

INTERNATIONAL MONETARY FUND

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11:50 a.m., July 6, 1994

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

Executive Directors

M.-A. Autheman
J. Bergo
H. Evans
H. Fukui
K. P. Geethakrishnan
J. E. Ismael
D. Kaeser
A. Kafka

W. Kiekens
G. Lanciotti
K. Lissakers
R. Marino
A. Mirakhor

C. V. Santos
S. Schoenberg

D. E. Smee
E. L. Waterman

A. G. Zoccali

Alternate Executive Directors

A. A. Al-Tuwaijri
E. Srejber

L. E. N. Fernando
K.-T. Hetrakul

A. Calderón
A. V. Mozhin

B. S. Newman

B. S. Dlamini
O. Havrylyshyn

Y. Y. Mohammed

A. M. Tetangco, Jr.
Wei B.
A. F. Jiménez de Lucio

J. W. Lang, Acting Secretary
S. L. Yeager, Assistant

Also Present

African Department: M. Touré, Counsellor and Director. European II Department: J. Odling-Smee, Director; E. Brau, Deputy Director; D. A. Citrin, L. Hansen, P. C. Hole. External Relations Department: H. P. Puentes. Fiscal Affairs Department: E. F. Offerdal. Legal Department: F. Gianviti, General Counsel; J. L. Hagan, Jr. Monetary and Exchange Affairs Department: A. O. Liuksila. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; D. Burton, B. Christensen, H.-M. Flickenschild, N. Happe, A. K. McGuirk, M. Tareen. Research Department: M. Mussa, Economic Counsellor and Director; M. Goldstein, Deputy Director; P. Isard. Secretary's Department: S. Bhatia, A. Mountford, T. W. Y. Ranaweera. Southeast Asia and Pacific Department: C. M. Browne. Treasurer's Department: D. Williams, Treasurer; J. Berrigan, J. E. Blalock, E. Decarli, L. U. Ecevit, D. Gupta, H. Jepsen, A. Muttardy, G. S. Tavlas, T. M. Tran. Office of the Managing Director: G. R. Saunders, Personal Assistant; J. G. Blanch. Advisors to Executive Directors: P. