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9:00 a.m., July 26, 1994

M. Camdessus, Chairman
A. D. Ouattara, Deputy Managing Director

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
M.-A. Autheman	
J. Bergo	A. Sighvatsson, Temporary
H. Evans	
H. Fukui	T. Oya, Temporary
	L. E. N. Fernando
J. E. Ismael	K.-T. Hetrakul
D. Kaeser	K. Link
A. Kafka	
	A. V. Mozhin
W. Kiekens	
G. Lanciotti	
K. Lissakers	
R. Marino	
A. Mirakhor	
	B. S. Dlamini
G. A. Posthumus	
	Y.-M. T. Koissy
S. Schoenberg	
A. S. Shaalan	
	K. G. Langdon, Temporary
	A. M. Tetangco, Jr.
Zhang M.	
A. G. Zoccali	

J. W. Lang, Acting Secretary
L. C. Collier, Assistant

Also Present

African Department: C. Brachet. European I Department: M. C. Deppler, Deputy Director. European II Department: L. Hansen. External Relations Department: S. J. Anjaria, Director; H. P. Puentes. Fiscal Affairs Department: V. Tanzi, Director; C. Schiller. Legal Department: F. Gianviti, General Counsel; R. H. Munzberg, Deputy General Counsel; R. B. Leckow, H. Morais. Monetary and Exchange Affairs Department: A. O. Liuksila. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; D. Burton, S. B. Creane, P. F. Gruenwald, N. Happe, A. K. McGuirk, E. Sidgwick. Research Department: M. Mussa, Economic Counsellor and Director; P. Isard. Secretary's Department: A. Leipold, A. Mountford. Southeast Asia and Pacific Department: J. H. J. Morsink. Treasurer's Department: D. Williams, Treasurer; J. Berrigan, R. H. Floyd, D. Gupta, H. Jepsen, A. Muttardy, O. Roncesvalles, T. M. Tran. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Office of the Managing Director: G. R. Saunders, Personal Assistant. Advisors to Executive Directors: P. Cailleteau, A. Chang Fong, R. F. Cippa, S. K. Fayyad, R. Kannan, J. C. Martinez Oliva. Assistants to Executive Directors: S. Al-Huseini, J. M. Burdiel, A. Cathcart, J. A. Costa, R. Ferrillo, O. Himani, G. H. Huisman, S. Ishida, P. Jilek, B. M. Lvin, S. Narube, C. F. Pillath, R. K. W. Powell, N. Prasad, S. Rouai, M. Ryan, J. B. Wire.

1. <u>ACCESS LIMITS, SDRS, AND COFINANCING TRUST ACCOUNTS</u>

Executive Directors met informally to continue from IS/94/5 (7/6/94) their consideration of access limits, SDRs, and cofinancing trust accounts.

The Chairman made the following statement:

> We met on July 6, 1994 for an informal discussion of access policy, SDRs, and cofinancing trust accounts, and we are to continue our discussion today on the basis of my statement at IS/94/5. For this discussion, I would add the following points on the systemic transformation facility (STF).
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> In our informal discussion on July 6, most Directors favored a one-year extension of the availability of the facility, an enlargement of access under it, and elimination of the 12-month rule for second purchases. There were, however, differences of view about how best to proceed with regard to the amount of additional resources that would be made available and the possible tranching of those resources, and also on whether we should leave open the possibility of having additional stand-alone STF purchases in truly exceptional circumstances. These issues are not independent, and I believe we may be able to come to agreement on a combination of these elements that will satisfy most Directors.
>
> I understand fully the Board's strong preference to link increased access under the STF to upper credit tranche conditionality. This is my preference as well; however, I remain concerned that in definitively closing the door on stand-alone purchases we may be limiting our flexibility to deal with difficult situations in the future. I would still like to consider how we might leave the door unlocked in the event we face truly exceptional circumstances. We could consider, for example, having an understanding that the Executive Board would be consulted in advance of any discussions with a member on a possible stand-alone STF purchase beyond the first two purchases.
>
> The desire to link increased access under the STF to upper credit tranche conditionality also has implications for total access and phasing. A few Directors favor a larger increase in access under the STF than the 30 percent of quota proposed in my July 1 statement. We could consider a larger increase, possibly by 40 percent of quota, which would bring the limit for total STF access to 90 percent of quota. However, this approach would make it even more important that the resources are made available on the basis of the implementation of strong policies. There is clearly the possibility that excessive front-loading may occur if all the additional resources were to be made available in a single purchase, and this could actually weaken incentives to adhere to

agreed programs. Therefore, I could recommend increasing access under the STF by more than 30 percent of quota only if there were agreement that the increase would be disbursed in two purchases, either on approval of an arrangement or on completion of a review under an arrangement. This would maintain appropriate incentives and still provide the flexibility to front-load resources through the underlying arrangement when policies warrant this.

