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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/89

10:00 a.m., June 5, 1985

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	
C. H. Dallara	
	H. G. Schneider
	X. Blandin
M. Finaish	T. Alhaimus
H. Fujino	M. Sugita
G. Grosche	
J. E. Ismael	Jaafar A.
R. K. Joyce	L. Leonard
	H. A. Arias
	J. Hospedales, Temporary
	H. Fugmann
E. I. M. Mtei	A. Abdallah
	B. Jensen
Y. A. Nimatallah	
	J. E. Rodríguez, Temporary
	J. de Beaufort Wijnholds
C. R. Rye	
G. Salehkhou	
A. K. Sengupta	A. S. Jayawardena
N. Wicks	T. A. Clark
	N. Coumbis
Zhang Z.	Wang E.

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

Also Present

Administration Department: D. S. Cutler, P. Hirschfeldt, J. G. Keyes, L. A. Wolfe. African Department: J. W. Kratz. Asian Department: L. Mendras. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director. External Relations Department: H. O. Hartmann. Legal Department: J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel; W. E. Holder, Ph. Lachman, A. O. Liuksila, S. A. Silard. Middle Eastern Department: F. Drees. Research Department: W. C. Hood, Economic Counsellor and Director; D. Folkerts-Landau. Secretary's Department: A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; T. B. C. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; D. Berthet, J. E. Blalock, D. H. Brown, W. L. Coats, Jr., J. C. Corr, S. I. Fawzi, D. Gupta, R. B. Hicks, B. E. Keuppens, J. T. McDonald, G. Wittich. Bureau of Statistics: R. V. Kennedy. Office in Europe: J. K. Rosenblatt. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, E. M. Ainley, D. Hammann, J. Hospedales, H.-S. Lee, G. Nguyen, T. Sirivedhin, N. Toê, A. Vasuvedan. Assistants to Executive Directors: H. Alaoui-Abdallaoui, I. Angeloni, G. Biron, Bo T., M. B. Chatah, J. J. Dreizzen, G. Ercel, V. Govindarajan, N. Haque, G. D. Hodgson, L. Hubloue, A. K. Juusela, S. Kolb, M. Lundsager, A. Mustafa, J. K. Orleans-Lindsay, M. Rasyid, J. Reddy, D. J. Robinson, C. A. Salinas, A. A. Scholten, L. Tornetta, E. L. Walker, B. D. White.

1. STAFF COMPENSATION - 1985 ADJUSTMENT

The Chairman informed Executive Directors that he had been advised that at their meeting on June 4, 1985 the Executive Directors of the World Bank had approved, effective May 1, 1985, an increase in staff salaries at all levels averaging 5 percent, made up of a 2.6 percent adjustment in the salary structure and, as in the past, a 2.4 percent merit element. In addition, an amount equivalent to 0.5 percent was to be set aside for use, following consideration by the Executive Directors of the results of the job evaluation exercise.

It was essential to coordinate the decisions on salaries made by the Boards of the two institutions, the Chairman stated. As Managing Director of the Fund, he could not envisage a different salary structure for the Fund than for the World Bank. Furthermore, a differential in those structures should not be introduced prior to the conclusion of the job evaluations that both institutions were carrying out and before the Joint Committee on Staff Compensation completed its work. Therefore, he proposed that the decision taken by the Fund Executive Board on May 31 be reopened in order to arrive at a decision consistent with the position of the World Bank. The item would be included on the Board agenda for June 7.

The Deputy Managing Director then took the chair.

2. INCOME POSITION - REVIEW AND RELATED ISSUES; AND PUBLICITY UPON DECLARATION OF INELIGIBILITY

The Executive Directors considered staff papers on the review of the Fund's income position for the financial years (FY) 1985 and 1986, and on factors bearing on the adequacy of Fund reserves and on burden sharing in the Fund (EBS/85/104, 4/25/85; Sup. 1, 5/28/85; EBS/85/125, 5/14/85; EBS/85/126, 5/14/85), together with a staff paper on the question of publicity upon declaration of ineligiblity to use the Fund's general resources (SM/85/12, 1/9/85). The Managing Director made the following statement:

> We have a number of complex papers for consideration by the Executive Board. These papers bear on a number of aspects relating to the Fund's income position and the reserve target. The most immediately operational of the papers, and also taking into account the recent Executive Board discussion on the issue of overdue payments to the Fund, are those bearing on the Fund's income position in FY 1985 and FY 1986, the setting of the reserve target, and the rate of charge for FY 1986. Directors might find it helpful to address these questions--the Fund's reserves, the Fund's financial position and the rate of charge on the use of Fund resources, including the question of burden sharing--in one combined intervention. I believe we should try to come to a conclusion on the reserves and the rate of charge

today. We also agreed at our meeting in March 1985 (EBM/85/40 and EBM/85/41) to continue the discussion on the issue of publicity to be given to declarations of ineligibility. If Executive Directors agreed, I would suggest that thereafter, and time permitting, we turn to the question of special charges on overdue obligations which has been raised by a number of Executive Directors. This is a complex question which we have not yet had an opportunity to review in detail and we should soon return to it if we cannot fully cover it today.

Directors will be aware of an additional paper that will be issued soon and that may have a bearing on Fund income and reserves, namely, the question of accounting for expenditures for capital assets. The impact of such a change in accounting procedures on the Fund's income is likely to be very marginal in normal circumstances--that is, in the absence of a major building project. The effect of a change on the Fund's reserves could be more noticeable depending on the treatment the Fund would decide to give to past capital expenditures. Judged by the standards of the accounting profession, the differences have no material influence on the Fund's financial position. More generally, the question of a change in the Fund's accounting method should be predominantly considered in a longer-term framework.

I wish to make a few remarks on two major areas: (i) projected income, the net income target, and the rate of charge for FY 1986, and (ii) publicity upon a declaration of ineligibility.

Projected Income, Reserve Target, and the Rate of Charge

(a) The net income target

In our last discussion of the Fund's income and reserve target, a majority of Executive Directors--though not a majority of 70 percent of the voting power as would be needed for a change in the applicable Rule--favored an increase in the Fund's net income target under present circumstances. The factors that have a bearing on these questions are reviewed again, extended and updated in EBS/85/125. Also in response to a request by the Executive Board, the staff has presented a paper analyzing a number of factors that may bear on sharing the burden among members or groups of members of financing the Fund's operations, including the cost of its administration and the provision of an appropriate increase in its reserves. I trust that Executive Directors in their discussion of the desirable growth of reserves will have in mind the analysis of these questions in EBS/85/126.

I suggest we make an effort today to bridge the differences between Directors that favor no increase or a more modest increase in the net income target to, say, 5 percent of reserves, and those Executive Directors who think that the Fund's reserves should increase at a faster pace, say of 7-8 percent.

The staff has attempted to provide some elements for reconciling these differences on pages 10-13 of EBS/85/125. Against this background the following possibility might be favored among the various alternatives: the net income target would be raised from 3 percent to 5 percent but a condition would be attached to this step, namely, the new target would be combined with a presumption that any income in excess of the new target would be added to reserves as long as such unanticipated net income would not result in a reserve increase beyond an agreed ceiling of, say, 7-8 percent of the reserve level at the beginning of the financial year. Any unanticipated net income beyond this ceiling would be used, for example, for a reduction of charges, for an increase in the remuneration coefficient, for deeming as income for the subsequent year, as may be decided in the light of circumstances at the end of each financial year. The likelihood of such excess income will depend in part on the Fund's success in reducing the incidence of overdue obligations and nonaccrual of charges which have been placed to deferred income.

I would propose that following the discussion today the staff would prepare appropriate amendments to Rule I-6(4). The adoption of a new rule along either of the two lines mentioned would require a majority of 70 percent of the voting power.

(b) Projected income in FY 1986

Projections made in EBS/85/104 on the customary basis and assuming an unchanged rate of charge on the use of Fund resources of 7 percent indicated the prospect of a deficit of SDR 8 million. Since the issuance of that paper, the SDR interest rate has declined further to a level of about 7.7 percent this week. If that rate were to prevail for the remainder of FY 1986, the Fund's net income would be an estimated SDR 55 million or 5.3 percent of present reserves. Consequently, an increase of the reserve target to either 5 percent or 6 percent in the manner discussed above does not actually necessitate a change in the current rate of charge of 7 percent. (For a 5 percent reserve target a calculated rate of charge would be 6.99 percent; for a reserve target of 6 percent it would be 7.04 percent on the assumptions in the staff paper.) It will also be noted that if a new reserve target or a new rate of charge will not be agreed the rate of charge for ordinary reserves would remain at the present level of 7 percent. In that event, the question of how to deal with the likely surplus in excess of the current reserve target of 3 percent would have to be discussed at the midyear review of the Fund's income position.

Declaration of Ineligibility: Publicity

At a previous meeting, EBM/85/41 (3/13/85), the Executive Directors discussed the form in which it would be desirable to report to the public a decision taken by the Executive Board to declare a member ineligible to use Fund resources. As I indicated in my summing up after the meeting in March, ten Executive Directors representing a majority of the voting power favored a press announcement by the Fund when a member was declared ineligible, either immediately or with a delay of two weeks to a month. One Director considered it appropriate that members be given sufficient warning that a press release would be issued on declarations of ineligibility, and therefore suggested that such releases be issued only after publication of the 1985 Annual Report. Twelve Executive Directors were adamantly opposed to active publicity.

