therefore with the view expressed in Box 3 of the staff report that, "...reliance on permanent owned resources in the form of quota subscriptions may be more consistent with the institution's financing needs ..." This is important to maintain the cooperative character and governance of the institution.

In sum, we concur on the importance of replenishing and enlarging the base of Fund resources to maintain the relevance of the institution in relation to the growth in the world economy and the multiplicity of the policy and resource demands for orderly adjustment, befalling a large majority of the memberships.

Ms. Jin submitted the following statement:

We welcome today's discussion on this very important topic, and thank the staff for the concise and insightful paper. On the many occasions the

Board has discussed quota related topics, we have called for advancing the twelfth general review of quotas.

At the core of this discussion is the size of the Fund—a judgment on whether the Fund needs to increase its resources in the twelfth general quota review. We are of the view that a substantial increase of quota is necessary and urgently needed to enable the Fund to better position itself to fulfill its function in safeguarding the international financial system. Mr. Kelkar, Messrs. Yagi and Yanase, and Mr. Djojosubroto and Ms. Phang have forcefully argued this necessity in their statements. As we fully agree with their views, we will not repeat their arguments.

But we would add some words to the discussion on the very fundamental question— the tradeoff between "too large" and "too small" with regard to the size of the Fund's resource base since the judgment on the adequacy of Fund resources will be based on many uncertain factors, such as the resources demand in five years and whether or not there could be a perfect match of available resources and demand. Paragraphs 19 and 20 of the staff report shed light on this issue. Here we would emphasize the asymmetry between the potential risks with "too small" and "too large" size. Like Mr. Kelkar as well as Mr. Djojosubroto and Ms. Phang, we do not regard the argument concerning the relationship between "large" Fund size and moral hazard justified. While, at the same time, the loss in terms of preventing the Fund from conducting its mandate with inadequate resources will be large and beyond Fund members' desire to bear. In this context, in the absence of a perfect judgment on the size of Fund resources, we are in favor of a "large" size. In keeping with the Fund's central role in the international monetary system, the adequacy of its resources is absolutely essential when viewed in a forward-looking way.

Last October, several Directors, including us, requested that actual quota be brought closer to the calculated results by giving greater importance to calculated quota in the twelfth as well as future reviews. Today I join Mr. Yagi in repeating this request.

With that said, I will comment on major issues raised by the staff on page 20.

The staff report elaborates the changes in the world economy, at whose center lies one word "globalization," reflecting the rapid increase in international trade and capital movements, and the evolving role of the Fund toward crisis prevention. The establishment of the CCL and precautionary arrangements are the main reflection of this change in the Fund's financing policy. In theory, these precautionary arrangements and facilities are targeted to safeguard the confidence and liquidity in economies that do not have fundamental problems but could be negatively influenced by turmoil in other markets. Therefore, we can agree with the staff's inference that the overall level of Fund commitments could be substantial even in good times. However, we have not seen many examples of these arrangements in practice, given that no request for CCL has been made. Therefore it is somewhat difficult to reach the assertion that precautionary commitments are not associated with a rise in disbursements. We are of the view that the Fund needs to do further work in developing effective crisis prevention mechanisms to lower the possibility of crises to the maximum extent.

The SRF, exceptional access policy, and early repurchase expectation are arrangements envisaged to resolve and contain crises and to reduce chances of contingence in a prompt way. They have the feature of a front-loaded and substantial increase in disbursements in a relatively short period of time. Therefore, we agree with the staff's second assertion in paragraph 29 that the amount of disbursements and the level of credit outstanding could be subject to sharp spikes. However, we would caution against the expectation that large amounts of disbursement could resolve all the problems quickly and that the increase in credit level will be temporary. After a crisis, it is reasonable to expect further resource needs from the Fund to consolidate policy measures and reforms.

In summarizing our view regarding the first question, we think the changes in Fund financing policies have the potential demand for large increases in Fund resources, but we do not believe these demands will be temporary. Therefore, borrowing is not an effective way to meet such demands.

Turing to the influence of the PSI initiative on the demand for Fund resources, we fully agree with the staff that there will be significant Fund financing involvement even after further developments of PSI. Recent cases (such as Turkey) have further confirmed the unique role of the Fund in dealing with members' liquidity problems, in particular "as a catalyst for both voluntary and concerted private sector involvement" as cited in the staff paper. We cannot imagine any cases where financial turmoil with large external resources demand could successfully be resolved without the heavy involvement of Fund resources. Therefore, the Fund's resources will be not be substitutable in the foreseeable future and should be replenished by a substantial increase in quota.

As to the indicators, we share the staff's and many Directors' view that traditional indicators have the weakness of not being able to capture new world economic developments, especially the volatility of international capital flows. We share the view of Mr. Djojosubroto and Ms. Phang that the liquidity ratio measures the Fund's current ability to lend, while the decision on the size of the Fund resources in the context of a general quota review will determine this ability in the coming five years, and, therefore, should be based on more forward-looking measurements. The exploration and development of new indicators merit our support, although currently none of them has been accepted widely and their robustness needs to be further tested.

Before concluding, I reiterate the calls we have made in previous discussions on quota issues—that the increase in total quota should be accompanied by a rise in the aggregate quota of developing countries, in particular the African countries, and, thereby, an increase of their representation in the Fund, that due consideration should be given to the request of increasing the basic vote for the benefit of the smallest members of the Fund, and that any borrowed resources of the Fund should come from official channels but not the private sector as this might hamper the cooperative character of this institution.

Mr. Varela submitted the following statement:

We thank the staff for its insightful and balanced paper that provides a good basis for trying to reach a consensus on this important matter for the Fund. Today's discussion is timely as it starts the cycle of the General Review of Quotas that should be completed no later than January 30, 2003. Several other policy issues that are being discussed in the Fund have undoubtedly a bearing on today's discussion. Some of those issues are specifically related to quotas, such as quota formula and the need to close the gap between actual and calculated quotas; other have a broader scope, such as PSI, access limits and the new proposal on sovereign debt restructure mechanism. Obviously, the discussion on those issues should continue as expected, but it should be taken into account that the outcome on the General Review of Quotas will also have a bearing on them.

The staff paper provides an accurate overview of the major changes on the world economy and their implications to the Fund's operations and resources. We concur with the staff that taking into account the increasing uncertainties in the world economy, as well as the envisaged involvement of the Fund to alleviate possible sources of instability, the resources of the institution should be replenished in a well-timed and forward-looking manner. The Twelfth General Review of Quotas should reflect those changes and the implications that they have for the Fund.

As the staff paper points out, the continued liberalization of trade and capital transactions has considerably increased economic interdependence. Alongside with many welfare benefits, it has also brought about greater exposure and vulnerability to external shocks. The increase in frequency and magnitude of capital account crisis in emerging economies since the mid-90s is a clear example of the higher financial vulnerability and the higher financial resources needed to cope with the new type of crises. The abruptness of capital account crises with sudden and massive reversal of capital inflows usually forces costly domestic adjustments with pervasive macroeconomic effects.

The Fund has taken important steps to respond to the new economic reality by emphasizing crisis prevention and crisis resolution. As the staff paper stresses, new financial facilities such as the CCL, the SRF, and an increased recourse to precautionary arrangements have enabled the Fund to answer in a more effective and flexible manner to new episodes of financial instability. As the staff notes, the expected increased use of facilities like CCL and precautionary arrangements will raise the Fund commitments although not necessarily its final disbursements. However, we think that the Fund resources should be linked to its commitments rather than its disbursements, otherwise the markets might doubt the effective use of crisis prevention policies insofar it is not clear that there are resources to back them up. The Funds resources should be accordingly adapted in a forward-looking way.

The Fund is also emphasizing surveillance to enhance crisis prevention. The assessment of external vulnerability, observance of standard and codes, or financial sector stability through reports like the FSAPs, or the ROSCs, help the Fund detect potential economic difficulties and give early advice to the countries. However, recent experience with capital account crises shows that even countries with stable macroeconomic performance and a sound financial sector, can undergo periods of enormous difficulty. Therefore, surveillance measures should be understood as complementary to crisis prevention financial facilities, but not as a remedy that will substantially diminish the need for official financial support.

On the same vein, PSI should not be considered as a substitute of Fund financing. The discussion on this matter should continue as to clarify all the elements involved in the framework, as well as to implement it thoroughly. However, as the staff paper recognizes, the Fund will have to play a leading role where official support is critical to restore market access and where PSI is uncertain. As we have expressed in previous occasions, we do not think there is a trade-off between official financing and PSI. As a matter of fact, recent experiences also show that greater PSI does not necessarily mean less official financing. The magnitude of capital account crisis requires combined efforts from private and official sectors. It is not possible to say ex-ante that the amount of official financing will be smaller because there is more PSI, as financial crises are dynamic and their cost can increase suddenly as they evolve. Larger official financing, coupled with a reasonable amount of PSI, can in fact avoid a deepening in the crisis and preempt the use of even larger official resources at a later stage.

The role of the Fund has to be assessed also in the light of the lack of official bilateral support. Although there have been important efforts by some countries to increase their official support (Spain's support for Argentina is an example), it is clear that the general approach of the creditor countries is to rely on multilateral institutions and specifically the Fund to cope with financial crisis. Assuming this trend, the Fund resources should be accordingly reviewed.

Even though there are additional financial sources such as the NAB or the GAB, we believe that quota subscriptions should remain the basic source of the Fund's financing. In this respect, it is important to note that predicted capacity to make new financial commitments from owned resources of SDR 42 billion, might fall short in case of a major crises this year if we take into account that that in 2001 the volume of financial commitments reached SDR 31.2 billion. We do not think that an increase in the Fund's resources would entail moral hazard problems. It is not the availability of sufficient resources what may increase moral hazard, but the way those resources are used, and even so, the existing evidence is not conclusive.

We concur with the staff that additional indicators are needed to better capture the importance of developments in the world economy and particularly to better assess the implications for the Fund of capital account crises. The indicators used to measure the size of quotas in relation to the main economic variables reflect a worrying downward trend. The ratios of actual quotas to calculated quotas, GDP, reserves, current payments, and variability of current receipts have persistently declined. To sustain the Fund's role and its financial independence, these trends should probably be reversed or at least stopped.

Annex I provides interesting information about the important issue of the distribution of selective quota increases. The discussion of this question in the context of the Twelfth General Review is appropriate. In case there is a general increase in quotas, a substantive part of it should be devoted to diminish the differences between calculated and actual quotas through a selective element, particularly addressed to some advanced and emerging countries that have undergone a substantive improvement in their relative position in the world economy.

Regarding basic votes increases, we believe that they are a useful mechanism to guarantee a minimum weight to the small economies. Nevertheless, such possible increases should be studied in the context of the revision of quota formulas.