On the question of timing, it is expected that the Board would consider formal decisions on the components of a comprehensive package after the Annual Meetings. In the meantime, the 12-month period during which one member can make a second purchase under the existing decision is going to expire. As elimination of the 12-month rule appears to have raised no objections as part of the package, we would propose issuing a draft decision next week, for approval on a lapse of time basis, eliminating the requirement under the present decision that a second purchase be made no later than 12 months after the first purchase. This would clarify the framework for policy discussions with that member. It would mean that, in the absence of any further changes to the STF, any member that had made a first STF purchase by end-1994 would have until end-1995 to make the second purchase.

Mr. Kafka noted that the Chairman's statement dealt only with access limits. He hoped that the Managing Director continued to feel that there should be a package of measures--including access limits, the STF, SDRs, and cofinancing trust accounts--and not a separate agreement on access limits.

The Chairman said that his statement at the present meeting was complementary to his statement of July 6. Hence, he was not recommending any change in the approach that had been taken thus far, particularly the desire for a package to be agreed after the 1994 Annual Meetings. That package would not be merely the minimum common denominator of Directors' various individual positions; rather, it would be the optimum solution to problems facing the membership in the coming several years.

The Director of the Policy Development and Review Department commented that the new statement was aimed simply at trying to make a specific proposal on the STF in light of Directors' comments at the previous two discussions on the proposed package. The proposal to remove the requirement that the second purchase under the STF be made within a 12-month period was to meet the operational needs created by a specific country case--Belarus--that would likely be under active discussion in the coming weeks. That particular proposal had been known to Directors since the beginning of the discussion on the fundamental package and would not affect the package.

Mr. Shaalan said that he wondered whether a request for the second STF purchase from Belarus could realistically be expected before October, when the Chairman hoped to reach agreement on the whole package.

The Director of the Policy Development and Review Department recalled that Belarus had made the first purchase under its stand-by arrangement on August 2, 1993. The Managing Director planned to visit the authorities in Belarus soon, but it was impossible to say whether the discussions would result in a STF purchase before October. However, in view of the window of opportunity that existed with the new Government in Belarus, there was reason to hope that the STF purchase could be made by October. For its forthcoming discussions with the authorities, the staff needed to know the options available for providing Fund financial assistance to Belarus. Hence, a decision to permit a second purchase to take place, if the negotiations were successful, had to be made at the present stage; it could not wait until October.

Mr. Lanciotti remarked that, as he understood it, the cofinancing trust account element was not an essential part of the package, but rather an additional option.

The Chairman said that Mr. Lanciotti's understanding was correct. A separate paper on the cofinancing trust account element had not been circulated.

Mr. Mirakhor said that he wondered whether any country in addition to Belarus was likely to be in a position to request a second STF purchase in the period in question. Was it best to make an exception for a specific country, or to amend the STF decision so that it could be applied to all similar cases that might arise?

The Director of the Policy Development and Review Department responded that no other country was likely to make a request in the period under discussion. The staff had presumed, from earlier discussions, that the Board would feel more comfortable amending the STF decision than making an exception for a single country.

The Chairman added that Directors had consistently appeared to have no difficulty with the idea of extending the period in which a second STF purchase could be made. Amending the relevant decision seemed to be in line with the consensus on a package that was clearly developing.

Ms. Lissakers stated that the proposal to change the 12-month rule for the period until the current STF instrument expired in order to accommodate Belarus was acceptable. However, at the present stage, she would not wish to commit herself on the question of whether the rule should be retained under any extension of the facility. She would wish to consider that matter further.

The General Counsel commented that the Fund did not operate on the basis of exceptions to principles; it operated on the basis of uniform treatment of members. In other words, if the exception was valid for Belarus, it should also be valid for any other country that met the conditions for a second STF purchase in the period in question. Hence, the proposal under discussion was not formulated in terms of an exception for a particular country, but rather as an extension of the purchase period for any country.

Mr. Kaeser stated that the proposed extension of the period for the STF was acceptable. However, he still had strong reservations about the proposal to include stand-alone STF purchases.