In view of the sharp division of views on this matter, the Board agreed to reflect one more time on the issue and to delay a decision until review of the Fund's income position for FY 1985 and FY 1986. As Executive Directors know, there have now been two cases in which it has been found necessary to declare a member ineligible to use Fund resources because of its failure to discharge obligations that are long overdue. I hope we will be able to find a solution to this delicate question that is acceptable to most of you and that will contribute to the resolution of the underlying issue, which is the avoidance or reduction in overdue financial obligations to the Fund.

The staff representative from the Treasurer's Department pointed out that all the figures in the first two columns of Table 5 in EBS/85/104 should be amended to reduce the amount of net income at average annual SDR rates of interest of 7.25 percent and 7.50 percent by SDR 40 million and to correct the corresponding rates of charge to produce net income of 3 percent, 5 percent, and 8 percent by 20 basis points. A corrected table would be distributed shortly.

Mr. Sengupta commended the staff for its papers on the Fund's income position, reserve target, rate of charge, and particularly that on burden sharing, which had been requested by the Executive Directors from a number of the developing countries. The concept of burden sharing was extremely complex, and the paper presented by the staff on the subject was a first step toward its clarification, although a good deal of additional work still had to be done.

Considering first the issue whether there ought to be an increase in the net income and reserve target and what the implications of such an increase might be for the rate of charge, Mr. Sengupta suggested that no compelling reason had been advanced to increase the reserve target beyond the existing 3 percent level. Irrespective of the de jure net income target, in recent years reserves had been increasing at a de facto rate far in excess of that target--between 7-11 percent during the previous four years. If instead the target of 3 percent had been adhered to, the level of reserves at the beginning of FY 1986 would have been SDR 823 million instead of the actual level of SDR 1,038 million. Over SDR 200 million had been added to reserves in those years over and above the agreed target of 3 percent. Even in FY 1985 there would not have been a deficit but for the fact that a new procedure of recording charges on a nonaccrual basis had been approved during the course of the year and adopted in the latest estimation of the income position.

The fundamental question, Mr. Sengupta said, was whether an adequate level of reserves could be obtained on the basis of the current 3 percent net income target. The main argument for increasing reserves was the fear that, with the growth in overdue obligations increasing financial exposure of the Fund, provision ought to be made to meet any failures to repay Fund credit by some members. Other considerations included the question of the Fund's liquidity and the Fund's credibility as a financial institution. While in 1984 there had been a rise in overdue obligations to the Fund, that rise was a reflection of the difficult times through which the world economy had passed and was the consequence of the severe economic problems faced by developing countries, particularly the smaller ones, during that period. The recovery in the world economy would help countries to expand their exports, thus enabling them to settle their obligations to the Fund on time. That was certainly the picture painted by the projections of the World Economic Outlook. It was the first time that the Fund had faced such a difficult situation regarding overdue obligations. However, the problem was a temporary one, created mainly by recent happenings in the world economy. It would therefore be inappropriate to look to general permanent solutions to such a problem.

Nor would it be correct to assume that all those countries which had accumulated overdue obligations were uninterested in repaying the Fund, Mr. Sengupta continued. Rather, they were unable to pay because of extremely difficult, yet transient, circumstances. It was quite reasonable to expect that a substantial part, if not the whole amount, of the overdue obligations would ultimately be repaid. Indeed, the absolute amount of overdue obligations settled in the last quarter of FY 1985 had been quite substantial. In view of the temporary nature of the problem, it would be premature to increase reserve targets through a change in the rules. The part of the problem which related to nonpayments of overdue charges had already been taken care of by the decision to account for them on a nonaccrual basis. The other part, relating to overdue obligations due to the failure to repurchase, should be met from the reserves of the Fund, as long as the problem existed. One of the main purposes of reserves in any institution was to meet contingencies.

There were other reasons as well, Mr. Sengupta said, why both reserves and the target of 3 percent were adequate. The adequacy of reserves for an institution such as the Fund was not an easy concept. The Fund was a unique organization, and it was extremely problematic to use comparisons with other financial institutions as an argument for the inadequacy of its present level of reserves. Although the ratio of reserves of the Fund to its lending was lower than that of any other financial institution, the Fund's business was distinctly different from that of development banks or other banking institutions. In the discharge of its surveillance functions, the Fund allocated a large proportion of its resources to dealing with issues of international economic policy. While the linkage between the Fund's financial credibility and its work related to surveillance should not be minimized, it would nevertheless be incorrect to measure the need for Fund reserves on a comparative basis, in that Fund lending was temporary in nature. The Fund's level of lending was directly related to the balance of payments positions--which could improve as well as deteriorate--of member countries. Unlike other institutions whose lending was expected to show a healthy increase over time, Fund lending could fluctuate in a very substantial fashion. In an ideal world, the Fund's volume of lending would be zero. The Fund was therefore a unique institution, rendering comparisons with other financial institutions unscientific. Its reserves were adequate to meet the current temporary problem and there was no need therefore to increase them beyond 3 percent.

There was no strict relationship, Mr. Sengupta considered, between the credibility of an institution such as the Fund and its level of reserves. The credibility of the Fund, instead, was derived from its backing by nearly 150 sovereign nations. That did not mean that the Fund should not be financially prudent. It was certainly in the interest of all members that the Fund should remain financially sound and that all overdue obligations should be settled by members as expeditiously as possible.

On the basis of the present rate of charge, the projections for FY 1986 were that the Fund would register net income of SDR 55 million as against an estimated deficit of SDR 8 million, Mr. Sengupta added. Any net income over 3 percent of reserves should be used to reduce the rate of charge, especially in light of the steep fall in the grant element in recent years. As computed by the methodology used in an earlier staff paper (EBS/83/237, 11/2/83), the Fund's income position had fallen from 30 percent in 1980-82 to almost negligible levels in the current year. It was strange that, although interest rates in almost all cases had fallen steeply in the past three years, the Fund's charges had gone up and further increases were being sought even at a time when interest rates elsewhere had recently experienced further falls. Several countries were facing serious payments problems, which the Fund had a duty not to compound by a higher rate of charge. Given those factors, all excess income in FY 1986 should be utilized to moderate the rate of charge.

The issue of how to distribute the burden of the Fund's operational and administrative expenses was one that had been given inadequate attention, presumably because of the difficulties in reaching any definitive conclusions, Mr. Sengupta commented. The issue could be considered both in broad terms--how all Fund expenses should be distributed among the membership--and in more narrow terms--how to distribute the burden resulting from overdue obligations. In the broader sense of burden sharing, it was difficult to apportion costs and benefits of Fund operations among members, especially those benefits that were nonfinancial in nature. The present staff paper was a first step and its findings were preliminary in nature. However, there were specific problems implicit in the methodology adopted by the staff in its computation of contributions from creditor countries and the effective rate of remuneration. The extent to which the resources offered by creditor countries were concessional would depend critically on a reasonable definition of the opportunity costs of those resources. The market-related method adopted by the staff, which assumed that creditor countries would have received payment either at the SDR interest rate or at a market-related rate on the amounts lent to the Fund, was open to serious question. Central banks' receipts on deposits in foreign currency were quite often lower on average than the SDR interest rate because their investments were diversified both for liquidity and security reasons. It would not, therefore, be correct to estimate the creditors' contribution on the basis of what that money would have cost the Fund if it had borrowed from private capital markets or what it would have fetched in those markets. It would be more appropriate to calculate the income that central banks would have actually received, based on the average rate of interest on their foreign deposits. The fact that the Fund was perhaps the safest haven for placing deposits, in that its sovereign membership guaranteed its existence, should be taken into account in the calculation of returns on lending to the Fund.

The Fund's work toward preserving an orderly international monetary and financial system was of benefit to all, including the creditor countries, and in particular the major nations, Mr. Sengupta continued. By way of example, the recent involvement of the Fund in debt rescheduling exercises had been beneficial not only to the debtor countries but also to those countries in which the major creditor banks were located. The involvement of the Fund in that area was critical to the continued stability of the international monetary system. It would therefore be incorrect to specify an exact relationship between the market rate of interest and the rate of remuneration, as if creditor countries were receiving no other benefits from their membership in the Fund.

Regarding the more narrow definition of burden sharing, as it related to overdue obligations, that expense should be borne by all the members of the Fund, Mr. Sengupta stated, since the problem of overdue obligations was temporary and would probably be reversed at an early date. Burden sharing could be achieved by reducing the rate of remuneration by an agreed percent. For example, in FY 1985, income of about SDR 58 million had been deferred on a nonaccrual basis, resulting in a charge that was higher than might have been necessary if there had been some offsetting reduction in the rate of remuneration. The present principle appeared to be that the burden was passed entirely onto charges. Since that was only a temporary burden, it should have been borne equally by both the creditors and the debtors, not only by those who were paying their charges regularly. Once the overdue obligations were paid back, those who had borne the burden in the first instance, both the creditors and the debtors, could be repaid pro rata.

Giving publicity to declarations of ineligibility to use Fund resources would not serve the stated purpose, Mr. Sengupta considered. It would not help the Fund to obtain repayment of overdue obligations nor would it further its relationship with the member concerned. Rather, it would sour that relationship and would fail to increase the Fund's income, in that countries failing to pay their overdue obligations did so not through lack of motivation but because of their extremely difficult circumstances.