The Treasurer made the following statement:

Why are we having this discussion now, how does it fit into the work program, and what is the sequencing of our work on quota issues? Executive Directors will recall that the work preceding the current Twelfth Review of the adequacy of quotas started a long time ago, virtually immediately after the last quota increase, as the Board had wished to have a comprehensive look at the adequacy of the quota formulas. The Board first commissioned an external expert group, the Cooper Group, which produced the report on quota formulas the Board has already discussed. The staff was asked to carry out further work on quota formulas and to produce a paper that was discussed by Directors in October 2001. The staff is now working to produce another paper on quota formulas based on views expressed at the October 2001 Board discussion. This is one track of the staff's work.

The track we are beginning today is grounded in the Articles of Agreement, which require the Executive Board to review the adequacy of quotas every five years and to report to the Board of Governors by the end of January 2003 on whether or not a general increase in quotas is needed. For this purpose, the Board has formed a Committee of the Whole to carry out the work relating to the quota review and to prepare recommendations on this matter for decision by the Board. Therefore, this track of the work has to proceed, and it cannot wait for other matters that are clearly relevant for quota issues to be resolved. Work on those relevant matters, which many of you have referred to, such as private sector involvement (PSI) and other policies, will be done in parallel, and progress in those areas will influence your eventual decisions on the adequacy of the resource base of the institution. However, I do not think that the work has to be carried out sequentially, and as quotas are a very important matter, we need to base it on an agreed work program.

The work program the Board had foreseen was that there would first be a Board discussion on conceptual issues where the staff would seek the Board's guidance and subsequently that guidance would be incorporated into the staff's quantitative work. The eventual outcome of all of this work is unclear; that is, whether the staff and management will recommend a quota increase, recommend leaving quotas unchanged or recommend delaying consideration. This is for the future, and we are just at the beginning of the process.

On the last occasion when the Board embarked on this process, the first staff paper already included quantifications and projections related to concepts and variables that had figured in quota debates in the past. These related essentially to the variables and the concepts underlying the existing quota formulas. However, on the occasion of this Twelfth Review, the staff felt that—because of the changes that have occurred in the world economy, the Fund's experience in dealing with adjustment and financing issues, and the many recent changes in relevant policies of this institution—it is appropriate to start with conceptual issues and to ask for your guidance on how you view the influence of this experience and of these policies on the judgments on the adequacy of the aggregate quota size that have to be made. After receiving this guidance, the staff could proceed with quantification, and this is what we have outlined in the paper before you.

Fund policies since the last quota review have changed in many important areas. They have changed as far as surveillance is concerned, and in a fundamental way, to encourage financial system stability assessments. The focus of surveillance policies has shifted to seeking to prevent the deepening of what may be an incorrect policy evolution in a country. Views have changed importantly as regards exchange rate policies and the needed degree of flexibility in exchange rate policies, and these matters obviously have influence on forward-looking judgments concerning the quota size.

There have been important changes not only in the policies, but also in the practices of the institution with regard to the recourse by members to precautionary financial arrangements. As the paper notes, they have become far more frequent than before. New financial facilities have been created. The Supplemental Reserve Facility has been utilized significantly, causing large fluctuations, both in commitments of resources and disbursements. Changes have also been introduced in the terms of Fund financial assistance with the introduction of repurchase expectations on repayments of credit tranche and EFF resources, and the introduction of surcharges on large amounts of credit outstanding. These latter changes should allow more efficient use of the existing resource base.

The CCL has been introduced. This is really a fundamental change with strong implications for the adequacy of the resource base of the Fund: when a member is granted a CCL, the Fund is committed to providing resources to that member as long as it is pursuing sound policies, without any immediate expectation that these resources would be used, akin to insurance. The CCL is thus different from other financial facilities; it is a change in quality. What does this mean for the size of the resource base? We would need to think proactively about that because we do not yet have a CCL request that the Board has approved, but it is nonetheless a fundamental change.

We also have the ongoing debate about effective private sector involvement (PSI), which is relevant. In my view, it is clear that in most situations relevant to greater or smaller PSI, the Fund will be involved with financial assistance to the member and the scale of Fund involvement is more important for the purposes of the present discussion than how the Fund is involved.

The staff is asking for the Board's guidance on how to approach these issues, in particular how to go deeper and present alternative quantitative views in light of how the policy influences that bear on the size of the Fund should be judged. The staff has taken the view in the paper before you that some of the traditional indicators to judge the aggregate quota size are still useful but probably less relevant, and therefore some new indicators relating to the variability of capital flows and relating to scenarios relevant with respect to the forward capacity of the Fund to make commitments are discussed. The spectrum of views in the statements of Directors shows just how difficult this material is and how difficult it is to reach a judgment. Some Directors think that the material is clear enough to come to a conclusion that there is a definite need for an increase in quotas and even go as far as to indicate some numbers as to the size of the increase, but others reach, at least at this stage, the opposite conclusion. For its part, the staff has not yet come to a conclusion. We will be closer to one after the work is done on the next paper, and what we want to do with the next paper is what some of you have said we have done with this one, which is to at least give you a balanced presentation and to provide some insights.

I now want to react either explicitly or implicitly to some of the main points that have been made in the statements. I think it might be helpful, because this is a seminar, to be pretty direct on one point, and that is that I share the view expressed in a number of statements that the present liquidity of the institution is adequate. However, that does not mean that the discussion on the adequacy of the resource base is over. Some statements that may be read in that direction probably are going too far, as that conclusion simply does not follow logically. The issue we are looking at now is whether the Fund's resource base needs to be changed in order for the institution to be able to carry out the financial side of its objectives over the next five years. The issue is not whether the present liquidity is adequate.

Some of you ask when a quota increase should be implemented if at the end of deliberations the conclusion is reached that a quota increase may be warranted. Should it be implemented in a timely, forward-looking way, which is something the staff is advocating? Alternatively, repeating past experience, should it be implemented at a time when it is clear that the Fund is running out of money, which is when the last quota increase was implemented? At that time the Fund was literally running out of money and we had activated the New Arrangements to Borrow. The paper has tried to argue that if it were decided that a quota increase is warranted, taking the decision when we are running out of money is really not quite right. It is not right because of the new facilities on the books, in particular the CCL. Let me, to make the point, give an extreme example. It is possible to envisage a situation—and we would presumably want it to happen—where a number of CCLs have been agreed to by the Board, the Fund is very liquid, and no disbursements under CCLs have taken place, but where the sum of our usable resources—the sum of our own useable quota resources and available borrowed resources—does not permit the Board to approve another contingent commitment. Therefore, the institution would be faced with a question of adequate resources even though liquidity could be very high. Obviously, if there were one large CCL in existence this would become an important issue; it would become even more important if there were to be three large CCL commitments, as a member can request up to 500 percent of access under a CCL. Therefore, making a decision regarding a quota increase only by judging the size of existing liquidity is not conceptually right.

I would also like to comment on matters relating to the measurement of our liquidity or of our commitment capacity. The liquidity ratio and the forward capacity to make commitments are both supply concepts; that is, our ability to supply resources if the demand is there and the Board decides that it should be met. Both the liquidity ratio and the new forward commitment capacity concept the staff is proposing have the notion that there are minimum thresholds of available liquidity that should not be breached. Traditionally, under the liquidity ratio, it has been a number around 30 percent, at which time, historically at least, the Board has decided to activate borrowing arrangements. With the forward capacity indicator there is a similar threshold as the staff suggests a minimum liquidity of SDR 40 billion, which could also trigger, if the Board accepts this kind of number, activation of borrowing agreements. However, these are minimum thresholds and as Mr. Yagi stated, they are not a signal that when these thresholds are reached it is only then time to judge whether a quota increase might be warranted.

It is the staff's view that the liquidity ratio has a number of difficulties. It is not terribly transparent, and a number of additional adjustments would be necessary as soon as we have a CCL arrangement. The staff would, therefore, like to work with the concept of forward capacity to make commitments, and we proposed this concept in the liquidity review paper issued for the Board's information in October 2001. I propose that the Board discuss the next liquidity review paper, which would be due in March, 2002 and that the staff explain in detail at that time as to why it prefers this concept and what are the numbers associated with it. The bottom line is, as our previous paper said, that it is a matter for the Board to judge how much minimum liquidity should be held by the Fund, and, obviously, reasonable people can differ within a range. I therefore propose that we discuss this issue in depth in March

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Mr. Mirakhor made the following statement:

If the Board had to decide today, I would have to support those colleagues who have argued for a sizable quota increase. While I agree with Mr. Kelkar and others who suggest that, in today's world, five years is too long for completion of a quota review, the fact is that Board deliberations on the quota issue has just begun and there is sufficient time to take into consideration important factors that affect the quota increase.

Under the circumstances, I am attracted to the position of Mr. Padoan and Ms. Manno who ask us to go back to the first principle and ask what are the purposes of quotas. Here, a central question relates to the relationship between quotas and access to Fund resources, which, in turn, relate to the structure of Fund facilities. The question hinted, as in Mr. Padoan and Ms. Manno's statement, is whether it is necessary to base Fund's access policy and its facility structure on the quotas.

The last review of Fund facilities made progress (enumerated by the Treasurer and Directors), but, in my view, it did not go far enough to reorient the facility structure toward today's realities; this structure remains oriented, as do other Fund policies and instruments, to crises originating in current account. However, the one important progress the last review made was to break the long-standing taboo on consideration of a price mechanism.

Setting aside Fund's concessional facility, one cannot find a convincing reason why a facility structure cannot be designed that would be a function of a price mechanism related to the size and maturity of a member's need for Fund financial assistance? Personally, I am hard pressed to find a reason that justifies the continuation of the present access policy and the structure of Fund facilities, and would be pleased to be convinced otherwise.

Indeed, I can envision no disadvantages and a number of benefits to a decoupling of access to Fund resources from quotas. I mention only one; I can see the possibility that such a facility structure would lead to a de-emphasis of the concept of "financing gap," which is now an important, if not the central, factor that drives the design of Fund programs and thereby influences greatly the size and speed of adjustments.

As the staff paper and Directors statements acknowledge, a second factor that will influence quota decision is the outcome of present discussion on the role of PSI. The Executive Board is expected to be discussing ways and means of filling in what the First Deputy Managing Director has appropriately referred to as "the gaping hole" in the international financial architecture. One could hope that it will not take long for the international community to bring these discussions to a closure. However, if a mechanism is put in place to address this issue, then the nature of the mechanism, the timing, and the trigger for its activation will determine its importance to the quota question. I think of such a mechanism more as a deterrent device that will not be used too frequently. It is, however, likely that after its development there will be more, not less, need for Fund financing since all proposals for the establishment of such a mechanism include Fund policy of "lending into arrears" as an important ingredient.