The final position on the overall package should be taken by the Interim Committee, Mr. Kaeser considered. It would not be appropriate for the Board to take a decision on the package before it had been accepted by the Interim Committee; the approach he favored might help to revitalize the Committee.

Mr. Kiekens remarked that the Chairman's proposal, which would affect Belarus, had to do with the regulations governing STF purchases for the rest of 1994. If the proposal were accepted, as he felt certain it would be, what would be the time limit on a second purchase to be drawn under the existing regulations?

The Director of the Policy Development and Review Department responded that a second STF purchase could be made until the end of 1995. The current decision permitted initial STF purchases to be made until the end of 1994 and additional purchases to be made until the end of 1995. But the decision also stipulated that the second purchase should be made no later than 12 months after the first. Therefore, in the case of Belarus, which had made its initial purchase on August 2, 1993, the second purchase must be made before August 2, 1994, even though, under the current STF decision, the facility would remain in existence beyond that date. Under the proposed modification of the STF decision, the 12-month limitation would be eliminated, which meant that any country could make an initial purchase until the end of 1994 and a subsequent purchase until the end of 1995. Nothing else would be changed by the proposed modification; initial purchases under the facility would not be allowed after the end of 1994. At present, the only other country that could possibly be affected by the proposed change was the former Yugoslav Republic of Macedonia, but the expectation was that that country would be moving to an upper credit tranche arrangement.

Mr. Mirakhor remarked that he had initially understood the Chairman to say that members that had already made the first STF purchase would be given another year in which to make the second purchase. In the light of the discussion, he now understood that, in theory, even countries that had not made the first purchase could, by the end of 1994, make that purchase and have another year in which to make the second purchase. Thus, for all practical purposes, it seemed that the proposal was to extend the STF effectively for those countries that might wish to try to make a drawing, although the access limits would not be changed.

The Director of the Policy Development and Review Department responded that the proposal did not include an extension of the facility. Any country would still be able to make the initial STF purchase until the end of 1994. The only new element introduced by the proposal was the fact that a country that had not yet made a STF purchase and did so in, say, October or November 1994, would not be caught by the 12-month rule and, instead, would have until the end of 1995 to make the second purchase. There would be no provision for a country to make a first purchase after the end of 1994; in that sense, there would be no extension of the facility as a result of the proposal currently under discussion.

Mr. Posthumus commented that if the Board decided forthwith to eliminate the 12-month rule and subsequently decided, in October 1994, to extend the STF, then the facility would exist without a 12-month rule. Hence, the proposal would have the effect of permanently eliminating the 12-month rule, whatever the Board might decide with respect to the STF after October 1994.

The Director of the Policy Development and Review Department commented that, if the Board decided to do so, the 12-month limit could be reinstated later.

Ms. Lissakers commented that the 12-month rule had been introduced for a good reason--to avoid protracted negotiations. She would not wish to see a situation develop in which the second STF purchase by Belarus would not take place until the end of 1995. Instead of eliminating the 12-month rule, it might be helpful to change it to, say, an 18-month rule.

The Director of the Policy Development and Review Department said that the approach that Ms. Lissakers had suggested certainly could be taken. The practical impact of the Chairman's proposal was to pave the way for the discussions with Belarus by putting management and staff in the position of knowing that the option of using the STF remained open to Belarus. In October, the Board would return to the question of the possible extension of the STF as part of the package.

The General Counsel remarked that as the second limitation--namely, the end of 1995--would not be changed, the second purchase could not take place after the end of 1995 even if the 12-month rule were eliminated. In fact, there would be an extension by at least 12 months and no more than 17 months in the case of Belarus.

Ms. Lissakers commented that a 17-month delay in a reform program was substantial and could do considerable economic damage. Presumably the purpose of the 12-month rule was to put some pressure on the countries concerned to keep their reform programs moving along. She wished to be certain that the adjustment momentum in Belarus would be maintained.

Mr. Zoccali remarked that perhaps it could be agreed that the period in which the second STF purchase could be made would expire on December 31, 1995; instead of eliminating the 12-month rule, it could be extended until December 31, 1995.

The Director of the Policy Development and Review Department explained that, for all practical purposes, the proposed elimination of the phrase "but in any event not later than 12 months after the first purchase" would enable countries to make the second STF purchase by December 31, 1995. Ms. Lissakers was worried that so doing would give Belarus an additional 17 months, from August 1994 to December 1995, in which to make that purchase, thereby reducing the incentive for Belarus to move quickly to another facility. The 12-month rule could certainly be modified to become a rule of, say, 16 or 18 months to accommodate the case of Belarus and close the window for countries that had made their first purchase at an earlier date.

Mr. Kiekens said that he wondered what the consequences of accepting Ms. Lissakers's proposal would be for countries that could, after 12 or 18 months, draw under a stand-by arrangement as well as--at least in theory--make a second STF purchase. Would the second STF purchase in fact not be available? The former Yugoslav Republic of Macedonia might fall into that category.

The Director of the Policy Development and Review Department responded that acceptance of Ms. Lissakers' proposal would do no more than lengthen the purchase period by a specific amount--up to the end of 1995--rather than an indefinite amount. Accordingly, her proposal would provide flexibility for all members. It would not provide less flexibility for any country than was already available under the current STF decision.

The Chairman remarked that the simplest solution might be to agree that the present 12-month rule, which created a problem for Belarus, would be extended to 18 months. That approach would not prejudge the outcome of the further discussion on the STF but would settle properly the case of Belarus.

Mr. Al-Jasser stated that the Chairman's proposal was acceptable. Presumably that change would not prejudge the outcome with respect to the possible extension of the STF. The Chairman's proposal would deal only with the present arrangement that was supposed to expire by the end of 1994.

The Chairman said that he agreed with Mr. Al-Jasser.

The Director of the Policy Development and Review Department added that, under the new proposal, every country would still have to have made the first purchase under the STF before the end of 1994 and would still have to have made the second purchase before the end of 1995. Within the period of the STF, an individual country could have up to 18 months between its first and second purchases.

Mr. Schoenberg commented that the two purchases available under the STF were meant to be made available in the early stages of the transformation process. A period of 18 months between the first and second purchases might be seen as an endorsement by the Fund of a long, drawn-out reform process. He doubted whether the Fund would wish to send that signal. Presumably, some time yet was still needed to complete the negotiations with the authorities of Belarus.

The Director of the Policy Development and Review Department noted that Belarus had made its first STF purchase on August 2, 1993. Under the current rules, the second purchase would have to be made before August 2, 1994, that is, just a week away, which would not be feasible, as the discussions with the new Government had only just begun. Hence, Belarus would lose an opportunity to use the facility if the STF decision was not amended.

Mr. Fukui said that basically he agreed with the proposed extension of the period to 18 months. However, the justification for the proposal might be a cause for concern: the emphasis on accepting the proposal specifically to accommodate Belarus might give the impression that Board policy decisions could be changed in the future in the event other difficult negotiations delayed a desired purchase. Justifying the proposal in more general terms--for example, by mentioning that it would facilitate the smooth operation of the STF--might be helpful.

The Chairman commented that, in applying decisions on the use of Fund facilities the Fund occasionally needed to take into account the realities in member countries. In Belarus, the new Government had taken office only recently, thereby preventing an earlier start on the negotiations on the use of the STF. Every effort was made to include deadlines and other conditions in decisions governing the use of facilities, but the situation in many transition countries was evolving quickly. In the case of Belarus, the proposed amendment would place the staff in a better position than at present to negotiate with the authorities on the country's possible use of Fund resources. Such proposals, in exceptional cases, were helpful to deal with situations that had not been foreseen when the decision on a facility had been adopted.

Mr. Autheman suggested that a period of 15 months, rather than 18 months, might help to meet the concerns of Mr. Fukui and Mr. Schoenberg. That period should provide enough time in which to conclude an agreement with Belarus and to review the set of rules applying to the STF.

The Chairman responded that a period of 18 months seemed preferable. The additional time was useful; for example, there was often uncertainty about the time needed to secure the necessary financing assurances.

Mr. Posthumus suggested that an alternative solution would be to eliminate the 12-month rule until a decision on the extension of the STF was taken. He himself had no difficulty with the proposal to extend the period in question to 18 months, but his suggestion might help to meet the concerns that had been expressed by a few other Directors.

The Chairman responded that that proposal was problematic, as the extension of the facility was part of a larger package of proposals that had yet to be approved. That solution would not help to take the relatively small decision now that would meet the immediate need to deal with the case of Belarus.

Mr. Posthumus said that apparently the staff wished to eliminate the 12-month rule altogether, a step that some Directors were not yet ready to take and which they preferred to consider in the context of the whole package of measures that had been proposed. The 12-month rule could be eliminated for the time being, in order to accommodate Belarus; in considering the possible extension of the STF, the Board should deal with the existing facility and not one that had been altered by the elimination of the 12-month rule.

The Chairman commented that he appreciated Mr. Posthumus's contribution to helping to find a solution. However, it seemed that his own solution was acceptable to most of the Directors.

Mr. Al-Jasser remarked that previous speakers had expressed concern about the possible implications of the proposed change in the STF decision. However, the discussion thus far seemed to show clearly that acceptance of the proposal to extend the 12-month period would in no way prejudge the outcome of the consideration later of the possible extension of the STF. The proposal to extend the 12-month period had been made on an exceptional basis--to accommodate the needs of a single member country. In those circumstances, he had no difficulty in accepting the proposal to change the 12-month rule to a rule of 18 months.

The Chairman stated that approval of the proposed extension of the 12-month period would be entirely without prejudice to the decision on the possible extension of the STF itself.

Mr. Marino stated that the 18-month rule was acceptable, as it would provide uniform treatment of members. The proposal had been made to meet the needs of Belarus, but it would be applicable to any other country in the same situation. The closed-ended solution that had been proposed was preferable to an open-ended solution.

Mr. Schoenberg commented that Directors seemed to wish to find a solution that would enable the Fund to continue to engage in a constructive manner with Belarus. The Board could agree on the extension to 18 months for second purchases under the existing facility, on the understanding that the Board would return to the 12-month rule during the discussion on the extension of the STF.

The Chairman reiterated that extension of the 12-month period to 18 months would not prejudge the outcome of the examination of the possible extension of the facility itself.

Mr. Kafka said that he could go along with either the suspension of the 12-month rule as proposed by the staff, or with an 18-month rule. He wished to reserve his position on the rest of the matters dealt with in the Chairman's opening statement. He would be able to lift his reservation in the event that an acceptable package was considered; such a package would include SDR allocations and provision for collateral for STF purchases beyond the second purchase under the 50 percent rule.

The Chairman suggested that the staff circulate forthwith a decision--for lapse of time approval--that would replace the 12-month period in which to make a second STF purchase with an 18-month period, together with a statement to the effect that that change would not prejudge the outcome of the further consideration of the STF.

The Executive Board approved the Chairman's proposal.

The Chairman said that it would be helpful to know whether Directors' positions on the proposed package had altered in any way since the previous discussion of the matter on July 6. It would then be helpful to have Directors' reactions to his latest proposals concerning the extension of the STF and its possible relationship to drawings in the upper credit tranches.

Mr. Fukui stated that his position on the package had not changed.

Mr. Shaalan said that he, too, had not changed his position on the issues mentioned in the Chairman's opening statement.

Mr. Zoccali said that his position was unchanged. The package should include a general SDR allocation, and progress should be made on a constructive definition of a balanced distribution of the future costs of operating the Fund. Those two points had lost neither their urgency nor their significance.

Ms. Langdon commented that there was no change in her chair's position. Access in the upper credit tranches should exceed access under the STF in order to provide members with an incentive to move to an upper credit tranche arrangement.

Mr. Koissy stated that his position on the package had not changed. He hoped that all the proposals under discussion could be approved as a package.

Mr. Posthumus stated that his position, as indicated at IS/94/5 (7/6/95), had not changed. However, he was prepared to contribute to reaching a consensus.

Mr. Evans remarked that Directors clearly wished to reach a consensus that would satisfy as many of them as possible. He, too, had given some thought to the next steps that the Board should take. There had been sufficient discussion on access. As to SDRs, Directors had discussed two main possibilities. The first was an equity allocation, which could be, according to some suggestions, fairly large and from which all or nearly all members would benefit. Of course, that solution had something of the character of a general allocation, but it involved a distribution that raised problems for a number of countries, including some of the poorest. The second main proposition was an equity allocation plus a general allocation. Although widely supported, that idea was opposed by a significant minority. The main issue at hand was how we make progress with those proposals. In previous discussions, equity had been mentioned in terms of both new members and others as well. He was concerned about, inter alia, the position of the poorest countries, many of which already had relatively high ratios of SDRs to quota.

He clearly recognized the significant opposition to a general allocation, particularly one that implied that further allocations were to follow, Mr. Evans continued. A possible compromise might be to ensure that each country would receive some SDRs. Hence, there could be a single package that would benefit each country.

Mr. Dlamini stated that his position had not changed.

Mr. Mirakhor said that he, too, had not changed his position.

Mr. Marino commented that his position remained the same. He had circulated figures on a possible combination of a general and an equity allocation; thus far, he had received no counterproposals by the main creditor countries. Secretary of the Treasury Bentsen's recent speeches suggested that the Group of Seven (G-7) countries had considered a small SDR allocation, but there had been no indication of the order of magnitude being contemplated.

The Chairman commented that apparently Mr. Bentsen had mentioned a modest general allocation, something that Mr. Bentsen had not mentioned previously. Hence, there seemed to have been some movement in Mr. Bentsen's position.

Mr. Autheman considered that the package should include a mixture of an equity allocation and a general allocation. He was open to suggestions on the relative size of the equity and general allocations. He would not support an equity allocation alone--whether or not the allocation was sizable.

Mr. Mozhin commented that his position was unchanged. However, he, like Mr. Autheman, was prepared to discuss different numbers in the context of a combination of a general and a special allocation.

Mr. Kafka recalled that he had said that an allocation of SDRs was an essential part of the package; in that connection, he had had in mind a substantial general allocation. He wished to keep the SDR alive not merely in theory but also as a functioning mechanism.

Mr. Kaeser stated that his position was unchanged. He remained open to considering possible ways in which to gain approval of the package.

Mr. Ismael said that he position remained unchanged: he continued to support the Chairman's proposal as a single package, of which the general allocation of SDRs should be seen as the linchpin.

Mr. Schoenberg commented that his position on access limits remained unchanged, with the proviso that he would consider the Chairman's proposal of stand-alone STF purchases in genuinely exceptional circumstances. On the SDR issue, his position was well known. He had an open mind on a catch-up allocation, and he was prepared to look at a flexible solution to the question. In addition, he was interested in Mr. Evans's proposal to examine the possibility of including in such a catch-up allocation a proportional element in order to facilitate agreement by countries that would otherwise receive little or no allocation under a purely catch-up allocation. However, to clearly show its one-off nature, such a proportional element must be achieved through an amendment of the Articles.

Mr. Mirakhor said that he was interested in the idea that the proposals should include incentives for their acceptance by members. However, the choice of the incentives should be made carefully; members were not likely to accept virtually any package of SDR allocations and changed ratios. Countries would have to measure the benefits and risks involved in accepting a package that included an extension of the STF and an increase in access limits. That package would enable some members to reduce their budgetary burden, while the rest of the membership would feel that the increased involvement of the Fund would entail a new level of risk for the institution.

Mr. Oya said that his chair's position was unchanged. In order to reach a consensus, his chair was prepared to accept a modest general allocation of SDRs.

As to the link between increased access under the STF and upper credit tranche conditionality, his authorities were concerned that it might discourage the momentum for accelerating economic reform by leaving the door open to three or four stand-alone STF purchases, Mr. Oya continued. Moreover, if the proposed 18-month rule was approved, the members concerned would be able to take their time in requesting a second purchase while continuing a dialogue with the Fund. With respect to total access and the proper phasing of STF use, while his authorities shared the Chairman's concern about excessive front-loading, one could argue that increasing the access for a third STF purchase that was linked to an upper credit tranche arrangement would increase the incentive for a member to move to such an arrangement. More time was needed to consider that matter.

Mr. Sighvatsson said that his chair's position had not changed. That position continued to be flexible; he was waiting for some other chairs to make their position clear.

Mr. Lanciotti commented that his position, too, was flexible. He favored an equity allocation and a moderate general allocation. He had some sympathy for Mr. Evans's idea of a sizable and broad equity allocation that would include virtually every member.

Mr. Tetangco said that there had been no fundamental change in the position of this chair. The majority of his authorities continued to have reservations about the need for a general SDR allocation. However, a case could be made for a selective allocation, and, to that end, he could probably support an amendment of the Articles. He also had a fairly open mind on how to proceed with that and the other elements of the package, but he would like to see some specific proposals before taking firm views.

Mr. Kiekens stated that there had been no basic change in his position. However, in a spirit of compromise, he could accept a higher ratio for the equity issue, if necessary--even beyond 25.8 percent--in order to give all members a stake in the selective allocation.