Mr. Rye, commenting on the need to raise the net income target as a percentage of reserves, agreed with Mr. Sengupta that it was impossible to state a precise relationship between exposure to financial risk from late payments and an appropriate level of reserves for the Fund. There was, however, a bottom line--the protection of the capital of the Fund. It was particularly disturbing that, as shown in Tables 1 and 2 in the Appendix attached to EBS/85/125, outstanding purchases by members with payments overdue amounted to 1 2/3 the Fund's reserves, and outstanding purchases of members with payments overdue by more than six months amounted to 70 percent of those reserves. The only possible conclusion was that the capital of the Fund--members' paid-up quotas--was at risk. If arrears were not reduced substantially and quickly, long-term damage could perhaps be done to the institution. It would surely be much more difficult to convince member governments of the need for future quota increases if the financial resources of the Fund continued to be exposed to those kinds of risk. In the meantime, it was vital to bolster the Fund's financial position by a rapid accumulation of reserves, at least until such time as overdue obligations were reduced or eliminated. The Fund was a unique institution and comparisons with other institutions were not particularly helpful. However, it could not be assumed that the problem of overdue obligations was simply temporary.

The decision not to include in income the charges due from members with payments overdue by more than six months did not bear upon the Fund's exposure to those risks associated with members overdue in making repurchases. Accordingly, notwithstanding the decision that had already been taken, there ought to be a significantly faster rate of accumulation of reserves. An increase in the annual income target, from 3 percent to about 6 percent, would be eminently defensible. It would take about nine years at a 6 percent rate of reserve accumulation before reserves would reach the level of purchases currently outstanding in the form of arrears. It was to be hoped, of course, that outstanding arrears would not remain at present levels and that it would be possible for the income target to be scaled back once again. However, the falling ratio of Fund reserves to obligations outstanding (as illustrated in Table 1 of EBS/85/125), together with the realization that the Fund was not immune from financial risk as had traditionally been thought, probably implied that an increased rate of reserve accumulation should be sustained for some time, even if the current level of overdue obligations were reduced in the near term.

The techniques suggested by the staff for the treatment of deferred income, in the income projections for FY 1986, were probably about the best available in the circumstances, Mr. Rye commented, since projecting the likely payments performance of individual members was clearly out of the question. However, it would be inappropriate to set in concrete any procedures for dealing with the problem.

It would not be appropriate to overlook the shortfall from the income target of FY 1985, and the amount--SDR 40 million--should be added to the income target for FY 1986, Mr. Rye added, as a logical corollary to the step that had been taken to consider part of the above-target income earned in FY 1984 to be income for FY 1985. More generally, each succeeding year's income target should be adjusted for any movements in or out of deferred income not taken into account when the rate of charge was set. Such an approach would be consistent with the need to provide appropriate signals in relation to overdue obligations. If an unexpectedly large amount of income were deferred, then there would be a higher rate of charge in the succeeding year, and vice versa if payments which had previously been deferred were made and included as income.

On the question of burden sharing, the proposals considered in EBS/85/126 were largely designed to shift the burden of meeting the Fund's operating expenses more toward creditor countries, Mr. Rye noted, yet purchasing countries already seemed to be bearing a significant proportion of the burden. The proposals on burden sharing contained significant changes to the Fund's financial structure and the initial reaction of his authorities was negative. In particular, they did not favor the funding of administrative expenses by way of a voluntary levy, which would lead to friction if only some members contributed. Nor were they attracted to a reduction in the rate of remuneration, which would be contrary to past decisions to increase that rate. The proposal to sell gold, invest the proceeds, and use the resulting investment income to meet operational expenses might warrant further consideration. However, that was part of a larger question as to the future of the Fund's gold holdings and could not be decided at the present meeting.

As for the rate of charge, Mr. Rye stated his preference for a rise in that rate for financial year 1986 to about 7 1/4 percent, which would allow for a net income target of 6 percent, plus the recovery of the income shortfall from the previous year. However, he could accept the compromise suggestion--that of a 5 percent net income target with the Managing Director's presumption that any income in excess of the target and up to 8 percent of reserves would be added to those reserves--provided that a clear majority of Directors were prepared to give it their support. He assumed that there would be no change in the 7 percent rate of charge. But he had two points of concern about that approach. The first related to the lack of reference to the treatment of income shortfalls. A presumption symmetrical to that adopted for excess income--which would seem to imply accepting a shortfall so long as it did not fall below some lower limit, say 3 percent--would not be adequate. Any shortfall from the 5 percent target would need to be made up in the following year. Second, the whole "presumption" approach seemed unsatisfactorily vague and uncertain, and it should be considered only as an interim solution. It assumed that nothing would be done to improve the likelihood of income turning out as projected. The approach was of relevance only if large discrepancies between income projections and outcomes persisted. However, the compromise was acceptable if that would assist in reaching a consensus.

Although he could sympathize with the points made by Mr. Sengupta on the issue of whether or not declarations of ineligibility to use Fund resources should be made public, Mr. Rye remarked, decisions on those matters became a matter of public knowledge in any case on the basis of unofficial sources of information, sometimes in a very distorted version. Under the circumstances, there would seem to be an advantage in making an official announcement without delay in all cases, the staff's third option. If such a policy were adopted, it would be necessary in fairness that the reinstatement of the member's right to use Fund resources should also be announced immediately. Following the suggestion made by Mr. Fujino at an earlier meeting, that policy should take effect after the 1985 Annual Report had been published. Otherwise, the Fund would be left with something of an anomaly in having declared two members already ineligible without any official announcement.

Mr. Salehkhou, addressing first the issue of how to distribute the burden of the Fund's operational and administrative expenses, suggested that the staff paper, by concentrating on the financial elements of the issue, had neither dealt adequately with the concerns of those Directors who had requested it nor taken into account the cooperative nature of the institution. The paper had the merit of exploring various methods to measure the financial cost of operating the Fund for different segments of the membership. However, faced with obvious difficulties in measuring nonfinancial benefits and costs to the membership, including influence over the institution's policies, benefits from the pursuits of its objectives, and possible hardship in the implementation of such policies, the staff had focused its analysis on the supply of Fund resources and the element of concessionality involved in their use by debtor members. In that way, the scope of the analysis had been reduced to burden sharing in respect of the use of Fund resources, despite the more general functions of the Fund, particularly those of surveillance, technical assistance, and its role in the international exchange and trade systems.

Since the second half of the 1980s might well be characterized by a contraction, or stagnation, in the provision of Fund credit and by a strengthening of the institution's catalytic role, its surveillance activities, and its contribution to trade matters, Mr. Salehkhou stated, that limitation was all the more inappropriate. The so-called enhanced surveillance function was a good case in point, in that it would require as much of the Fund's manpower and administrative resources as a stand-by arrangement, without the actual use of the Fund's financial resources or a direct contribution to the Fund's income.

On concessionality, the existence of unremunerated "free resources," together with a remuneration rate below the SDR interest rate, enabled the Fund to maintain a rate of charge below the SDR interest rate and still cover administrative expenses, Mr. Salehkhou went on. It was important to note, however, first that, since the Second Amendment of the Articles, the unremunerated portion of members' quotas had been steadily declining and would continue to do so with every quota increase, despite an expansion of Fund credit and activities. Moreover, not only creditor members maintained unremunerated reserve positions with the Fund. Second, the provision in the Articles of Agreement for unremunerated assets was indicative of the cooperative nature of the Fund and the liquidity of members' claims, rather than of any need to absorb administrative expenses, whose expansion was in sharp contrast with the relative stability of the average absolute amount of such assets. Third, since the SDR interest rate was determined by a broad set of criteria, a comparison between that rate and the rate of charge to measure the element of concessionality in Fund credit seemed reasonable. It would not, however, be appropriate to incorporate five-year combined-market rates into the yardstick of concessionality, even though members might have had to issue medium-term bonds on domestic capital markets to finance their contributions to the Fund, because members who were net creditors to the Fund acquired SDR-denominated assets that were extremely liquid and available to meet any balance of payments difficulty.

Fourth, Mr. Salehkhou continued, whatever method was adopted for such comparisons, the degree of concessionality remained marginal. Additional costs, including those resulting from greater use of Fund resources, a higher remuneration coefficient and administrative expenses, a more active role in the international environment, and the need for reserve accumulation all resulted in a further erosion of the degree of concessionality. Such a situation had put pressure on the rate of charge even when market and SDR rates were falling. Table 3 of EBS/85/126 indicated that in the past four years the SDR interest rate had dropped from 13.05 percent to 8.81 percent in early 1985, and to 7.7 percent that week, while the rate of charge had increased from 6.25 percent to 7 percent during the same period.

Although the staff paper on burden sharing stated explicitly that the attribution of costs and benefits to any group of Fund members was not possible, statistical methods would permit an approximate attribution in some cases, through the calculation of a statistical trend, whose coefficient could be used to make extrapolations to future periods, Mr. Salehkhou suggested. Some comment by the staff on that procedure would be appreciated, since the resolution of that issue would have an important bearing on the entire concept of burden sharing.

The question of the relationship between net income and reserves was an important one, Mr. Salehkhou added, and while there was a need for strong reserves to face possible operational losses and to improve the overall position of the Fund, the unique nature of the Fund made it inappropriate to consider the adequacy of such reserves through a comparison with other international financial institutions. Unlike the Fund, a credit rating for those institutions was crucial because they drew a major part of their resources from capital markets. It was also noteworthy that the provisions for reviews of the Fund's income position, which guaranteed an automatic increase in the rate of charge to cover any prospective income shortfall, significantly limited the risk of possible deficits and the need to cover them in advance through an increase in reserves. The FY 1985 deficit, equivalent to SDR 30 million, according to Supplement 1 of EBS/85/104, was the first recorded since 1977 and was due, to a large extent, to an exceptional deferment of income. Furthermore, actual increments to the reserves had been consistently and substantially higher than the target of 3 percent of reserves, reaching an average of about 9 percent between 1981 and 1984. For FY 1986, notwithstanding the assumption of SDR 58 million as deferred income, net income was projected at 5.3 percent of reserves on the assumption that no action would be taken by the Board to affect the various elements of income and expense. The latter projection was heavily influenced by the recent decline in market and SDR interest rates.