A third area of what Mr. Padoan and Ms. Manno call "improvements in Fund policies" that influence the decision on quota increases, relates to changes in Fund's surveillance policies. Recalling the maxim that "a program failure is ultimately a surveillance failure," the Fund is now in the process of reducing probability of program failure by enhancing ownership and streamlining conditionality. Similarly, strengthening surveillance will improve the Fund and markets' understanding of economic developments in member countries. However, there are a number of areas in Fund surveillance that need revisiting, I mention only two: First, there is a need to consider if there should not be a greater focus on the analysis of the dynamics of capital account changes and their implications for macroeconomic and financial policies in member countries. Second, the need for greater attention to regional and global changes that impact member countries.

There are other Fund policies with direct or strong indirect impact on the quota issue, but I stop here for now. My feeling is that when all is said and done there will still be a need for substantial increase in the size of the Fund.

I conclude by expressing my strong support for Mr. Rustomjee's plea that the Board redress urgently the problem of woefully inadequate presence of sub-Saharan African countries in the Executive Board. I believe that the solution to this problem needs not await the decision on quota increase; the Board can solve this problem whenever it so wills.

Mr. Bischofberger made the following statement:

I thank the staff for its comprehensive and helpful paper. Today's discussion is an important one in several respects because it has a bearing on a number of related issues. The different and even conflicting views expressed in the statements issued ahead of today's discussion are an indication of thereof.

I think it might be helpful at the outset to indicate where we see a need for structuring and focusing the debate. In our view, three points are important in that respect, and these points have also been made in some of the statements.

First, we think that it is important to clearly separate the discussions on the General Quota Review from the ongoing discussion on the quota formula and the related issue of representation. These issues are, of course, interlinked. However, we would like to stress that an increase in quotas—if required at all—needs to be justified first and foremost on convincing arguments that are related to the Fund's ability to deal with current and future challenges coming from the evolution of the international financial system. Therefore, we cannot support arguments for a general increase in quotas, which are—implicitly or explicitly—intended to facilitate a compromise with respect to the revision of the quota formula or the related issue of representation. Important as these issues are, they should be discussed separately from the question of a possible general quota increase.

Second, in or view, quotas should remain the basic source for financing the Fund's activities. Even under the changed global economic conditions, the Fund should have sufficient own resources at hand in order to be able to fulfill its tasks under its monetary mandate. We stress this point because we think the recourse to other sources of financing like—for example activating the NAB—should be strictly limited to exceptional cases.

Third, in our view, providing the Fund with ample resources could ultimately be counterproductive to its efforts aiming at crisis prevention and strengthening the international financial system. Judging from the statements issued for today's discussion, I note that there are opposing views on this issue. We think that ample resources at the Fund's disposal would have the potential to further aggravate the moral-hazard problem. The potential availability of ample Fund resources tends to create incentives to substitute adjustment with lending from the Fund. At the same time, investor behavior might be biased on the presumption that a financially well-equipped Fund will be in a position to bail them out, if need be.

Against this background, I have some comments on the specific questions raised in the "issues for discussion."

We do not concur with the staff's view that the pure existence of the recently established facilities for crises prevention, primarily the CCL, will automatically transform into higher commitment levels. As the staff pointed out and as evidenced by the Argentina and Turkey cases, creditors do discriminate among borrowing countries. This tends not only to reduce the risk of contagion but—once again—allows countries with sound policies to access the financial markets. This is the main reason why we have always questioned the rational for the CCL. In addition, with regard to other forms of precautionary arrangements, we are not convinced that their more intensive use must lead to an increased level of disbursements. Since countries with precautionary arrangements in place otherwise probably would have been drawing on Fund resources under regular programs, this should—on balance—not substantially increase the demand for Fund resources.

Contrary to the staff's presumption as well as to the views expressed in Mr. Kelkar's and Mr. Yagi's statements, we deem a credible ex-ante limitation of official financial assistance an indispensable precondition for the resolution of the outstanding questions regarding the PSI-framework. In this context, preventing a too generous resource base of the Fund would send a clear signal to market participants and could strengthen their incentives to contribute to crises prevention.

Regarding the selection of economic indicators to assess the adequacy of Fund resources, we would prefer to keep an eye on the traditional indicators while adding variables which reflect the growing importance of the capital account. In times of widespread flexible exchange regimes and integrated financial markets, the role the traditional indicators can play in the process of deriving member's financing needs clearly diminishes. Instead we should focus more on those capital account related variables that describe the financial openness of member countries like for example "investment income." However, we would be reluctant to have indicators included in the assessment that describe the volatility or variability of the capital account. Otherwise countries experiencing instable capital flows would be rewarded with increased Fund access.

To conclude, in our view, the "liquidity ratio" as well as the "forward capacity" remain valuable indicators for the assessment of the Fund's financial situation. Based on these indicators, I broadly agree with the view expressed by Ms. Lundsager and Mr. Baukol as well as others that the Fund's current financial position is strong and comfortable. In addition, as I already mentioned, we are not convinced that the Fund's evolving role will automatically lead to higher or more volatile commitments and disbursements. Therefore, at least for the time being, I do not see convincing arguments that would justify a substantial general quota increase – if any. As a corollary, I can associate myself with Mr. Padoan's and Ms. Manno's view that the new challenges the Fund faces should be addressed primarily through better quality of policy. Finally, we think that there is no need to shorten the review period.

Mr. Callaghan made the following statement:

We would like to thank the Treasurer for his comments at the very start because I think they sum up our position fairly well on this issue. As the Treasurer said, we are at the beginning of the process, and it's unclear how the staff and management will come out, and I think it should be similarly unclear how the Board will come out. It's a bit unfortunate that at this stage we seem to be taking definitive positions as to whether there should be a quota increase in the Twelfth review. It is just simply premature to do so.

As the Treasurer said, the focus should be on considering the conceptual issues that we should take into account in assessing the size of the Fund. The staff, as outlined in the paper, will go back, they'll start doing the quantitative scenarios. Drawing on today's discussion, making some judgments as to what the size of the Fund should be, and in particular what it should be over the next five years, and then we can come back to take some assessments as to whether we think there should be a quota increase or not.

However, having said that, to be upfront and open and to be premature with my assessment, I'll declare that I think there is a case for increasing quotas. However, logically we should first look at what needs to be taken into account before we reach any position or any decision.

Throughout the discussion of quotas, be it on formula, be it on considering the size of Fund resources, we think it's very important that we always remain pragmatic and realistic. We should not be sidetracked with attempts at forced precision or pseudo science because, ultimately, it all comes down to judgment. The Treasurer noted this, that when you look at the statements it is quite clear that it is all a question of judgment. The judgment of some Directors is that an increase in quotas is warranted, while the judgment of others is that there is no such case. Unfortunately, there is no overwhelming evidence that can be produced, no magic formula that will clearly demonstrate that an increase in quotas is needed now and this is the magnitude of that increase. It all comes down to judgment.

Nevertheless, for those in favor of a quota increase, even though it comes down to judgment, they still have to make a very convincing case. The reality is that it will be an uphill battle at the moment because some parliaments, some congresses, some administrations are not particularly enamored with the Fund. It is not an opportune time to be seeking an increase in Fund resources. It would be nice to think that this is because they are convinced that the Fund's resources are more than adequate, but I fear a motivating factor is that they do not like the way the Fund has been using its resources.

The paper raises a concern that a large quota increase could result in excessive Fund financing packages. I think that was the tenor in even Mr. Bischofberger's comments. However, to me restricting the Fund's resources seems a dangerous and inflexible way of limiting the Executive Board's discretion. If there are concerns over the Board's lending decisions, then this should be addressed directly through changing the lending guidelines and not restricting the Fund's resources. Nevertheless, I think the view that, if the Fund's resources are increased it will get involved in more mega-bailout packages, is alive and well. Moreover, as I fear this consideration is motivating the view that quotas should not be increased, that it is particularly premature to come to that view at the moment. While we do not want false science, we do need a structured, methodical approach at looking at the adequacy of Fund resources over the next five years, and to those who believe the case for any increase in quotas has not been made, again I would emphasize that in the end it is a judgment call. It would be possible to continue to question the need for any increase in Fund resources, to continue to say that the case has not been made because there is no clear-cut, overwhelming evidence in support of the case for an increase until you reach the position that it is clearly evident that the Fund's resources are under real pressure. We should not allow the Fund to reach that point, so we should recognize that a convincing case for any increase in quotas has to be made, but also recognize that it is not possible to produce the overwhelming evidence in support of an increase, and at this stage perhaps the best way of going forward is to first see if we can agree on what should be the issues to be taken into account in determining the adequacy of Fund resources. In doing this, we need to be forward-looking rather than relying on the experience of the past. Moreover, we need to be looking at the adequacy of the quotas for the next five years.

Greater openness, integration, and interdependence should likely increase demand for Fund resources, but if our efforts at crisis prevention are successful, then the need for Fund resources in the future should be reduced. Furthermore, it is to be hoped that we have learned something about the appropriate pace and sequencing of capital account liberalization which should help further reduce the need for Fund packages for new emerging markets.

I think there are problems with an approach that concentrates excessively on volatility of capital flows to recent large borrowers as an indicator of aggregate resource needs, since this will be heavily influenced by backward-looking, country-specific factors, it might not be an adequate reflection of likely future demands. However, as we cannot forecast the future, we inevitably end up taking the past as our guide as to what may happen in the future. Nevertheless, one thing we know from the past is that the unexpected will always happen.

In looking forward, we should not count our chickens before they hatch. There is nothing more dangerous than declaring a premature victory, and it is premature to claim success with our crisis prevention activities. There is a good deal more progress to be made in the area of crisis prevention, and at this stage it is simply unclear to what extent the reforms will affect the future demand for resources. While we remain forever hopeful, we cannot rely on reforms still largely in the pipeline to reduce possible future demand for Fund resources.

One thing the past has shown, however, is that there has been a breakdown between quotas and the use of resources by individual members, but we really do not know what this means to the aggregate demand for Fund resources, nor do we know the implications of the SRF, the introduction of repurchase expectations and surcharges or the yet to be utilized CCL, but we should be very prudent in making any assessment of the implication of these developments on the demand for Fund resources, and this is our basic message that we would stress, the Fund just has to be very prudent in judging the adequacy of its resources.

A strain running through the paper and perhaps some of the statements is that PSI is an alternative to greater aggregate resources. However, as Mr. Mirakhor has already said, no one has ever suggested that there should not be a need for significant Fund involvement even with PSI. PSI clearly has the potential to lower the Fund's need for resources, but the extent to which this is the case is unlikely to be evident until well after the Twelfth review. In addition, the impact is likely to reduce volatility by limiting the spikes in credit referred to in the paper. It might, in fact, impact more on the need to use the GAB and the NAB than on the need for ongoing GRA resources. However, given the importance of PSI in the Fund's agenda, it will be very important to keep in mind the signal that the Twelfth review gives about the Fund's commitment to PSI.