Ms. Lissakers commented that her position on the elements of the package was well known. In a recent statement, Mr. Bentsen had noted that U.S. support for an equity allocation for new members was well known, and there had been strong agreement on that point among the participants in the latest G-7 Summit. Mr. Bentsen had noted that the G-7 Ministers had also discussed the possibility of an SDR allocation that would benefit other than the new members alone. One of the possible solutions that had been discussed was what could be called a topping up for each member of a certain percentage of quota, which would in fact benefit most members--not just new ones.

She agreed with Mr. Evans that it was important to try to address the issue of equity, as new members had not participated in previous allocations, Ms. Lissakers said. A number of Directors had pointed out that the distribution under just about any scheme would be somewhat skewed in favor of one group of countries or another. She wondered whether one could find a formula that would perhaps include a benchmark that would give individual members--particularly the poorer countries--a greater possibility of maximizing their share of any SDR allocation that might be made under an amendment to the Articles, thereby resolving the issue of a general versus a selective allocation. It was clearly difficult to find a formula or even a couple of formulas that would satisfy everyone. She was still looking at the formulas.

Responding to Mr. Mirakhor's comments, Ms. Lissakers said that there was a risk that, in searching for trade-offs to identify the right combination of measures, the larger issues might be overlooked. Successful transformation to stable, democratic countries with market-oriented economies was of course in the best interests of all members--and particularly those in the region of transition countries--and the Fund as a whole. There was a clear interest, from the viewpoint of the membership, in supporting modifications in the STF decision and in access limits, as they could play a significant role in strengthening the Fund's ability to promote stabilization and prosperity. The promotion of transition and stability should in itself be adequate reason to support the proposed modifications in the STF and the access limits.

Mr. Mirakhor said that he fully agreed with Ms. Lissakers that everyone was greatly interested in supporting the welfare and transition process of all countries. However, as the saying went, "there is no such thing as a free lunch." He had not sought to try to tie the various proposals into a single package. The issue at hand was how to enable the Fund to become more involved--perhaps blazing the trail--to ensure that there would be adequate monitoring and supervision of progress under adjustment programs, which would entail costs and risks for the Fund and members. He had merely meant to suggest that it would be reasonable to take into account the costs and benefits of proposals. It would be helpful to be able to explain to governments and parliaments why an increase in access was being proposed at a time when financing commitments of $24 billion had not been honored. Countries making significant adjustments might feel that the risks involved were too great. Countries should be aware of the costs of the measures, but they should be seen as a package. He had meant to look at the proposals from a practical point of view and to address Mr. Evans's idea that it would be more constructive and perhaps more realistic to go to parliaments with packages than with individual measures. He had not wished to suggest that the members' progress in making the transition to a stable market economy was of secondary importance.

Ms. Lissakers commented that the size of the SDR component of the package should be realistic. Some members had not been willing to lower their sights to an extent that would be acceptable to her chair, at least.

The Chairman considered that an element of realism was needed with respect to recognition of the need for additional SDRs in the system. In that context, the proposals in the package were moderate. The large group of members requiring SDRs included the poorest members. All the elements of the proposed package should be seen in the context of the same need for realism.

Mr. Zhang said that his position was unchanged: he preferred a straightforward, general SDR allocation of SDR 36 billion. However, in the spirit of cooperation, he could endorse a compromise consisting of a combination of general and selective SDR allocations. He could support method three, with a ratio of 30 percent. The total SDR allocation should be

SDR 36 billion. In keeping with the principle of equal treatment, the amendment of the Articles should give future members the right to a special SDR allocation when they joined the Fund.

Mr. Fernando commented that he could accept a special, so-called equity allocation as part of a total allocation of SDR 36 billion. For that special allocation, he preferred a benchmark of 17.42, which was an average ratio, and he preferred the second proposed method of eligibility, although he was prepared to consider the third method.

Mr. Al-Jasser said that his position was unchanged. He welcomed the indications of movement in the positions of Mr. Schoenberg and Ms. Lissakers. He was pleased to see that there was now greater appreciation than before of the need to solve one problem without creating another--that is, reverse inequity--which would damage immeasurably the well-guarded principle of uniformity of treatment. Everyone realized that there was a need to treat the new members fairly, as a large number of countries had not participated in the SDR Department or in any SDR allocations; it was clearly time to correct that problem. Of course, the larger picture should not be lost sight of: in solving one problem the Board should not create new problems by breaching the crucial principle of the uniformity of treatment of all members, old and new. He felt reassured about that matter.