The various proposals to increase the net income target, which had arisen largely because of the increasing incidence of overdue obligations, should not be examined in isolation, Mr. Salehkhou commented. Particular attention should be paid to the fact that a failure to reduce the rate of charge would aggravate the balance of payments difficulties experienced by some of the debtor nations. An increase in the net income target would have negative consequences for borrowers, either through a heavier rate of charge or through a failure to lower the rate in a way that paralleled the declining SDR rate, and could not be supported. Any projected income above the target should be used instead to moderate the rate of charge at the beginning of the financial year.

On those grounds, Mr. Salehkhou stated, there was no need for an accelerated pace of reserve accumulation. The compromise suggested by the Managing Director, aimed at increasing the net income target to 5 percent with the condition that excess income up to 8 percent should be added to reserves, did not satisfy the debtor members' concerns about the implications for the rate of charge, particularly since income projections had, in the past, consistently led to higher charges than warranted. The present income target should be maintained at 3 percent of reserves with the proviso that excess income be apportioned between reserve accumulation and a reduction in the rate of charge. It was true that overdue obligations to the Fund were becoming a significant influence on the Fund's income position. However, the decision to remove from current income accrued charges on those overdue obligations had been more than compensated for by the positive impact of declining SDR interest rates. Although there had been a deficit in FY 1985, the SDR interest rate could be expected to decline further in 1986, with positive consequences for the Fund's income position.

Should the Executive Board maintain the rate of charge at its present level, despite the significant decline in market and SDR interest rates, the Fund would be penalizing those debtor nations that had remained current in their financial obligations, Mr. Salehkhou commented. That action was all the more unacceptable in that there did not exist any mechanism for compensating those members once overdue obligations to the Fund were settled. Indeed, if the objective was to increase reserves through imposing a higher than necessary rate of charge on those debtor members that were current in their obligations, that policy could hardly be said to contribute to the objective of avoiding or reducing overdue financial obligations to the Fund.

The same argument could be extended to the proposed publicity upon declaration of ineligibility through a press release, Mr. Salehkhou concluded. He opposed such a release, and he recommended that the Fund should help members to overcome their payment difficulties, and that some time should elapse before the Board considered whether the policy actions already adopted had been effective or whether they should be supplemented.

Mr. Ismael, commenting on the relationship between the Fund's income position and its reserve requirements, supported the retention of the present reserve target of 3 percent and expressed a desire that the present rate of charge be lowered in view of the projected net income for FY 1985 and 1986. However, in order to achieve a consensus, he could accept the present rate of charge, unchanged at 7 percent, provided that the Board was free to decide at the end of FY 1986 how to dispose of the net surplus over and above the targeted net income of 3 percent. Without unduly prejudging the issue, it was likely that the Board would, at the end of the year, place net income in excess of 3 percent, up to a limit of 5 percent, to reserves.

The reason he supported the retention of the present reserve target, Mr. Ismael explained, was because the argument given by the staff for raising the reserve target--to provide protection against overdue obligations--was, for two reasons, somewhat superficial. First, it was important to draw a clear distinction between overdue obligations with respect to repurchases and bad debts. Overdue obligations became bad debts only after a member in arrears had been expelled from the Fund. Accordingly, so long as a country with overdue repurchases remained a member of the Fund, it would be too early to abandon the expectation of eventual repurchase. The ratios used in EBS/85/125 contained an assumption that overdue amounts would never be repaid. That assumption was unrealistic and greatly exaggerated the need for additional reserves. Furthermore, although overdue repurchases might affect the Fund's ability to recycle resources, they did not affect the Fund's income position. What should be of primary concern, therefore, was not the principal amounts that were in arrears but overdue charges. Second, it was not necessary to increase the reserve targets to provide protection against overdue charges, as that had already been provided for in the decision adopted by the Board to account for charges, overdue by over six months, on a nonaccrual basis. The Fund had already placed SDR 56 million on a nonaccrual basis in 1984/85. In the absence of that accounting procedure, the Fund would have had a net income of SDR 26.4 million in FY 1985 instead of a deficit. The FY 1986 net income projections already allowed for an estimated SDR 58 million of overdue charges to be placed on a non-accrual basis.

Because sufficient provision had already been made to offset overdue charges outstanding for more than six months, there was no reason for a simultaneous increase in the reserve target, Mr. Ismael stated. Overdue obligations of members should not be treated as bad debts, and the expectation should be maintained that a member would settle its overdue obligations. Adequate provision had already been made for overdue charges in the projections for the coming year. Thus, there was no need to increase the reserve target beyond the present 3 percent. Although the net income projections presented in the Managing Director's statement suggested that the rate of charge on the use of the Fund's ordinary resources could be reduced, he could go along with the retention of the present rate of charge.

The paper on burden sharing presented some valuable ideas on alternative means of financing administrative expenses and reserve accumulation--in particular, those which supported the use of interest income derived either through the investment of part of the Fund's currency resources or from a portfolio of financial assets acquired through the sale of part of the Fund's gold holdings, Mr. Ismael went on. It was fortunate that interest rates and remuneration costs were falling at present; otherwise, members would be faced with an even higher rate of charge to cover the costs arising from the overdue obligations of other members. It was inequitable that debtor members, who had to pay higher charges to cover the costs of overdue obligations, were unlikely to benefit from lower charges later when overdue obligations were settled. Members who contributed toward settlement of other members' overdue obligations should be repaid once those obligations were settled. The staff's proposals did not cover that problem. Nor was there any mention in the paper of the counterpart to the concept of the effective rate of remuneration--the effective rate of charge. Many members who were users of Fund resources also retained their reserve tranche positions, a consideration that suggested that the effective rate of charge on the use of Fund resources was higher than indicated by the nominal figures. He would be interested to know whether it was technically feasible to develop a concept of the effective rate of charge similar to the one for remuneration.

He was still opposed to any form of active publicity upon a declaration of ineligibility, Mr. Ismael concluded. In the two recent cases where members had been declared ineligible, the information had been released to the press by the members themselves. In the future, it was likely that similar releases would continue to be made by the members involved and, therefore, active publicity by the Fund would not be necessary.

Mr. Nimatallah said that it was necessary to maintain the Fund's integrity and to strengthen its financial position, and he expressed concern that overdue obligations had already impaired the Fund's financial position, both directly and indirectly. Overdue payments had reduced the Fund's income and liquidity. The Board had a responsibility to recover the income losses incurred by the Fund and to strengthen the Fund's reserves to make up for any decline in its liquidity. To continue playing its central role in the international monetary system, with the full support and confidence of all parties, the Fund by its level of reserves must indicate that it was prudently and soundly managed. It was disturbing to note, therefore, that reserves had declined markedly in relation to all the relevant variables, such as Fund quotas, outstanding borrowing, and outstanding purchases. Nor was it reassuring to learn that the Fund's reserves were much lower in relation to the scope of its financial activities than those of other financial institutions facing similar types of credit risks. Given the increase in overdue payments, the Fund's reserves were evidently inadequate. The present 3 percent target had been agreed upon at a time when overdue obligations were not a problem. Since that was no longer the case and, if anything, the position was worsening, there was a very strong case for building up the Fund's reserves.

The issue was not whether to increase reserves but by how much, Mr. Nimatallah stated. Although he favored a target of not less than 8 percent, he could support Mr. Rye's position and settle for a 6 percent target, provided that the SDR 30 million used to finance the shortfall in FY 1985 income were recovered. In a spirit of compromise, though with certain misgivings, he could go along with the 5 percent net income target suggested by the Managing Director, so long as any income in excess of the new target would automatically be added to reserves, up to 8 percent of the level of reserves at the beginning of the fiscal year. As long as overdue payments remained a problem, that course of action would be the most prudent. The new reserve target could be reviewed annually, bearing in mind the need for cautious financial management and the size and duration of overdue payments.

A permanent policy should be adopted, Mr. Nimatallah added, to deal with the issue of reserves used to finance deficits as had happened in 1985. Such deficits reduced not only the level of reserves but also the income placed each year to reserves, in an amount determined as a percentage of the present reserve level. That particular process of deterioration was directly contrary to the need to build up reserves whenever there was a shortfall in income, and it had to be stopped. It would be interesting to know what were the possible alternative means of making up the deficit that the Fund had just incurred or might incur in the future. A steady buildup of reserves was essential to strengthen the confidence in the Fund and would benefit all members. Given the consequences of the higher net income target on charges, it was therefore fortunate that the SDR interest rate had declined to about 7.7 percent. Provided that that rate prevailed for the rest of FY 1986, a reserve target of 5 percent could be met with a rate of charge either slightly reduced or, at least, unchanged. It would therefore be possible to retain a substantial concessional element in Fund charges. The burden on Fund borrowers could further be reduced if, as was to be hoped, a system of special charges on overdue payments was approved.

The staff projections for the income position for FY 1986, which took into account the recent decision not to accrue unpaid charges as income, were reasonable in the light of their assumptions regarding expected purchases and interest rates, Mr. Nimatallah commented. The position could, however, worsen if repurchases were not made as expected, thus highlighting once more the pressing need to take more effective measures to help resolve the problem of overdue obligations.