One approach, which seems to be the approach suggested by some, is to oppose any increase in quotas as a demonstration of the Fund's greater commitment to PSI. However, this is a very dangerous approach for, as noted, significant Fund involvement is required even with PSI, and we must always ensure that the Fund has the resources to meet future demands. We believe more effective PSI is essential for more stable international capital markets that we should not deliberately restrain the Fund's resources in an effort to advance PSI. It is simply too dangerous.

It is one thing to make judgments on the likely future demand for resources, but the other element needed is a reliable indicator of our capacity to make new financial commitments. Traditionally we have relied on the liquidity ratio, but as the Treasurer has already noted, the staff is switching to a forward capacity indicator of uncommitted usable resources. Whether we use the liquidity ratio or the forward capacity indicator, it is important to have an indicator that is very specific and transparent about the assumptions going to calculate usable resources, and this is the current problem with the liquidity ratio.

The forward capacity indicator does provide a snapshot of the Fund's current financial position, given current demands and resources. Ms. Lundsager and Mr. Baukol say the assumptions behind the indicator of forward capacity are too conservative. Perhaps the staff could provide some sensitivity analysis for the assumptions that are most crucial to that calculation. However, we think it is important to have a significant allowance for prudence. This could either be a margin for prudence or the use of prudent assumptions, but when it comes to assessment of our usable resources, we are very much in favor of conservatism.

The Fund should be the paragon of financial stability, and there should be no question as to whether it can meet existing or future commitments. Even accepting the assumptions in the staff paper, the question raised is whether a forward capacity of uncommitted usable resources of SDR 42 billion is adequate. Ms. Lundsager says yes, Mr. Yagi says no. We think the way to take this forward in a structured fashion would be for the staff to build some scenarios around the current forward capacity.

We will no doubt continue to debate the appropriateness of assumptions behind the indicator, as well as the assessments of likely commitments in the period ahead, but given that we are dealing with the adequacy of the Fund's resources over the next five years, and given the inherent uncertainties involved, we think the responsible thing is to be very prudent with our judgments.

On selective quota increases, we agree with Mr. Yagi that a substantial weight be given to the selective increase in any quota increase. This is important to ensure that quotas are more consistent with world economic realities.

On the issue of basic votes, we see this as an issue that should be addressed as we move forward. It is an important aspect in terms of the governance of the Fund. Moreover, for the Fund to be seen to be doing something about moving towards restoring basic votes to their original significance would be a very important signal to the developing world that we are serious about promoting collaboration and inclusiveness.

Mr. Barro Chambrier made the following statement:

We thank the staff for its helpful paper, which translates its effort to move ahead on the important and complex issue of quotas. We do hope that the Twelfth Review of Quotas will provide us with a good opportunity to address in a durable manner the inequities still prevailing in the current system.

Before commenting on the issues raised for discussion, we will make some general remarks. The adverse impact of the global downturn for developing countries through lower commodity prices and increased risk aversion in financial markets is an issue of great concern to us, as it puts into jeopardy the economic development of these countries. At present, access to international capital markets for African developing countries remains limited. As a cooperative institution, the Fund should continue to assist members that have limited access to capital markets, and this can be done through a better distribution of quotas. As we indicated in our intervention last October, the main issue at stake for Africa is that of the highest available level of concessional resources that would translate into higher access to ensure the financial means for its economic development. Therefore, an upward adjustment in quota shares remains vital to allow Fund members, including African countries, to draw more resources from the Fund than we do now. Also, as suggested by Mr. Kelkar, we also believe that access to Fund resources should also take into account financing needs, not only the country's quota.

With regard to the quota formula, the present formula is too complex and discriminates against developing countries in general and large emerging markets in particular. Some adjustments need to be made to reflect better the relative economic position of many countries as well as the changes that have taken place in the world economy, including the growing role of capital flows, both short and long term. As we indicated during our last discussion on quotas in October 2001, as a cooperative institution, the Fund's credibility is put at risk if representation and voting power are not given further consideration. In this connection, the views expressed in Mr. Rustomjee's statement are important, especially the point pertaining to the need to consider more chairs for African constituencies. In this case we would favor two additional chairs. I also would like to share the views expressed by Mr. Callaghan on the importance of reestablishing the basic vote.

With regard to globalization, we concur with the view that it has many advantages but also some risks. Nevertheless, globalization has to be beneficial for everybody. The new mechanism that the Fund developed for crisis prevention and resolution, such as the new facilities and the safeguards policy, which could help members reap the benefits of globalization and minimize the risks, are encouraging. However, the growing changes in the global economy and increased uncertainties are a matter of concern to us and suggest that it will be prudent to replenish the resources of the Fund in a timely and forward-looking manner in case the Fund will have to deal with multiple crisis and face unexpected demand for its resources.

With regard to the argument that a larger Fund size would create moral hazard, we concur with the views expressed in the statements of Mr. Kelkar as well as Mr. Djojosubroto and Ms. Phang that this is not a matter of great concern. We believe that the appropriate design of Fund facilities and the streamlining of conditionality can help cope with the issue of moral hazard. Being a quota-based institution, it is important that priority be devoted to the Fund's own resources in the form of quotas, and borrowing resources from others should therefore be limited and temporary.

Turning now to issues raised for discussion, our views are the following. With regard to the role of the private sector in crisis prevention and resolution, given that this framework is not functioning as expected, we do not think that it will bring significant changes in the near term to ease pressures on Fund facilities. The Fund will continue to play an important role in resolving liquidity crises and helping rebuild member confidence through adequate financing. In addition, Fund support is likely to be solicited in situations involving sovereign debt restructuring. The ongoing debate regarding Enron, in which a very renowned accounting and auditing firm is involved, calls for our attention, as there may sometimes be a problem of credibility of the information provided by the private sector.

On indicators, like other Directors, we agree that additional indicators that will take into account the volatility of capital flows and other developments be considered to provide improved forward-looking capacity with regard to any new financial commitments.

On the frequency of the quota review, we think that the five-year period for review of Fund quotas remains appropriate. However, given the increasing uncertainty, we would be prepared to support Mr. Kelkar's proposal.

In conclusion, we support Mr. Kelkar's and Rustomjee's views regarding the need to replenish and enlarge the Fund's resources through a significant quota increase. We would also like to support the specific proposal that Mr. Rustomjee presented in his statement.

Mr. Brooke made the following statement:

Like other Directors, I found the staff paper very helpful at this initial stage in our quota discussions, and I was grateful to the Treasurer for his comments at the start of our meeting today. He certainly addressed many of the points in my statement, so I hope to be able to keep things short.

I think the general feeling of my authorities was very much along the lines of those expressed by Mr. Padoan and Mr. Bennett; that it is very difficult to reach a judgment at this stage on the adequacy of the Fund's resources if we have not really taken any firm decisions on what we might do about our PSI work agenda and in particular about access limits. We feel that those issues would have a very important bearing, and so coming into this meeting our line was very much that we would like to see some pause in the quota discussions on the adequacy of resources until we progressed further with our debate on access limits.

I take what the Treasurer said in his opening remarks, and in that regard and sort of in the spirit of this being a seminar, I would say definitely that in the work that is coming up we would hope that various scenarios, as Mr. Callaghan just suggested, would be incorporated, which look to different access limit policies so that we would be able to have some orders of magnitude of what the staff thinks the implications of the changes in policy would be. The same goes for the points that were raised by Mr. Al-Turki and Ms. Lundsager in their respective statements about changes in the velocity of circulation owing to early repayment expectations. It would be helpful in any of the work that is done from here on that we look at various different scenarios that characterize these different possibilities and different assumptions.

In that regard, I also agree with the points just made by Mr. Callaghan about being careful to avoid false precision. This is definitely an art and this is clearly an issue that is very heavily based on judgment rather than science, but in that regard my authorities and I would find it helpful if we could have more supporting work done for each of the indicators that the staff outlines in the paper on what has been the sensitivity of the assumptions to actual outcomes. Thus, a little bit of ex-post analysis of forecasts done before and what were the actual outcomes in order to get an idea of the variability of the results so that we can have some sense about what comfort we can draw from the information, including margins of error. Therefore, I think in terms of taking this work forward, those would be certainly some of the main points that we would like to see in future work.

On the points that the Treasurer made about the CCL, I certainly would agree with him that we need to be very careful about what implications this has if and when hopefully we get countries to sign up for CCLs, and again some scenario analysis here would be helpful. One thing that struck me just now in terms of the Treasurer's comments was, given how different this instrument is to our regular instruments, do we need to think about that fundamentally in terms of the resource implications for the Fund? Are there parallels that we can look at in the insurance industry? For instance, the sort of liquidity policies that Lloyd's insurance would normally have. Clearly it has a structure in some ways that parallels the Fund's with the shareholders holding their assets on their own sort of balance sheet rather than in Lloyd's balance sheet, and then when a large call comes in, they deliver them. However, Lloyd's clearly has a policy on what is a suitable level of liquid reserves that can meet regular ongoing claims, but they also have a bigger pool. Now there are some parallels here and I do not want to over exaggerate the comparisons, however I wonder whether there is any work there that we could consider because certainly Lloyd's would not have all of its contingent liabilities being met by liquid assets, which is connected to the point the Treasurer was making that we should have liquid assets available to meet all contingent liabilities in the CCL. Maybe that is the right answer, and I am not saying that I know the answer right now, but it does cause pause for thought for me that we could consider some various scenarios here.

I think many of the other points that I was going to raise have been addressed by most of the other Directors, and I do not see the need really to go into them in great depth here. The bottom line for us is very similar to that expressed just now by Mr. Callaghan. We find it too early at this stage in the discussion to come out with a firm view on whether or not we think the Fund's resources are adequate. It would be fair to say my authorities' view at the moment is genuinely open. We could be convinced of a need for a quota increase. At the present time we tend to agree with the Treasurer that the Fund's resources look adequate, so we do not see this as a burning issue that needs to be addressed tomorrow or this week.

Finally, I would just like to say that, as Mr. Mirakhor, I welcome the comments made in Mr. Rustomjee's statement. There is definitely some food for thought here. I agree with Mr. Mirakhor that these issues do not necessarily have to be addressed in our quota discussions. They are somewhat separate, and we certainly would be willing to consider these in a further discussion should other Directors feel so inclined as well.

Mr. Moser made the following statement:

We thank the staff for this first paper for the Twelfth General Review of Fund quotas, and we think it is fitting to begin this exercise with these conceptual considerations.

The structural changes in thc world economy and their implications for the Fund's activities certainly merit serious attention. The adequacy of the Fund's resource base should be measured against its ability to fulfill its mandate; that is, the Fund should be kept at a size that allows for the satisfactory performance of the tasks it is entrusted with, without it having to engage in substantial borrowing. At the same time, the Fund should be kept small enough to ensure the sparing use of its resources. From this point of view, and by taking the various arguments given in the staff paper into consideration, we believe that at this time an increase in Fund resources is neither necessary nor desirable.

As pointed out by Ms. Lundsager and Mr. Baukol as well as Mr. Padoan and Ms. Manno, the decline in the size of the Fund relative to measures of the world economy is not necessarily a cause of concern; and it has certainly not diminished the importance or the effectiveness of Fund operations. Moreover, as stressed by Mr. Bennett and pointed out by others, we believe that a marked increase in Fund resources would counteract our work on private sector involvement. In our view, there is a clear trade-off between significant Fund financing involvement and further development of PSI.

The adequacy of the Fund's resources should best continue to be based on its traditional measure, which is the relation of total actual quotas to the aggregate of members' calculated quotas. Higher volatility in the demand for Fund resources and increased use of precautionary arrangements may make the judgment more difficult, but we are not convinced that these difficulties call for a fundamental change in the way we assess the right size of the Fund. In particular, we fail to see much merit in the proposition to take on some sort of measure of capital account variability as an indicator of the adequacy of Fund resources. In essence, the staff is proposing to shift the measurement of adequacy towards the potential demand for Fund resources by its largest borrowers. Not least, it is problematic from an equity standpoint to assess the

Fund's resource base to such a large extent on the potential financing needs of a small minority of members.

We believe that such a demand-driven increase in the size of the Fund would neither be in the best interests of the membership at large nor be the right answer to the changes in the world economy. Rather than aiming for a Fund large enough to meet all potential financing needs, we should seek to address the underlying causes of the increased demand for Fund resources and its higher volatility. This, of course, goes well beyond the Fund's lending activity in the narrow sense and touches on much of the work that is currently being undertaken to enhance surveillance and crisis prevention; it also bears on the ongoing work on conditionality and the enhancement of ownership of Fund supported programs, as well as on adjustment of Fund lending to promote sound economic policy making in member countries.

Finally, coherence should in any case be sought between the indicators used in determining the adequate resource base of the Fund and the variables used for calculating the individual quota shares. These variables must capture not only potential demand for Fund resources, but also the ability to contribute towards them, in order to be consistent with the Fund's basic principles.

Mr. Chatah made the following statement:

Many of the issues we intended to raise have already been raised on both sides of the fence because, indeed, there are valid points on both sides of this issue. Of course, on the face of it the question is quite simple: do we need a quota increase for the Fund to perform its financing role in the period ahead? Unfortunately, the answer is not as simple.

Just because the Fund is doing a good thing, making more money does not necessarily mean it will be doing a better thing.

Quotas are complicated for many reasons, including the fact that they perform many functions. But even the financing function of quotas is quite complicated. One complication, of course, comes from the fact that the world has changed, and therefore the nature of many needs has also changed. If the change had been a neat one where we moved from one state of affairs to another, maybe the issue would have been a little easier. But it has not been like that. Rapid change is still underway with a high degree of uncertainty about the future. It is not clear that the volatility that we have experienced over the past decade is going to continue. We have seen capital flows move in a certain direction in the early 1990s, then later move in another direction. Will we have more contagion or less in the coming years? Should we expect more market stability or less? I think these are things that inevitably complicate the financing picture and make it difficult for one to reach a clear answer to a seemingly simple question.

What is obvious, though, given the uncertainty and the other factors that I spoke about is that the Fund needs to be responsive; it needs to be prepared to respond adequately as needed. Here we agree with others who saw the staff's attempt to go beyond the usual variables to try to look forward as helpful. However, the question arises as to how best to respond, and with what kind of resources. In this connection, we found the box on owned versus borrowed resources particularly helpful and interesting, although I am not sure we necessarily agree fully with its conclusion.

The international community has decided that the Fund's own resources should be the primary tool for financing. This is not unrelated to the assumption that borrowed recourses are somewhat less flexible, and not always readily available. That may be the case, but it does not have to be. I wonder whether Fund borrowing (the guidelines, the amounts, the responsiveness, the automaticity, and the conditions) needs to be looked at again in light of the changing needs. Of course, Fund facilities have evolved and have significantly changed since the early 1990s. Now we talk more about contingencies, and about large short-term lending. Maybe we need a similar discussion about the types of resources that the Fund needs to respond to quickly and effectively. Perhaps the borrowing process could be streamlined, and once actual borrowing is resorted to, it would trigger consideration of a quota increase.

The other point I would like to make is that positions on the need for a quota increase are motivated by a whole host of factors. There is, I think, a perception that countries' reserve positions in the Fund are not of the same quality as their other reserves that they hold elsewhere. In other words, being in a creditor's position in the Fund is not of the same quality as having the reserve assets in a different form. This may or may not be a major issue today, but it has always been a factor in the attitude that some countries take toward a larger quota size. It is true that more countries today are creditors of the Fund and that has improved usable resources available to the Fund. But the issue is whether for any given level of quotas, useable resources are at the level they should be.

Mr. Callaghan and others mentioned the concentration of financing packages or mega-packages. The fact that such packages were possible, should not be a reason not to increase quotas. By the same token, an increase in quota should not be a substitute for good access policy, and we do not look at it that way either. One should be prepared to look at these things on their own merit. Mr. Kelkar referred to need. Obviously the ability to pay is always a factor. Many other issues can and should be looked at, but at the right time and in the right context.

Two final points. I am not sure that a more frequent quota review would be warranted, although I think a more frequent look at the resources available to the Fund is needed, and that should be done on a regular basis.

Second, we have a lot of sympathy with the points Mr. Rustomjee made.

Mr. Rustomjee made the following additional statement:

I would like to, if I may, without trying at all to sidetrack the main thrust of the discussion, just comment a little bit about the issues that I raised in my statement because several Directors have raised and commented on them.

The first point is to thank those Directors who have raised this issue thus far, and this is of course without prejudice to those that remain on the speaker's list. I am very grateful for this. This is the first time we are raising this issue in this room, albeit in a seminar context. I did want to say that I believe that if the issue is not addressed, it will be left to languish, and I think this will not be useful for the institution. I hope for three things in connection with this issue, if it does evolve. First, is that it can be addressed in a direct way and that a work program can be put together to try to address it as sensitively as possible. Second, that we can arrive at a full consensus of the Board in any outcome that could come from this. Third, that whatever outcome that could come could be sustainable. I have not said anything about time frame. I am grateful to colleagues who would be keen to see if this matter of African representation can be fast tracked as I believe that it is urgent. Certainly it is from my corner of the world, but I can accept that consensus may take time, but the quicker the better if we can arrive at that.

I did ask the Secretary's Department when I was preparing my statement to prepare some data because at one point I froze as I was writing my statement, and I questioned myself as to whether I was not just charging off on a Don Quixote type of quest. Maybe it is one, but at least I think the data may help me a little here. The Secretary has prepared something, and I would ask if he would be kind enough to circulate it to colleagues at anytime after the meeting. I had a question about the number of Board meetings we have had for PRGF countries in the last few years and if he could separate out those pertaining to the Africa Department, which are substantively those in Mr. Barro Chambrier's and my constituencies, and all others, of course with the others being diffused among many Executive Directors.

To give a picture of how the workload has grown, in 1995 when there was the ESAF—the equivalent of the PRGF—there were 18 ESAF cases in the African region and 11 in every other region. In the year 2000, five years later, that 18 in the African region had grown to 42. This includes discussions that mingle individual Board discussions and mingle PRGF, HIPC, and PRSP discussions and a combination of those are post-conflict and arrears cases. When there were 42 for Mr. Barro Chambrier's and my constituencies, there were 14 other such discussions across all those other constituencies with PRGF program countries. In 2001 again we had 42 Board discussions allocated to the two African constituencies and 21 for the other constituencies. This excludes pure Article IV consultations, excludes the informal sessions, and of course it excludes all the other administrative issues associated with large constituency work.

On the issue of basic votes, which has been touched on, I would urge colleagues to consider the ability of this instrument. It is very much addressing what is a political issue for 44 countries--a quarter of the membership with just under 4½ percent of the vote--and it could be a useful instrument to try to address this issue. If ever there were a selective or non-equiproportionate increase—and I raise this because other colleagues have raised it in the context of the concerns of their constituencies—I would certainly want to make a claim to some of that share for some members of my constituency. Again, this is based not purely on access policy, but rather on what I perceive and I feel is a responsibility. It just so happens that I am not only the representative of the constituency, but also a national of the largest shareholder in my constituency. I feel a responsibility to mention to my colleagues that it is not just an access policy issue, there is a political dimension to this issue--of ownership, representation, and a sense of belonging in the institution--and I have tried to tease all of that out in my statement.

There will be three areas of merit I think if there were to be a selective element in a quota increase, if ever we came to that. The first is the general one, and that is the basis on which I am asking for an increase in basic votes.

Second, there are three countries in my group that have done a truly magnificent effort, which is inconceivable if we were to set it against the resource base that they have, and I mentioned in the quota discussion at that time on the debtor side, the cases of Uganda, Mozambique, and Tanzania. They really do deserve recognition for what they have achieved, given practically zero resources, and I can accept that we can argue that quota is not the way to recognize it, but I sincerely feel that it can be one channel for giving that recognition; particularly as it takes very little away from everybody else. There are other up and coming ones, Ethiopia and Zambia are examples. However, those first three, based on the resources that they have had, have worked miracles and they deserve recognition.

Third, on the creditor or potential creditor side, which is a third category where I would see merit in any selective element, there are again three countries in my constituency that I think would warrant some

> consideration in any selective element. The first one is Botswana. It has been stable for many decades now, has very substantial reserves, and contributes actually to the resources of the Fund in an indirect way by supporting its neighboring countries, and in that way taking away the need for some of those countries to be coming to the Fund for PRGF resources, not GRA resources. In addition, there are Nigeria and South Africa. Both contribute to the PRGF Trust. In the case of South Africa, it has granted more than equitable burden sharing debt relief to HIPCs as well as having written off a hundred percent of debt relief to a number of them, and both are what one might call leadership poles in the continent that deserve some form of impetus. Therefore, I would make a case on behalf of those three on the creditor side in my constituency for a consideration, if there were to be a selective increase.
>
> I believe many other arguments can be made. I am reluctant to make them, particularly in the case of South Africa because our constituency does operate as a sort of unit, and I try very much to try to do it on that basis, and all I would say at the end of all this is I do hope a work program can emerge to address this issue. If it does not, there is no formal forum in which I can raise this issue except to tack it on to a discussion on general quota increases because we have not come to a conclusion about this in the Board. However, it is an urgent and crucial issue for a large share of the membership of the Fund.