On the benchmark, his position on the SDR was very flexible, Mr. Al-Jasser continued. As long as method three was used, he could be very flexible about the average that was chosen. The resolution of that issue would depend on the extent to which a consensus could be generated around a particular benchmark. He looked forward to reaching agreement on that matter. He hoped that a consensus could also be reached on a general allocation. His position on the other elements of the package was unchanged from the discussion on July 6, 1994.

Mr. Evans stated that he fully agreed with Ms. Lissakers that the size of any total package of SDRs should be modest. The Chairman's proposal was large.

The Director of the Research Department remarked that there appeared to be a new proposal on the table for an amendment that would cover the totality of the SDR allocation and would distribute it in a manner that had not yet been described but presumably was neither in accordance with a common benchmark ratio nor in proportion to quota. The proponents of the new proposal bore the burden of suggesting a plausible rationale for it.

The General Counsel noted that it had been suggested that the poorest countries might not benefit as greatly from a selective allocation as they would from a general allocation. If the selective allocation were limited to new members, then obviously the poorest countries--most of which, by definition, were not among the new members--would not receive anything. However, one technique that had been considered would not limit the selective allocation to new members; that solution would involve the use of method three, under which the ratio of every member would be raised to a minimum floor. In that event, most of the poorest countries--perhaps not all of them--would receive something. That option left open the question whether, in addition to a general allocation and perhaps a selective allocation with uniform benchmarks, a third technique would be used, probably in connection with an amendment of the Articles, under which there would be a special allocation to the poorest countries, similar to the so-called link of the 1970s. That option could be perceived as creating serious difficulties, as it was contrary to the traditional understanding of the purpose of the SDR mechanism.

The Chairman said that he hoped that the Board would not wish to revive the debate on the notion of the link, which had done little more than make the SDR instrument more difficult to use. He encouraged the Board to focus on the approaches that were already on the table.

Ms. Lissakers remarked that she would certainly not wish to reopen the debate on the link. She had meant to say only that a few Directors had noted that some of the benchmarks that the Board had been discussing would have the inadvertent effect of limiting the size of allocations to countries whose quotas had not increased at the same pace as those of other members. She had not meant to suggest the need for a link; rather, she had recommended that there be some flexibility with respect to the benchmarks--benchmarks tied to quotas--which would allow for some choice by members. After all, under some of the proposed formulas a country like the United Kingdom would receive no SDRs, which might not be acceptable to the U.K. Parliament. The question was whether to use two benchmarks that were consistent with the Articles and the principles of the SDR instrument, but which would allow some accommodation of the extreme variations in the current SDR holdings in relation to quota.

Mr. Mirakhor said that the point that he had meant to make was that the proposals posed an increased risk to the membership and individual members. The Fund ought to be able to explain to members why they should accept the increased risk. As the proposals were being presented as a package, all of them would have to be acceptable if members were to agree to an amendment of the Articles. His main point was that the poorest members would benefit from the proposed package.

Mr. Evans commented that he had not meant to suggest an SDR link of the kind described at the present meeting. Of the two possible proposals--a large selective allocation, or a smaller selective and some modest general allocation--the second would be of greater benefit to the poorer countries. He agreed with Mr. Schoenberg on the need to link all aspects of an SDR allocation in one package requiring one change in the Articles.

The Chairman said that he welcomed the contributions by some chairs toward a possible compromise, although he recognized that further discussion was needed. Meanwhile, the staff had sufficient information to prepare a paper prior to the forthcoming informal Board recess.

The imaginative proposals that had been made should be further considered, the Chairman continued, but the crucial principles of uniformity of treatment and respect for the Articles must be maintained. Care must be taken to avoid proposing changes in the Articles in response to a particular situation; that practice would undermine the Articles. At the same time, it was important to bear in mind the fact that the proposals accepted by the Board would have to be accepted in turn by parliaments--not an easy task. The proposals must be easily understood by parliaments and must be seen to be consistent with countries' national interests as well as the prosperity of the membership as a whole, which in turn was essential to the prosperity of each country.

There had not been sufficient time at the present meeting to discuss his proposals concerning the STF, the Chairman noted. In the coming several days, the staff could hold an informal briefing for Directors to explain the intentions of the proposals.

Mr. Schoenberg considered that a purpose of an equity allocation was to ensure equal treatment of members. In considering the proposed package, each parliament should recognize that the package would be advantageous for the entire international community, as it would increase the possibility for the transition economies to be integrated into the world economy.

The Executive Directors concluded for the time being their consideration of access limits, SDRs, and cofinancing trust accounts.

LEO VAN HOUTVEN
Secretary