The staff paper on burden sharing had raised a number of complex questions, Mr. Nimatallah continued. It showed clearly that it was not possible to attribute the costs, or indeed the benefits, of Fund membership either to individual members or to groups of members--a fact that was not surprising in a cooperative institution like the Fund. Another important point was that the Fund's operational expenses were met not only by the debtors, who had to pay charges, but also by creditors who accepted a relatively low rate of return when they lent their currencies to the Fund. The main element of concessionality in Fund charges could be traced to three factors, namely, that the Fund's resources were interest free; the norm for remuneration was below 100 percent of quota; and the rate of remuneration was still below market rates. That was still the case even taking into account the recent and prospective increases in the remuneration coefficient. Despite the large element of concessionality borne by Fund creditors, it was important to have an open mind on the issue; over the medium and longer term, the Fund should continue to explore ways of giving itself greater flexibility in covering expenditure, with the exception of any gold sales.

Although existing procedures for dealing with overdue obligations had been strengthened, their effectiveness had so far been limited, Mr. Nimatallah considered. They should be further reinforced by new measures, designed to encourage prompt settlement of arrears and prevent new arrears from arising. There were two main areas where stronger procedures were required. First, the Fund should resort to active publicity--as a general rule, by issuing a press release--when a member was declared ineligible to use its resources. The Fund had a responsibility to provide this information to the international financial community, rather than allowing it to leak out as had happened in recent cases. The issuance of a press release would also be consistent with the decision made by the Executive Board in March to identify in future Annual Reports any members that had been declared ineligible. Under that procedure, the Fund would be obliged to issue a prerelease if a member became current once more without waiting for the next Annual Report to make an announcement. Second, the Fund should introduce a system of special charges as a way of strengthening Fund procedures to deal with overdue obligations.

Mr. Joyce pointed out that the central issue was to define the relationship between the level of reserves required and a consistent income target. Only when that issue was resolved could the Board decide on appropriate rates of charge and of remuneration. While an increase in reserves would increase the total of the Fund's assets, the effect on the Fund's liquidity was likely to be limited, in that it depended more on the Fund's holdings of members' currencies than on the institutions' creditworthiness. The desirable level of reserves was difficult to quantify and the arguments presented by the staff for increasing the net income target were not overly convincing. Reserves served the purpose of showing the Fund's creditors and the general public that the institution was well managed. They also served to provide flexibility in the face of uncertainties associated with projections--particularly of interest rates--and to afford some protection to the Fund's assets in the face of increased risks of default.

Given those considerations, Mr. Joyce agreed with Mr. Sengupta that delayed and unpaid obligations did not play the same crucial role in the Fund's reserve position as they might in a commercial bank. While the Fund's credibility was based on prudent management, it ultimately depended on the continued commitment of its members. Because the Fund also had substantial holdings of gold, there was no great likelihood that its ability to meet its financial obligations would be called into question, at least in the near future. A continuation of the present 3 percent reserve growth target would not therefore be inappropriate, at least on the basis of the 1986 projections which showed that, with the continuation of the present level of SDR interest rates and of the present level of charges, the Fund could anticipate a surplus of SDR 55 million in 1986, even allowing for continued nonaccrual to income of those charges outstanding for more than six months. Given the worsening overdue payments situation, a modest increase in the reserve target, say, to 4-5 percent, would be acceptable in order to compensate for the deficit sustained in the past fiscal year. That increase in reserves could be achieved without any further increases in charges, and there should be no change in either the rate of charge or in the level of remuneration.

There was still the question, Mr. Joyce continued, of what should be done if the Fund realized a higher net income than was required to meet whatever reserve target had been agreed upon. One solution was to accept the presumption of the Managing Director that, up to a certain level, any additional funds would be used to add to reserves as long as any additional amounts could be used to reduce charges or to improve the rate of remuneration or, indeed, be treated as deferred income with consequences for decisions in subsequent years. Alternatively, the Board could delay considering the question until later in the year when it would have better information both on the Fund's net income position and on the state of arrears whether in the form of charges or repurchases. Final judgment on the presumption should be deferred until a decision had been reached about the appropriate reserve level.

A prudent course of action on the issue of publicity for overdue charges should be adopted, Mr. Joyce concluded. Releases to the press should be made only when a country was declared ineligible to use Fund resources. However, Fund publications should continue to carry information on aggregate arrears without specific identification of individual countries.

Mr. Schneider remarked that the Board had to deal with the growing total of overdue financial obligations of member countries to the Fund, a rather new phenomenon that negatively affected the Fund's income position, and he suggested that the financial integrity of the Fund was threatened in a way not unlike that of many international banks. The existence of overdue obligations to the Fund was worrisome, not least because of the increasing number of cases and the amounts involved. Since the problem was not temporary, it was essential that the Fund should take appropriate measures to secure the soundness of its financial standing. The Fund had to have continued growth in net income in order to supplement its reserves, which were very low, not only by comparison with other international financial institutions, but also, and more important, in relation to the total amounts already overdue. Even if those amounts would eventually be repaid, the Fund risked the impairment of its creditworthiness by the mere fact that some member countries were not discharging their obligations on time. In addition, the existence of overdue obligations ran counter to the revolving nature of the Fund's resources and the regular repurchase period of three to five years. Action had to be taken to avoid potential damage to the Fund in the longer run and to pre-empt the actions of those lenders to the Fund who might become reluctant to roll over their commitments. A failure to take such action could easily give rise to hesitation on the part of several members to support a further general increase in quotas.

As for the net income target, one essential feature of a soundly functioning financial institution was the level of its reserves and its ability to supplement those reserves by appropriate income generation, Mr. Schneider said. Although the determination of an adequate level of reserves was largely a matter of judgment, the present high levels of protracted arrears and outstanding use of Fund credit called for an increase in the Fund's reserves. In a spirit of compromise, an increase in the net income target from 3 percent to 5 percent would be acceptable, providing that, if net income turned out to be higher than targeted at the end of the current financial year, the excess would first be used to eliminate the deficit incurred in FY 1985. Any excess remaining after that could preferably be added to the reserves or, alternatively, counted as income for the next year.

The burden of the operating expenses of the Fund was shared among its members on the basis of their net positions in the Fund and changes therein as a result of the Fund's operations and transactions with each member, Mr. Schneider noted. The special relationship between its rates--the Fund paid its creditors more than it charged its debtors--was peculiar to the Fund and was possible only because it had interest-free resources and because the rate of remuneration was less than the SDR interest rate. The existence of those interest-free resources also enabled the Fund to absorb its administrative expenses. Only if the positions of individual members were reversed more often would there be greater equality of access to the benefits that derived from the existence of the interest-free assets. Since that could not be expected in the present circumstances, it was difficult to see how the present scheme of burden sharing in the Fund could be significantly altered. Nor would member countries accept, for example, a voluntary levy, as long as the effective remuneration coefficient remained relatively low.

A net income target of 5 percent, Mr. Schneider continued, could be reached without any increase in the rate of charge. Since it was probable that the current trend of the SDR interest rate would prevail in view of the present decline in interest rates, there was no need for the time being to increase charges. If the SDR interest rate should increase, the next midyear review of the Fund's income position would provide an opportunity to re-examine the issue.

On the question of publicity upon declaration of ineligibility, Mr. Schneider considered that it no longer made sense to oppose the suggestion put forward by Mr. Fujino that press releases in relation to declarations of ineligibility should be issued by the Fund after publication of the 1985 Annual Report. As experience had shown, such cases would become public knowledge anyway. Therefore, it was not unreasonable for the Fund itself to make available the essential details.

Mr. Dallara pointed out that the growing problem of arrears made it imperative to deal decisively with the issue of the Fund's net income position, and he reminded the Board that during its previous discussion on the Fund's reserve position, he had strongly supported an increase in the reserve target from 3 percent to 8 percent. There had been a substantial body of opinion at that meeting in favor of an increase in the reserve target that had, if anything, been strengthened by the developments of the past year. Due to those developments, and after the exclusion of SDR 58 million--corresponding to charges accrued by members that had been overdue for six months on their financial obligations to the Fund--the Fund would have a deficit of SDR 30 million, instead of an expected surplus of approximately the same magnitude, in FY 1985. Based on certain assumptions, which were difficult to make, concerning overdue payments, the most up-to-date projection for net income in FY 1986 was SDR 55 million. In the light of recent experience and given the sensitivity of the assumptions underlying the net income projections--those relating to the level of interest rates and the use of Fund resources--any projections had to be regarded as extremely tentative. Even if the Fund had a net surplus, it would not raise reserves up to the level which, a few months earlier, appeared to have been attainable. Income of SDR 55 million would not, therefore, be adequate to meet the present need for an increase in reserves.

The magnitude of the decline in the Fund's reserves relative to various ratios concerning Fund operations had, Mr. Dallara observed, been brought home very clearly in Table 1 of the Appendix to EBS/85/125. Total reserves as a percentage of repurchases had declined from 53 percent in 1984 to 38 percent in 1985. Total reserves as a percentage of operational income had declined from 39 percent to 30 percent during the past year. Fund credit to members with payments overdue in excess of six months, as a percentage of reserves, had risen from 9.3 percent in 1984 to 69 percent in 1985. While the latter ratio reflected developments in overdue payments, there were also more general trends, underlining the evolution of the Fund's financial position, which clearly pointed to a need to increase reserves.