The Acting Chair (Mr. Sugisaki) noted that the Secretary would distribute the data cited by Mr. Rustomjee.

Mr. Zakharchenkov made the following statement:

> At this stage of the discussion the arguments pro and con a new quota increase have already been well articulated. Therefore, I will be reasonably brief and will confine my remarks to the specific issues proposed for consideration by the staff.
>
> First, let me comment on the issue of an appropriate level of Fund resources in the changing global environment. On the one hand, we have increased uncertainties regarding prospective use of Fund credit as a result of an introduction of new facilities (CCL and SRF) and potential activation of precautionary Fund arrangements. On the other hand, PSI initiatives, increased Fund surveillance, and stronger policies in member-countries tend to improve the predictability of and reduce the demand for Fund's financial resources. One cannot ignore the fact that in 2001 we witnessed a sharp increase in new financial commitments, which led to a high concentration of Fund credit to a few largest borrowers (Table 2). However, we tend to view this development more as of a temporary rather then of a permanent nature.

In general, we think that on a conceptual level it is hardly possible to justify a new quota increase since, as rightly mentioned by Mr. Al-Turki, this is essentially a quantitative exercise. Right now the financial position of the Fund is strong enough, while in future factors influencing Fund's liquidity can work in both directions. Some decrease in the size of the Fund relative to the world economy is a reflection of a rapid expansion of capital markets, and therefore, cannot by itself be an argument in favor of another augmentation of Fund's capital. Therefore, on balance, we do not see a strong case for a quota increase at this stage.

Second, on the private sector involvement (PSI) and its implications for the Fund resource base. There is no simple answer to this question. Recent experience suggests that given the limited availability of official bilateral financing, the Fund will most likely continue to play a major role as a provider of financial resources to countries in crisis even after further development of the PSI framework. At the same time, we cannot exclude the possibility that a sound and well-enforced PSI framework (especially in the context of a newly launched approach to sovereign debt restructuring) may indeed reduce the demand for Fund resources.

Third, on the new indicators proposed by the staff to assess the adequacy of Fund resources. It is true that the world economy has evolved over the past 10 or so years in a way unforeseen in the past. In particular, this refers to a surge of capital flows and their ever increasing role in the global economy. Therefore, we see merit in exploring the possibility to include some measure of the level of capital flows or the degree of their volatility in assessing the appropriate level of Fund resources in the future. Similarly, forward capacity to make financial commitments, as defined in footnote 35, may also be helpful for the same purposes.

Fourth, on the framework of general quota reviews. We are of the view that the existing framework of quota reviews every five years remains appropriate and we do not see an urgent need to shorten the review period at this stage. It is true that precautionary and contingent commitments increase uncertainty with regard to future use of Fund resources. However, we believe that the GAB and the NAB arrangements (with all their limitations) provide the Fund with necessary tools to ensure adequate financial support to member countries in the time of a potential liquidity shortage.

To conclude, let me repeat our position that we do not see at this stage a strong case for an increase of the Fund resource base. At the same time, we are aware of the changing global environment and we are prepared to consider a potential quota increase in the future if warranted by economic developments.

Mr. Boitreaud made the following statement:

Let me first thank staff for this concise work that provides us with an interesting overview of the exponential increase in cross-border capital transactions and its implication on Fund resources. Let me thank the Trearsurer for his comments. At this stage of our discussion and since many of my points have already been made, I will limit my intervention to two remarks.

But before that, I would like to express a word of caution. Indeed, as stated by Mr. Padoan and Ms. Manno in their preliminary statement and by Mr. Mirakhor, one of the difficulties of the task facing us is to deal with the multiple functions of quotas. For both the voting power and the access to Fund resources, we may find some elements of flexibility in the system which can compensate for some undesirable effects of an imperfect distribution of quotas. However, when dealing, as today, with the contributive function of quotas, we are at the heart of the Fund's financing and we have very limited room for maneuver. Therefore, we attach particular attention to this issue.

I will now focus on my two remarks.

First, on the need for an increase in Fund resources. The growing interdependence between economies coupled with the increasing volume and volatility of cross-border capital transactions makes, in our view, a very strong case in favor of such an increase, particularly since we have not progressed on a possible new SDR allocation. On PSI, we share the opinion expressed by Mr. Varela and Messrs. Yagi and Yanase in their statements. Progress on this thorny issue will not necessarily mean less official financing, particularly in the five years to come. In the same vein, progress in the efficient use of Fund's resources is welcome but it will not dramatically change the picture, at least in the short term. It is therefore necessary in our eyes not to hide behind those big reforms—PSI, streamlining, efficiency—but to adapt the level of Fund's resources to the challenges that we are going to face in the next few years. In that regard, like Messrs. Junguito and Tombini, we are very interested by the forward capacity concept described in the Staff's paper.

Second, whatever the outcome of our discussion on the twelfth review is, the issue of selective increase should be addressed thoroughly. The case of Africa is particularly striking, as explained by Mr. Rustomjee in his statement, and as we have already stated, we believe that our poorest members should be given a greater role. On the case of representation, raised by Messrs. Rustomjee and Barro Chambrier, we should remain open and cautious at the same time. On the one hand, it is not efficient to have one-twelfth of the Executive Directors representing one-quarter of the countries. In that regard, there are strong arguments in favor of two more African chairs. It will also send a strong signal about the Fund's involvement in Africa. On the other hand, such a decision requires a political agreement at every level, and that could take time. Therefore, we should explore the different possible avenues, for example an increase in the basic vote. In that regard, Annex II of the Staff report is a candid assessment of the worrying decline in the share of basic votes and points to the need for improvement in the near future.

Mr. Prader made the following statement:

The staff paper, the many statements, the Treasurer's informative remarks, and the spoken statements of Directors so far clearly show that the case for a quota increase at present is not at all clear.

On the one hand crises have become more frequent in the past decade than they were earlier, and have required the use of larger amounts of Fund resources; the liberalization of capital movements has increased the vulnerability of emerging market economies to sudden reversals of capital flows; and the origins of financial crises have become more numerous. All of this calls for resources sufficient to enable the Fund to fulfill its task of bolstering members' confidence by making its general resources temporarily available to them when needed to correct maladjustments in their balance of payments.

But on the other hand, Fund quotas were increased by 45 percent only three years ago, and the Fund's liquidity is still at a comfortable level in spite of last year's historically high new commitments, both in terms of the traditional liquidity ratio and in terms of the more forward-looking indicators proposed by the staff; the resources that can be mobilized by activating the Fund's borrowing arrangements, in case of a systemic crisis so large that its solution could deplete the Fund's general resources, have been doubled by the New Arrangements to Borrow which became effective in 1998; the Fund's surveillance, and the policies of member countries, were both improved as a result of dealing with financial crises during the 1990s originating in excessively rigid exchange regimes, weak financial systems, and over reliance on short-term external debt. These improvements in surveillance and policies should help reduce the frequency of financial crises; there is growing evidence that the effort to increase the transparency of economic developments and policies is starting to pay off in terms of better pricing for country risks by financial market participants and a corresponding reduction in indiscriminate contagion, and further progress in implementing our PSI strategy, and especially the establishment of a Sovereign Debt Restructuring Mechanism, will help reduce the amounts of Fund resources necessary to solve acute balance-of-payment crises. Taken together, all these factors seem to indicate little urgent need to increase Fund quotas.

Although the staff papers provide no indication of the financial size of the Fund compared to the volume of international capital flows, there can be no doubt that the size of the Fund's quotas has not kept pace with the strong growth of cross-border flows. However, the diminished size of the Fund in terms of capital flows is not necessarily worrisome, as the bulk of the increased flows represents the circulation of capital between advanced economies, none of which has needed to use Fund resources since 1978. In addition, many of the Fund's members still have no access to either the international capital markets of the Fund's general resources. It is to assist these countries that the self-sustaining PRGF was created. The emerging market and transition countries are the most likely to need future access to Fund resources, but the need for such assistance should be reduced for most of them by their adoption of floating exchange rate regimes and accession to the European Union by a significant number of them.

As to the Treasurer's scenario of a possible large use of the CCL, I am surprised that the staff should bring this up now. In the past, proponents of the CCL—mostly the staff and the G-7 Directors, who have all left the Fund in the meantime—rejected such a possibility as remote and therefore irrelevant when considering the establishment of the CCL. It would be appropriate for the staff to be consistent in its arguments at all times and not to change them when that is deemed useful for amassing "supportive evidence"—to quote Mr. Brooke—in favor of a quota increase.

It is clear that the case for a quota increase is not yet strong enough to justify devoting a large amount of staff work and Board time in the coming year to settling the many technical issues connected with a quota increase. The Board should continue to keep close watch over the Fund's liquidity and continue discussing how to improve the quota formulas, as was agreed during our last quota review.

Let me also reply to the point raised by Ms. Lundsager and Mr. Baukol, namely that ad hoc quota increases are inadequate for correcting a member's under representation in quotas because such increases come at the expense of other underrepresented countries. While this argument is true in principle, in practice we should approach all issues in a spirit of reform-mindedness, and at least go for piecemeal, i.e. partial, reforms that do not unsettle too much the overall balance in the distribution of quotas. Obviously, this problem could be solved by simultaneously correcting, with ad hoc increases, the quotas of at least a very limited number of the countries that are most severely underrepresented in Fund quotas.

Finally, on Mr. Rustomjee's issue, Mr. Mirakhor rightly points out that we do not need to wait until the next quota increase before increasing the staff resources of the two largest multi-country constituencies in the Fund—the two constituencies represent 44 sub-Saharan African countries. The Board could change the staffing rule of Executive Directors' offices in such a way as to provide some increase in the staffing of any office representing more than a certain number of countries--for example, 20 countries. I deliberately set the threshold at 20 since the danger is great that we might repeat the missed opportunity of the last OED staffing increase, when instead of targeting the massive problem of the African constituencies the Board decided on a staff increase for each Executive Director's office.

Mr. Junguito observed that the lack of demand for CCLs might be an indicator that the facility was poorly designed, and therefore the Board should reexamine it. However, there were informal indications that at least one member could be considering requesting a CCL.

Mr. Ísleifsson made the following statement:

I welcome today's seminar, which begins our discussion on the adequate size of the Fund and would like to thank the staff for this paper and my colleagues for their helpful statements.

The expansion of the global financial system is enabling more countries to tap the international financial markets to meet their financing needs. At the same time countries are exposed to the risk of financial instability and contagion because of the volatile nature of capital flows. The Fund has adapted to the changing environment by a welcomed increased focus on crisis prevention and crisis management, and by introducing new facilities.

I believe that the Fund should continue to be well capitalized and continue to be a quota-financed institution. Resort to the Fund's borrowing arrangements, that is, the GAB and the NAB, should only be in the case of systemic crises, and should not be a substitute for quota increases.