The ratios of Fund reserves to loans outstanding were obviously considerably lower than those of any international financial institution, Mr. Dallara added. It was, however, true to say that there were differences in the financial structure of the Fund and of other international institutions that prevented strict comparisons of key ratios, without an additional element of judgment. On the other hand, it could not be a source of comfort that the ratio of Fund reserves to outstanding loans was so much lower than that of other comparator institutions. The uniqueness of the Fund as an institution was not a satisfactory explanation of such stark differences in that ratio. The staff paper referred to the fact that, unlike other financial institutions, the Fund did not borrow from private capital markets. The implication was perhaps that, because the Fund relied directly upon governments for its resources and not upon the private capital markets, it need not therefore be as concerned about its financial health. While that was not the intent of the reference, it would be very dangerous to create any impression that the Fund, because of its dependence upon official creditors, could in any sense accept lower standards. Given the central role played by the Fund in the international financial community, it was particularly important to preserve the Fund's financial integrity.

One way of dealing with the low ratio of reserves to loans outstanding would be to reduce the latter, Mr. Dallara continued. If there was an unwillingness on the part of the Board to agree to a significant increase in the reserve targets, the only possible interpretation of that reluctance would be that the Board was unwilling to take the financial steps necessary to protect its financial position, at a time when the continued use by some members of the Fund's resources raised serious questions regarding the temporary nature of that use. Moreover, overdue payments had grown at a pace that could not have been easily envisaged 18 or 24 months before. While one did not want to be pessimistic about the prospects for members becoming current on their obligations, reality required that judgment should not err on the side of overoptimism.

In light of those factors, Mr. Dallara stated, his clear preference was to increase the target to 8 percent, which would move the Fund in the direction of strengthening its reserves in a way that improved its financial position. To reach the projected income for FY 1986--SDR 55 million or 5.3 percent of reserves--it would be possible for charges to remain at 7 percent. If the target were to be raised to 8 percent of reserves, the addition to net income would be SDR 84 million, and the implication for the rate of charge would be a slight increase from 7 percent to 7.15 percent. Although there were legitimate concerns about raising charges, particularly when many members were still experiencing serious payments problems, the opportunity would present itself at that point to make a significant step toward strengthening the Fund's financial health, without a large increase in the rate of charge. The staff paper on burden sharing had, on rather conservative estimates, made it clear that there was and would remain a substantial element of concessionality in the use of Fund resources, deriving from the interest-free resources at the Fund's disposal. That substantial element would remain even if the reserve target were increased to 8 percent.

He could support Mr. Rye's approach, which took account of the rather adverse developments that had emerged in the final outcome of the previous year's net income position, Mr. Dallara remarked. In the interest of developing a consensus, he could also support an approach along the lines of that suggested by the Managing Director--namely, changing the reserve target from 3 percent to 6 percent, with the added presumption concerning the disposition of any net income which might accrue up to the 9 percent level. In recent times, the Fund's financial position had been placed under some strain, in part because of the growth in arrears but also as a result of Fund borrowing. A number of member countries had been willing to continue to support the use of Fund resources beyond the point suggested by a narrow and strict interpretation of their temporary character. That fact would have to be recognized, if there were an unwillingness to take important and not entirely costless--though not very costly--steps to shore up the Fund's financial health. It was true that the credibility of the Fund depended, in the end, on the continued commitment of all its members, not just its creditors or its debtors. It was to ensure the continued full commitment of all members, and the long-term financial health of the Fund, that steps should be taken to support its financial credibility in the short term.

He supported the automatic issuance of a press release upon a formal declaration of ineligibility, Mr. Dallara concluded. That would be more consistent with the decision to publish, in each year's Annual Report, information concerning any determination of formal ineligibility or restoration of eligibility to use Fund resources. It would be a disservice to the member if the Fund did not, subsequent to any publication in the Annual Report, issue an update if the member re-established its eligibility. A release should, in the case of ineligibility, indicate the size, duration, and nature of the overdue payments and should review very briefly the legal steps that had led to the declaration of ineligibility, indicating the Fund's general policy.

Mr. Sengupta, in clarification of his position, reiterated that, in comparison with other financial institutions, the Fund's total volume of lending depended upon balance of payments disequilibria. It might increase, it might decline, and in an ideal situation when the world economy was moving in the right direction, the Fund's volume of lending might be equal to zero. That was not, however, equivalent to saying that the Fund's volume of lending should be reduced.

Mr. Coumbis pointed out that there was a clear need for strengthening the Fund's reserve position; as seen from Table 1 in the Appendix to EBS/85/125, the ratio of total reserves either to outstanding purchases or to outstanding borrowing had markedly decreased in the past five years. At the end of 1985, the value of those two ratios was actually just over one third of that in 1980. Furthermore, overdue obligations had been continuously increasing to a point where credit outstanding to members might be greater than the Fund's reserves. Credit outstanding to members that were overdue by at least six months might soon reach almost 90 percent of the Fund's reserves. While there was no objective criteria by which to determine the desired level of reserves, it would be sensible to increase reserves by at least one third. That could be done over a five-year period through an annual rate of increase in reserves of about 6 percent--a proposal which would be warmly supported.

There were three ways to obtain such an increase in the net income target, Mr. Coumbis stated. The first option, which took the form of burden sharing, would be to slow down the pace at which the remuneration coefficient was to be increased. The decision could be postponed for one year, with an accompanying presumption that any increase in excess of a certain level would be used to increase the rate of remuneration as well as decrease the rate of charge. A second option would be to make a presumption that any income in excess of a certain ceiling would be used to decrease retroactively the rate of charge, or be deemed as income for the following year. The third course of action would be to increase progressively the net income target, which could pass from 3 percent to 5 percent in the first year and from 5 percent to 6 percent in the second year, thus allowing for a progressive adjustment in the rate of charge. The second and third options could be combined. Even if it were necessary to reconsider the proposed increase in the net income target, the overriding objective was to secure some consensus on an upward change from the present 3 percent target.

The staff had made convincing arguments regarding the approach that should be used to project the likely amount of income to be deferred during the year, Mr. Coumbis observed. If the indicator approach were adopted, it would be advisable to base forecasts on a conservative estimate of the relationship between deferred income in previous years and that expected in the future.

Issuing a press release upon declaration of ineligibility would be useful, as it might constitute an additional way to spur a country to fulfill its financial obligations, Mr. Coumbis observed. In addition, while matters concerning members in arrears should be treated with confidentiality, it would not be correct to conceal information in cases of long-outstanding arrears. The press release should be delayed by about two weeks after the declaration of ineligibility. When a member, previously declared ineligible, eventually settled its financial obligations, evenhanded treatment would call for a press release to be issued, indicating that the member had become re-eligible to use the Fund's reserves.

Mr. Wicks, commenting first on the question of burden sharing, noted that Table 1 of EBS/85/126 made it clear that the bulk of the Fund's operational income arose from the deployment of interest-free resources. Roughly two thirds arose from unused, unremunerated reserve positions, which were very heavily concentrated among those members of the institution with the largest quotas and to a degree that was significantly greater than their share of quotas. That gave a rather clear indication of where the bulk of the present burden of financing the Fund lay.

He was unable to agree with those Directors who had argued for maintaining the 3 percent reserve income target, and it would be inadvisable to advance the proposition that the unique position of the IMF at the center of the international financial system made it less necessary to strengthen the institution's balance sheet because the national treasuries of creditor countries stood behind it, Mr. Wicks stated. There were two ways of strengthening a balance sheet--increasing reserves or reducing outstanding commitments of financial assets. If the effect of maintaining the net income target at 3 percent was to weaken the Fund--a pillar of the multilateral financial system--the result could be a blow in favor of bilateralism.

The sharp growth in arrears, Mr. Wicks continued, provided a powerful reason for some increase in the reserve target. Fund reserves had shown a marked decline over a number of years relative to quotas and to the level of Fund lending. The amount of Fund credit outstanding to even the eight countries in arrears by more than one month already stood at SDR 1.7 billion compared with reserves of a little over SDR 1 billion. While there was no necessary relationship between the two nor any presumption that, in the course of time, members would fail to repay outstanding obligations, the various factors taken together nevertheless suggested the need for an increase in the net income target, say, to 8 percent of reserves a year. It was also right to deal with excesses and shortfalls in the net income target in a symmetrical fashion. Accordingly, there should be some arrangement for a catch-up in reserves, given that net income in FY 1985 had fallen below the reserve target.

The staff's proposals for estimating future arrears and calculating future net income were suitable, Mr. Wicks said. The indicator approach was the only one currently available and it would obviously need to be kept under close review.

The question of publicity had been discussed in the Board several times, Mr. Wicks concluded; on the previous occasion there had been a substantial body of opinion in favor of publicity after declaration of ineligibility. The issue of ineligibility was unconnected in any way with other issues with which the Board was dealing. Being at the center of the international financial system, the Fund had wide obligations to financial institutions and other groups of member countries. In addition, the institution could hardly avoid publishing such information as it had become the practice of members to put out their own publicity when declared ineligible. A simple factual statement might be an appropriate form of publicity. Declarations of ineligibility made before the 1985 Annual Report was finalized should be included in that Report and thereafter notices should be released immediately after such declarations were made.

Mr. Hospedales noted that the recent deterioration in the financial position of the Fund in 1985 was forecast to be reversed in 1986, but he agreed that the duty of the Board was to establish an appropriate machinery for the maintenance of a financially viable and strong Fund. It was only through that process that the Fund could discharge its obligations generally to the international financial community and, in particular, to its membership in an efficient and effective manner. The relationship between positive net income targets and reserve accumulation had been enshrined in the operational procedures--Rule I-6(4)--of the Fund in order to strengthen its financial base and its capacity to meet operating deficits. Although the adequacy of reserves had assumed increasing importance in the context of a growing incidence in the number of overdue obligations to the Fund, between 1977 and 1985 reserves had nevertheless been increasing at a compound rate of 5.3 percent, which was twice the rate of 3 percent incorporated into the operational procedures. Although reserves had declined in relation to other criteria, such as quotas, outstanding Fund credit, and borrowing by the Fund, it was extremely difficult to specify a mechanistic relationship between reserves and any of those criteria.

It was important to be aware of the serious underlying financial and economic conditions of those member countries that were users of Fund resources and, in particular, those which were not current with the Fund, Mr. Hospedales continued. The cooperative nature of the Fund imposed rights and obligations on both creditors and debtors. The benefits for the international financial community of such cooperation were widely recognized. There was clearly an element of concessionality involved in borrowing from the Fund since the charge on the use of Fund resources was below the normal market-related rates. There was also an element of concessionality in lending to the Fund, in that there was a difference between the rate of remuneration to creditors and the SDR interest rate, and the foregone income on unremunerated positions. Although provisions existed for increasing the remuneration rate, the element of concessionality in lending to the Fund must nevertheless remain in order to preserve the existing differential between lending and borrowing rates while, at the same time, maintaining the financial integrity of the Fund.

Given the need to continue to add to the Fund's reserves at the rate specified in the Rules, and the considerable decline in the SDR interest rate, with the consequent fall in the rate of remuneration, it was evident that the net income target should remain unchanged, Mr. Hospedales stated. The target would continue to allow for reserve accumulation in a manner that was consistent with the financial integrity of the Fund. Accordingly, there was no need to increase the present level of charges. Furthermore, the conditions that suggested the need for larger reserve accumulation--the incidence of overdue payments--might well disappear as the international economic environment improved and those countries with overdue payments became current with the Fund. The disposal, however, of any excess over the established net income target might be considered on the occasion of the midyear review of the Fund's income position.

On the question of publicity, Mr. Hospedales emphasized that it was the duty of the Board to assist members generally in adopting appropriate policies that would facilitate growth and development. When countries were attempting to carry out difficult adjustment programs, the preservation of a confidential relationship with the Fund might be an important contributory factor in easing the process. It was through that confidential relationship that the role of the Fund was enhanced. Publicizing a country's relationship with the Fund in respect of its overdue obligations would not serve as an incentive to make repayments. The time and resources of the Fund should be devoted to assisting members to overcome their difficulties, with publicity on a declaration of ineligibility being limited to a statement, in aggregate terms, in the Annual Report.

Mr. Grosche said that he was concerned that overdue obligations had shown a sharp increase in recent months; the outstanding purchases of the nine countries mentioned in Table 2 of the six-monthly report on overdue obligations to the Fund as having overdue obligations already exceeded reserves. In order to protect the assets of the Fund against impairment through losses, the net income target should be increased substantially. In his view, an increase markedly above 5 percent was warranted. Even if the recent decline of the SDR interest rate was not taken into account, an income target of 8 percent would result in only 1/4 of 1 percent rise in the rate of charge (Table 5 of EBS/85/104). Since the SDR interest rate was moving downward and might come down even further, the margin of maneuver that had been created should be fully utilized. An income target of 8 percent would make it easier to digest occasional deficits, such as that which had occurred in FY 1985. However, in order to reach agreement, a target of 6 percent, with a catch-up provision, would be acceptable. If it were impossible to reach an agreement to increase the net income target, it would become necessary to consider other approaches that might protect the Fund against the consequences of financial risks. In that respect, the staff's suggestions in EBS/85/125 on provisions to cover likely financial losses were of interest.

It was unnecessary to change the current procedures for burden sharing, Mr. Grosche considered. There was a considerable concessional element in Fund charges, in that those countries that were usually creditors to the General Account accepted a rate of remuneration below the market rate.

The Fund, as a public international institution, should report publicly any declaration of ineligibility, Mr. Grosche added. An established vehicle was, and should remain, the Annual Report. However, it would be appropriate to release, in addition, a short communication to the press in the case of both a declaration of ineligibility as well as restored eligibility. It would be extremely awkward to declare a country eligible again and yet not to publish that fact until the next Annual Report. It would also be inconsistent with the principle of equal treatment to publish cases of ineligibility in the Annual Report, but not new ones that might arise shortly after its publication. Therefore, the practice of issuing press releases ought to begin after publication of the 1985 Annual Report.

Mr. Mtei observed that the major argument in support of an increase in the net income target was the need to protect the asset position of the Fund in the light of its increased financial exposure--which was the result of a rising incidence in overdue obligations; he was unconvinced by the case for such an increase. The argument had also been made that the Fund's standing, both in the eyes of those who made resources available to it and as a supervisory agency at the center of the international monetary system, was materially affected by the level of its holdings of reserves.

If a decision were made to adjust the level of the Fund's reserves on the basis of the increase in outstanding repurchases and charges, the signal given to debtor countries would be that the Fund was preparing for a default on their part, thereby making them less interested in becoming current with the Fund, Mr. Mtei considered. In addition, the Fund should not be seen to move too hastily in changing its policies to deal with a problem that was relatively minor and largely of a temporary nature. As the world economy improved, those countries with major balance of payments problems should be in a better position to service their external debt in a timely fashion.

On the relationship between the Fund's reserves and its credibility, it was important to maintain the distinction between the Fund and other development and international commercial banks, Mr. Mtei stated. The distinctive character of the Fund would be lost if its reserve ratios were compared with those of commercial banks or regional development banks, which had to rely on international credit markets. The strength of the Fund resided in the commitment of its members to the principles to which it had been dedicated. No level of reserves could be a substitute for that commitment. During two periods--the inception of the Fund up to 1956 and between 1972 and 1977--the Fund had experienced net reserve losses on a systematic basis. Despite those losses, the credibility of the Fund had remained intact for the reason that no financial institution could ask for a better guarantor than its membership. It was important to maintain the cooperative spirit of the Fund and not to view the institution as just another international commercial bank.

Accordingly, the net income target should remain at 3 percent and the rate of charge at 7 percent for FY 1986, Mr. Mtei said. If the rate of charge were increased in order to meet a higher net income target, such a charge would put further pressure on the already weak position of members, who were finding it burdensome to meet their financial obligations to the Fund on time. Indeed, such an action would single out the Fund as the only institution that was raising its interest rate or charges, at a time when all other institutions were lowering their interest rates. If there were any excess income above the 3 percent target, there was no reason to change the procedure that had been adopted in the previous year--to deem the excess as income for the ensuing year. In any event, new developments could be considered at the midyear review.

A realistic discussion of the question of burden sharing, Mr. Mtei observed, would have to go beyond the theoretical premise at the heart of the staff's paper that members had rights and obligations that did not vary and that Fund policies were applied on the basis of uniformity of treatment. The fact was that all members did not enjoy the same privileges and influence, let alone equal voting power in the Fund. It would be naive, therefore, to conclude that the burden of operating the Fund should be shared equally. The issue was not one of a simple apportionment of costs, on the one hand, to those members that supplied usable resources to the Fund at a lower rate than that offered on the market, and on the other, to members that were users of Fund resources.

Two other key issues were, first, the ability of users to pay Fund charges, especially since it was the developing countries that were the main users of Fund resources and therefore had to pay the charges accounting for the largest part of the Fund's income, Mr. Mtei continued. The second consideration was that the payment of remuneration had become the Fund's largest operational expense and was the most significant factor in determining the rate of charge. Since the developed countries were the principal recipients of remuneration, as the remuneration coefficient increased and the lending of the Fund expanded, the concessional element in the use of the Fund's ordinary resources diminished and the charges that had to be paid by users increased. That amounted to an increased transfer of resources from developing countries to those countries that were economically better off, especially at a time when the former could least afford it. Given its cooperative nature, serious attention should be paid to finding ways of alleviating some of the burden of operating the Fund that was previously borne by the users of its resources. Quotas should not be seen simply as money on which the member countries could earn a return on the market. Rather, quotas carried with them influence and power, the benefit of which outweighed the cost foregone in terms of interest that might have been earned on the market.

Active publicity following declaration of ineligibility was counter-productive, Mr. Mtei concluded. No country was currently overdue simply because it was deliberately not willing to pay. Accordingly, the Fund should do everything possible not to increase the problems confronting debtor nations, as would occur if the policy of active publicity were adopted, and should instead allocate all its resources to helping those nations overcome their difficulties.

Mr. Wijnholds noted that the fall in the SDR rate had significantly changed the outlook for FY 1985; he re-emphasized his position that the Fund's reserves needed to be strengthened, preferably through an increase in the net income target. Otherwise, it would be necessary to look into the alternative solution of making special provisions against overdue repurchases. The comparison made by the staff of the Fund's ratio of reserves to loans outstanding and that of other international financial institutions was extremely useful and, at the same time, rather disconcerting: not so much because the Fund had a lower ratio than did other institutions, but because it was the only one of those institutions with a ratio on a clearly declining trend. The ratio of Fund reserves to quotas--perhaps a better indicator of the relative strength of reserves over time--had also declined considerably. There was thus a need to at least double the present reserve target. However, in order to help reach an agreement, an increase in the annual target of 5 percent would be acceptable.

The question of setting a ceiling on reserve increases beyond 5 percent, Mr. Wijnholds continued, could not be decided at the present time. On the basis of the new projections for the Fund's income in FY 1986, the higher reserve target did not require any change in the rate of charge, which could be maintained at its present level.