I recognize that even in good times greater volatility can be expected in the amounts of disbursements and the level of credit outstanding. However, strengthened Fund surveillance and the increased emphasis by creditors to distinguish between different credit risks reduces the potential for financial crisis and therefore for a call on Fund resources.

Having said this, it is clear that the high exposure to a few countries that characterizes the Fund activities in recent years is a matter of concern. A clear role of Fund lending is needed to reduce uncertainty and guard against moral hazard. We would want to reiterate our view that the Fund should not perform the role of lender of last resort.

In this regard, I fully agree with Mr. Padoan and Ms. Manno that the scope for better quality of policy is far from being exhausted. For one thing, a clearer presumption that official lending is limited entails that PSI has to become a more important element in resolving crises. In addition, Fund financing should lessen with stricter adherence to the Fund's access limits, thus enabling the Fund to do more with less. In addition, we are only beginning to discuss the proposal on sovereign debt restructuring mechanism. However, the Fund will continue to have an obligation towards members in circumstances where PSI is uncertain in acting as a catalyst for both voluntary and concerted PSI.

Let me now turn to the economic indicators used in the past to assess the adequacy of Fund resources. In my view, these indicators were useful in assessing the resources needed to combat balance of payments crises resulting from adverse developments in the terms of trade or a fall in export income. However, in recent years, crises rooted in weak banking systems or fiscal imbalances have become more frequent. A measure of volatility of capital flows could be a useful additional indicator to assess the need for Fund resources.

The forward capacity to make financial commitments may be another useful concept to assess potential demand for Fund resources. It is, however, very difficult to devise any set of variables or formulas a priori that can be used to project the likely extent of banking or fiscal crises or the resources needed to deal with such problems. Effective surveillance--for example, through FSAPs as well as standards and codes--and precautionary measures will therefore gain importance.

To conclude, there are a number of issues of importance when discussing the appropriate size of the Fund. We would like to emphasize the proper sequencing of the various issues related to the quota discussion. After reading the paper and the statements and listening to today's discussion, it is evident that we are still at an early stage in our deliberations. We look forward to future discussions of these issues.

Mr. Varela made the following additional statement:

I would like to make three points. First, I would like to associate myself with what has been said by Mr. Prader regarding the need to close the gap between actual quotas and calculated quotas. As you know, there are several countries, not only emerging market countries, but also some industrialized countries, that have actual quotas that are substantially below their calculated quotas. We think that this problem should be addressed, the sooner the better, because it will reinforce the credibility and the legitimacy of the institution as the reality of the world economy will be reflected better in the quotas and in the functioning of the institution. This point has been recognized in the concluding remarks of the Acting Chair on the alternative quota formula discussion. At that time many Directors were of the view that it is important to address without delay the situation of countries whose actual quotas are significantly below the calculated quotas. This question does not need to be discussed necessarily in the context of the general review of quotas,

> but we think that it is a problem that should be addressed, again the sooner the better.
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> My second point is regarding the comments made by Mr. Rustomjee about African representation. We welcome those comments, and we associate ourselves with the support given by Mr. Mirakhor, Mr. Brooke, and other colleagues. We think this is a problem that needs to be addressed as well, maybe in another session of the Board or as Mr. Prader has suggested by addressing the particular human resource needs that those constituencies may have. We sympathize very much with those ideas.
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> Third, I think that for the sake of clarity, paragraph 11 on page 9 should be redrafted in a more precise language. In particular, the phrase on the most recent cases of Argentina and Turkey refers to the bilateral official financing, and says that the financing packages did not include substantive bilateral official financing. We know that there was no official bilateral financing in the case of Turkey, however there was such support in the case of Argentina, and we would favor the redrafting of this phrase for the sake of clarity.

The Acting Chair (Mr. Sugisaki) replied that the issue of narrowing the gap between actual and calculated quotas would be discussed in the context of the review of quota formulas, to which the Board would be returning shortly.

Increasing the staffs of Executive Directors' offices would require additional budgetary resources; the decision was to be taken very soon, given the stage of the present budget cycle, the Acting Chair noted.

Mr. Wijnholds made the following statement:

> The staff paper is useful in giving an overview of many of the issues that we should take into consideration when discussing the overall size of quota. It addresses a number of objective criteria that could be used when considering the 'right' size of the Fund. It is a bit unfortunate that some strong positions were already taken at this stage. I agree with those who feel that it is too early to come to any firm judgments. Obviously, I agree that it is important to look at the development in the international economy.
>
> It is not straightforward to even begin to draw any conclusions, however, as the relationship between these developments and the appropriate size of the Fund is far from cast in stone. We should for instance consider the fact that most of the economic growth in absolute numbers and most of the increase in capital flows is concentrated in the industrial countries. These countries are highly unlikely to draw on the Fund. This is one explanation for the fact that the overall size of the Fund cannot be simply related to the growth of these variables.

The fact that the role of the Fund has changed considerably over time is another reason why we cannot solely rely on quantitative criteria to tell us the appropriate size of the Fund.

I agree that we cannot separate the issue of the 'right' size of the Fund from that of the appropriate role of the Fund. Recent experience with capital account crises has increased the need to concentrate on crisis prevention and on the responsibility of the Fund to minimize the moral hazard that could result from its financing policies. Both aspects call for a sound strategy to achieve a balanced burden sharing between the official and the private sectors in crisis resolution. The Fund should try being more of a catalyst and less a lender of last resort. This points in the direction of a relatively limited size of the Fund.

The total size of the Fund should correspond to the total expected use of Fund resources. However, we should be realistic and not overemphasize worst case or 'perfect storm' scenarios. If push comes to shove, we can rely on the GAB and NAB.

We will soon discuss PSI, the issue of access limits, and a proposal for a Sovereign Debt Restructuring Mechanism. The outcomes of these discussions will have important repercussions for what we consider the role and right size of the Fund. Therefore—and also given what I heard from most large shareholders today—I am afraid that at this stage it would be premature to have a thorough discussion about the appropriate size of the Fund.

In view of the complexity of the issue, it is important to keep our discussion focused. Therefore, I was somewhat puzzled by the annexes on selective quota increases and basic votes, as these matters have no relationship whatsoever with the assessment of the overall size of the Fund.

Mr. Bennett noted that as a result of the Fund's PSI framework, there should be smaller requests—perhaps substantially smaller—for use of Fund resources in comparison to what they could be if no PSI framework existed. In addition, if the size of the Fund were to be increased before further progress was made on PSI, the outside world could mistakenly conclude that the Fund did not believe that PSI could lead to reduced financial contributions by the Fund.

The ideas and proposals proposed by Mr. Rustomjee merited further discussion by Executive Directors, Mr. Bennett remarked.

Mr. Mirakhor agreed with Mr. Bennett that an effective PSI mechanism should play the role of a deterrent device. Nonetheless, even with better PSI there could still be instances where the Fund would need to contribute a significant amount of resources, which could even require lending into arrears.

Ms. Jin agreed with the idea of discussing the issues raised by Mr. Rustomjee separately and in the near future.

Ms. Lundsager agreed with Mr. Bennett with regard to PSI. It would be premature to reach any conclusions with regard to a quota increase without first carrying out further work on PSI and other related issues. Nonetheless, the Fund would retain its central role even under a strengthened PSI framework given its influence in evaluating countries' policies and consequently designing programs.

Countries were increasingly implementing sound polices, Ms. Lundsager observed. Such ownership needed to be encouraged by the Fund, and could itself lead to a reduced need for Fund resources.

The Treasurer's Department's ongoing work for its next paper on quota formulas was welcomed, Ms. Lundsager said.

It would useful if the Treasurer's Department could explain in detail the rationale behind the approaches it suggested, particularly the forward-looking indicators, as well as how it arrived at those conclusions in the next paper on the Fund's liquidity position, Ms. Lundsager remarked.

The issues raised by Mr. Rustomjee should be discussed at the committee level rather than during a formal Board meeting on quota formulas, particularly as any decisions could be reached faster that way, Ms. Lundsager suggested.

Perhaps increases in the staff of Executive Directors' offices could be done in a selective manner, as not all Directors' offices needed more staff, Ms. Lundsager commented.

Mr. Padoan agreed with Mr. Bennett's comments with regard to PSI—that it would be better to make some progress with PSI before discussing what the adequate size of the Fund should be.

Could the staff provide more detailed figures in the next paper on the Fund's liquidity position, Mr. Padoan asked. Furthermore, could the staff also provide more scenarios in the next quota review paper so that Executive Directors could have a better idea of what the possible range of figures was. Such figures should also be linked more closely with the issue of debt sustainability analysis, as that issue was critical in determining whether polices had been successful or needed to be strengthened.

Mr. Brooke also supported the views of Mr. Bennett with regard to PSI. For the next paper on quota reviews it would helpful to look at scenarios that had different assumptions for progress with regard to PSI and access policy.

How could the points raised by Mr. Rustomjee be best addressed, Mr. Brooke asked.

Mr. Djojosubroto suggested increasing the staff in those Executive Directors' offices with constituencies comprising more than 15 or 20 countries in order to help those offices better handle their high workloads.

The proposal for increasing the basic vote could be supported in the interest of improving equity in the Fund, Mr. Djojosubroto added. Furthermore, several countries in his constituency supported correcting the misalignment between actual and calculated quotas, and hoped that there would be a substantial selective element used in the eventual overall quota increase.

Mr. Yagi noted that while there was some connection between the development of PSI and the quota review, no conclusion had been reached with regard to PSI despite the significant amount of time that had been spent on discussing it. Therefore, it would inappropriate to await progress with regard to PSI before making any decision with regard to the quota level. It would be better to consider the issues simultaneously.

Mr. Junguito supported Mr. Yagi's position.

The Secretary, in response to Mr. Brooke's question, replied that there was a table at the end of the Information Note that had been prepared by the Secretary's and the Treasurer's Departments, that described the necessary legal requirements for changes in various aspects of representation.

The Committee on Executive Board Administrative Matters, which was chaired by Mr. Cippà, would be the place to discuss the issue of increasing the number of Advisors and Assistants to Executive Directors, the Secretary continued. Other issues would require decisions by the Executive Board, and some others required decisions by the Board of Governors.

The issue of the size of the Executive Board and the number of Executive Directors could be taken up in the context of the biennial election of Executive Directors, which would next take place in the fall of 2002, the Secretary added. Any change to the size of the Board would require the support of 85 percent of the membership.

The Treasurer, in response to questions and comments from Executive Directors, made the following statement:

> This was a very useful discussion, and we will now proceed with the quantifications in the form of alternative scenarios. I agree with something that Mr. Callaghan said early on though, that false precision should be avoided. Precision in any case will be difficult because broad judgments are required. What is particularly important is that the assumptions underlying the scenarios are spelled out, and we will try to do that. Then it is for the Board to judge whether plausible numbers were presented. I do not think this is going to be easy, but we will try.