The issue of publicity on declaration of ineligibility was really a separate matter that should be judged on its own merits, Mr. Wijnholds concluded. Yet a declaration of ineligibility without publicity did not seem to make much sense, especially as the outside world would learn about it anyway, either through leaks or because the member concerned informed the press. The correct procedure would be to wait until after the publication of the 1985 Annual Report before making press releases on declaration of ineligibility.

Mr. Fujino said that he regretted that the Fund's income for FY 1986 had turned out to be a deficit of SDR 30 million, a consequence inter alia of the removal from current income of charges accrued by members that were overdue for six months or more in discharging obligations to the Fund. The combination of circumstances clearly pointed to the necessity for larger reserves. The inadequacy of the present level of Fund reserves was also well illustrated by comparison with other international financial institutions, although it was important to note that the Fund had a very different character and financial structure. Reserves in relation to outstanding Fund credit had also declined markedly in recent years, at a time when the Fund's overdue obligations had increased substantially.

Perhaps a more prudent policy would have been for the Fund's reserves to increase at a rate parallel to the growth of outstanding Fund credit. However, given the wide fluctuations in outstanding Fund credit over time, there would be obvious drawbacks to using such a yardstick for fixing reserve targets.

The best solution would therefore be for the Fund's reserves to increase in line with quotas--a good proxy for Fund credit, Mr. Fujino considered. Quotas had been increased by 50 percent in 1983. If the next quota review were to occur five years after the previous increase and if the ratio of reserves to quotas that had prevailed before the previous general increase were to be restored by the time the subsequent increase took effect, reserves would have to increase at a rate slightly higher than 8 percent during the intervening period. Reserves ought therefore to be increased at an annual rate of 8 percent. However, the objective of restoring the relationship between reserves and quotas would not be easy to achieve, especially as 18 months had already passed since the previous quota increase, and the level of reserves had fallen significantly in the past year. Further, the decision to place overdue charges on a nonaccrual basis was having a considerable impact on income. Due consideration should be given to all those points, but in order to reach the necessary majority on the principle of an increase in the net income target, a figure somewhat lower than 8 percent might be acceptable.

Various options had been suggested by the staff for coping with the uncertainties affecting the achievement of the net income target arising from its sensitivity to external developments, Mr. Fujino noted. Among the three options suggested in EBS/85/104 for projecting the amount of income that might be deferred in FY 1986, both the first and the second were attractive, although it would be difficult to choose between the two before the rate of charge had been finally agreed upon.

Burden sharing was a difficult subject, Mr. Fujino noted. Although it might appear on the surface that the burden arising from the Fund's increased costs or reductions in its revenue was borne by debtor countries in the form of an increase in the rate of charge, the Fund was still able to provide resources at a subsidized rate, in that it was paying a lower than market rate to creditor members and possessed some costless resources consisting, inter alia, of unremunerated reserve tranches. The concessionality of Fund lending was maintained as the creditor members were willing to accept the lower than market rate of interest for their creditor positions. The Fund was not a development assistance agency, and his authorities saw no reason to support the proposal that would require creditor countries to shoulder an additional share of the burden. Moreover, any reduction in the remuneration coefficient would run counter to the Fund's policy of seeking, in the long run, convergence in the SDR interest rate and the rate of remuneration.

Declarations of ineligibility had to be reported by the Fund publicly, at least in the Annual Report, Mr. Fujino remarked. Once that decision had been made, the principle of uniform treatment and the possibility of premature reporting led inexorably to the conclusion that press releases should be issued immediately upon declarations of ineligibility. Since that would be a new policy and since members might not have expected that declarations of ineligibility would automatically be published in the form of press releases, a useful interim measure would be to defer the application of the policy until after the publication of the 1985 Annual Report.

Mr. Fugmann emphasized that long-term considerations should continue to form the basis for establishing the Fund's financial targets, including the setting of charges and the rate of remuneration, thereby improving the possibility of a steady development in charges. The increase in overdue financial obligations to the Fund, combined with the risk of eventual losses on particular loans, created a need for certain compensating changes in the present rules. As regards the method of estimating the income effect of overdue charges for future years, the technique prepared by the staff could be supported, especially because it was not contingent on explicit forecasts with respect to individual countries. Given the need to increase the Fund's reserve target and to avoid sharp increases in the rate of charge, the new reserve target should be set at 5 percent--approximately the rate at which reserves had grown on average during the past seven years. The disposition of any excess of net income above the target should be decided ex post by the Board on a discretionary basis under the present rule and without any presumption about its disposition. There was, however, no need to compensate specifically for the loss of reserves incurred during FY 1985, in that the loss had been largely due to the revision in the method of handling overdue charges in the Fund's accounts. Given the recent decline in the SDR interest rate, a change in the rate of charge did not appear to be necessary at the present time, even in light of a somewhat higher reserve target.

The present arrangements for sharing the operating expenses of the Fund were acceptable, Mr. Fugmann stated. There was no basis for singling out specific components of the Fund's costs and dealing separately with their financing.

Since declarations of ineligibility became public one way or another, it would be better if the Fund were responsible for publicity, both in declaring ineligibility and in re-establishing eligibility, Mr. Fugmann considered. A press release should be issued within one month of the declaration of ineligibility, containing some description of the meaning of the declaration and the facts surrounding the case concerned (alternative B on page 6 of SM/85/12). However, Mr. Fujino's proposal that no such press releases should be issued until after the publication of the 1985 Annual Report could also be supported.

Mr. Alfidja noted that there would have been a net surplus, rather than a net deficit in the 1985 financial year, had the charges due to members on obligations that were overdue to the Fund by six months or more not been placed on a nonaccrual basis; the new accounting procedure had resulted in exclusion of about SDR 46 million from the Fund's income. The consequence of the resulting deficit would be a reduction in both the special and total reserves. However, the staff had previously projected a deficit of SDR 8 million for FY 1986, but the decline in the SDR interest to about 7.7 percent made it reasonable to expect net income of SDR 55 million for the 1985 financial year.

There was no need for an amendment of Rule I-6(4), Mr. Alfidja stated. The income target of 3 percent and the rate of charge of 7 percent should be maintained at their present levels. With net income of SDR 55 million forecast for FY 1986, it would not be unreasonable to expect a decrease in the rate of charge. The emphasis that had been placed by some Directors on the need for a rapid reserve accumulation created the impression that the Fund was anticipating a major default in respect of overdue obligations and was therefore preparing for a crisis. Such a move could be interpreted as a failure by the Fund to assist those countries, in exceptional financial difficulties, in taking appropriate measures to overcome their payments problems. Further, the impression had been created that overdue obligations would become a permanent feature of the Fund's financial structure. Moreover, rapid reserve accumulation would give a signal to those members with overdue obligations not to adopt appropriate measures for settling them.

He was opposed to active publicity upon declarations of ineligibility, Mr. Alfidja continued. It would not result in a rapid recovery of overdue obligations by the Fund and would exacerbate the already difficult financial situation of the member country concerned. It would harm the spirit of cooperation between the membership and the Fund.

The argument that special charges for overdue obligations would be effective in forcing members facing exceptional financial circumstances to make prompt settlement of their overdue obligations was not convincing, Mr. Alfidja observed. Nor would such a system strengthen the various legal steps available to the Fund in dealing with overdue obligations. Indeed, some of the already existing legal remedies had never been used. While there was a clear need to preserve the financial integrity of the Fund, a system of special charges would not serve that purpose and would instead compound the problems of members already facing severe external problems. It did not appear to be an appropriate way of helping those member countries to tackle their deep-seated problems.

The staff paper on the question of burden sharing was clearly preliminary, Mr. Alfidja concluded. The matter should be considered in the light of the comments that had been made during the present discussion.

Mr. Zhang observed that it might be more appropriate to make any changes in the net income target at the midyear review of the Fund's income position. The current reserve target of 3 percent and the rate of charge of 7 percent should be maintained at their present levels.

Active publicity on declarations of ineligibility would not contribute to the avoidance or reduction of overdue financial obligations to the Fund, Mr. Zhang stated. The Annual Report was an appropriate publication in which to report cases of ineligibility and there was no need for press releases.

If special charges on overdue financial obligations were imposed, there was a danger of exacerbating countries' balance of payments problems and of further complicating their efforts to become current with the Fund, Mr. Zhang observed. Before any decisions were made, it would be important to consider the options provided in Article V, such as the suggestion that overdue payments could be made in the member's own currency.

The question of burden sharing was an interesting one, Mr. Zhang concluded. However, given the present structure of the Fund, the discussion of the subject was more or less philosophical.

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/88 (6/3/85) and EBM/85/89 (6/5/85).

3. TOGO - STAND-BY ARRANGEMENT - CORRECTION

The Executive Board approves the corrections made to paragraphs 2(b) and 4 of the stand-by arrangement for Togo (EBS/85/94, Sup. 2, 5/20/85), to ensure uniformity of treatment among members and consistency with Decision No. 6838-(81/70), adopted April 29, 1981. (EBS/85/94, Sup. 2, Cor. 1, 5/28/85)

Decision No. 7996-(85/89), adopted
June 5, 1985

3. MALI - TECHNICAL ASSISTANCE

In response to a request from the Malian authorities for technical assistance in the tax field to review the tax system and its administration, as well as the customs administration, the Executive Board approves the proposal set forth in EBD/85/138 (5/29/85).

Adopted June 4, 1985

4. <u>EXECUTIVE BOARD TRAVEL</u>

Travel by Executive Directors as set forth in EBAP/85/142 (5/31/85) is approved.

APPROVED: March 25, 1986

LEO VAN HOUTVEN
Secretary