I also felt that many Directors endorsed the proposal that in the next liquidity review paper we explain more, rather than less, about the forward commitment capacity concept. We will discuss it in depth, and if possible have the Board become comfortable both with the concept and with the particular numbers presented, or at least with a range of numbers.

I do not want to say much more, but would like to answer Mr. Zakharchenkov's question. He asked what flexibility is there for the Board to conduct reviews of the adequacy of quotas. The Board must take up the review of the adequacy of quotas in each five-year period, which is something that is specified in the Articles of Agreement. However, implementation of any decision reached to increase quotas could occur outside this period because of the ratification process that is required in many member countries. In principle, there are three types of conclusions that can be reached. There can be a decision to propose an increase in quotas, and that requires 85 percent of the voting power. There can be a conclusion to do nothing, to leave quotas unchanged, by a majority of votes. The third type of conclusion, is to delay reaching a view and to return to it at a later specified date. There is, therefore, considerable flexibility.

Mr. Zakharchenkov noted that, according to Pamphlet 45 (Financial Organization and Operations of the IMF) in 1958/59, there was a quota review that had been conducted outside of the normal five-year period.

Mr. Mirakhor asked the staff to examine whether it was possible to decouple the issue of quotas from access to Fund facilities in the forthcoming paper.

Mr. Chatah asked why a majority of the voting power was needed for the Board to decide not to increase quotas.

The Treasurer clarified that even if the Executive Board decided not to increase the quota level, it would still need to make a report to the Board of Governors on that matter.

The Acting Chair made the following concluding remarks:

Our meeting today provided a useful opportunity for a preliminary exchange of views on the conceptual issues involved in an assessment of the adequacy of the Fund's resource base as we begin to undertake the Twelfth General Review of Quotas. As Directors noted, this review is being started not only in a context of increased global economic and financial integration as well as of access of a growing number of countries to private capital markets, but also of increased vulnerability to economic shocks and financial market volatility. At the same time, many countries have improved economic policy and performance, leading to a decrease in vulnerability. There is broad recognition that these diverse factors, as well as the Fund's efforts to adapt its policies to deal with these challenges of globalization, will have important implications for the future demand for Fund financing, although there is, at this stage, no converging view on the extent to which, on balance, the various developments could affect the required size of the Fund's resource base. Our discussion will provide helpful guidance to the staff for our future work on quotas, but at this stage we have not reached conclusions regarding the future adequacy of the Fund's resource base.

Directors had a broad-ranging exchange of views on the implications of recent adaptations in the Fund's surveillance and financial policies in face of the changes in the world economy in the past decade, including the significant increase in the size and volatility of members' balance of payments financing needs. They noted that efforts to strengthen the Fund's role in the prevention and resolution of financial crises, as well as to increase private sector contribution, will enable the Fund to respond more effectively and flexibly to the rapidly changing global economic situation and to maintain a central role in an international monetary system in which private capital flows are the primary source of financing for a growing number of countries. The adaptations in the Fund's policies outlined in the next paragraph have implications for the future demand for Fund financial assistance, which, together with other variables, should be taken into account in our approach to assessing the adequacy of the Fund's resource base.

Directors considered that the Fund is undertaking key steps to encourage the pursuit of sound economic polices and to prevent crises, such as improving surveillance, increasing transparency, promoting international standards and codes, and strengthening financial sector surveillance, which should help countries attract funding from private external and domestic sources as well as reduce the frequency and severity of financial crises. In addition, the provision of contingent and precautionary financing by the Fund to support the adoption by members of sound policy frameworks should facilitate better differentiation by lenders in creditworthiness assessments of sovereign borrowers, and thus help to reduce the incidence of financial contagion and the need for Fund resources. At the same time, several Directors noted that more frequent provision of contingent and precautionary arrangements for crisis prevention, which the International Monetary and Financial Committee (IMFC) has encouraged, could involve substantial commitments of financial resources, including during times when the world economic situation is favorable. As such commitments could be drawn quickly and in large up-front disbursements in the face of significant adverse developments in the world economy, these Directors considered that the Fund will need to have adequate resources to backstop these commitments in order to ensure their credibility. Several other Directors did not see great scope for a strong expansion of contingent financing by the Fund, and expected that its impact, if any, on Fund resources would remain limited.

On crisis resolution, many Directors noted that the introduction of the Supplemental Reserve Facility (SRF), which does not have explicit access limits, and greater recourse by members to the exceptional access procedures have contributed to an increase in the size and volatility of Fund financial commitments, disbursements, and credit outstanding in recent years. While effective crisis prevention should tend to reduce the disbursement of Fund resources over time, it was recognized that crises and bouts of financial contagion could occur from time to time. In these circumstances the Fund will need to maintain adequate liquidity to be in a position to respond, at times on short notice, to requests for substantial disbursements. At the same time, the discussion highlighted a number of factors that could attenuate future resource needs. Shorter maturities for SRF financing, time-based repurchase expectations, and interest surcharges will help Fund resources revolve more quickly. A number of Directors considered that the improved effectiveness of Fund programs that will result from streamlining conditionality and strengthening country ownership should also facilitate the more efficient use of Fund resources. While it was recognized that quotas should remain the principal financing source of the Fund, a number of Directors also noted that borrowing arrangements, particularly the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB), could be activated to supplement Fund resources on a temporary basis.

Because the size of official financing will remain limited, Directors stressed the need to involve the private sector in the prevention and resolution of financial crises, including continued efforts to develop and implement the framework for private sector involvement (PSI). Several Directors considered that strong PSI, including progress toward a framework for sovereign debt restructuring, should lead to a reduced need for Fund resources than otherwise and help address moral hazard concerns. They also expected that diminished prospects for large-scale official financing could play an important role in promoting early and effective policy adjustment and more effective PSI. Several other Directors, seeing only little evidence of moral hazard stemming from a larger Fund resource base and Fund intervention, pointed to the need to ensure continued access to Fund resources, which could be large, including in cases in which the Fund is called on to serve as a catalyst for official and private financing or to facilitate an orderly debt workout. As a number of Directors noted, the arrangements for PSI are evolving, and it is difficult at this stage to reach precise judgments regarding the potential impact on the need for Fund financing and the adequacy of the Fund's resource base. In this connection, it was suggested that the elaboration of various scenarios using different assumptions on PSI and related issues of access limits would be useful to inform future judgments. Clearly, the work on PSI and quotas is proceeding on parallel tracks and their interaction will need to be considered carefully as we move ahead on both issues.

Directors also discussed the role of indicators that have in the past been used to form judgments regarding the adequacy of the Fund's resources. Some Directors recognized that indicators that assess the size of the Fund's resource base relative to aggregate measures of global output and trade as well as potential financing needs appear to have become somewhat less relevant while still being useful, given the greater interdependence and volatility in the world economy and uncertainties regarding private capital flows. Moreover, many Directors considered that given the new approach underlying the financial facilities that the Fund has introduced for crisis prevention, a broadening of the traditional indicators of Fund liquidity and measures of the relative size of the Fund could be useful. While other Directors were not yet prepared to endorse a new approach, it was nonetheless agreed that the staff should consider new indicators for assessing the adequacy of Fund resources that take account of the greater volatility of capital flows and provide information on the Fund's forward capacity to meet potential financing needs under alternative scenarios.

Directors expressed a wide range of views on the questions of the size and timing of a possible increase in Fund quotas. Some Directors stressed that it would be premature to address these issues at this stage given the preliminary nature of today's seminar and the considerable work that remains to be done to clarify the issues that have been raised. Other Directors, however, were prepared to give more specific indications. Many of these Directors were of the view that, given increased uncertainty and the need to take a forward-looking view to the adequacy of Fund resources, there are strong grounds for increasing quotas at this time. Many other Directors, pointing to the Fund's current adequate liquidity position and the unfolding initiatives to strengthen crisis prevention and resolution as well as to promote the more effective use of Fund resources, saw no need to press ahead with a quota increase at this time. In brief, there is so far no consensus in favor of a quota increase.

A follow-up paper that the staff will prepare taking into account the views expressed by Directors today will include a quantification of the possible size of the Fund under various scenarios based on new and traditional indicators. Such a paper could be considered after the Spring IMFC meeting. Meanwhile, the staff will also continue the work on alternative quota formulas taking account of the suggestions made at our seminar of last October. Several Directors also expressed views on other issues, such as aspects of quota distribution, including selective quota increases, basic votes, calculated and actual quotas, and representation in the Fund as well as the relationship between access to Fund resources, quotas, and financing needs. Clearly, these are all important issues and we will carefully assess the scope for further discussion and progress on them. Finally, I would add that I sensed a willingness by many Directors to explore constructively how the representation of the African countries in the Fund can be strengthened.

The Acting Chair (Mr. Sugisaki) requested Directors to address the issue of whether the concluding remarks and the Board paper should be published.

Mr. Prader was not in favor of publication as discussion of the issue was in its early stages and as no conclusions had been formed.

Mr. Mirakhor was in favor of publication, noting that the Board had in the past published papers prepared for seminars.

Mr. Yagi agreed with Mr. Prader, but acknowledged that the Board had published similar papers in the past. There had been no indication in the paper that the staff was requesting Executive Directors' approval for publishing the paper.

Mr. Bischofberger supported Mr. Yagi's view that it should have been clear somewhere in the paper that the staff was proposing its publication.

Mr. Chatah asked whether the intention was to publish all the papers connected to the quota issue, including those that contained country-specific information.

The Acting Chair (Mr. Sugisaki) replied that it was the general policy of the Fund to decide on a case-by-case basis whether to publish policy papers. All the papers related to the quota issue had so far been published.

Ms. Lundsager and Mr. Brooke agreed with Mr. Mirakhor's position.

Mr. Couillault noted that he had reservations about publication, but would support it given that the last paper had been published. He proposed discussing whether the staff could prepare some papers on the quota issue that would not be published, as the issue was at a preliminary stage.

Messrs. Bennett, Ísleifsson, Hendrick, and Ms. Jin supported publication of the paper.

The Acting Chair (Mr. Sugisaki) observed that the majority of the Board was in favor of publication.

Mr. Abbing asked whether the two annexes—on selective quota increases and basic votes—would also be published, as there could be confusion given that those issues were not related to the future adequacy of the Fund's resource base or the need for a general increase of quotas.

Mr. Rustomjee was in favor of publishing the annexes as they were relevant.

Mr. Mirakhor noted that the Board should not start becoming selectively transparent, and that papers should be published in their entirety.

The Acting Chair (Mr. Sugisaki) noted that the majority of the Board was in favor of publishing the paper in its entirety, along with the concluding remarks.

SHAILENDRA J. ANJARIA
Secretary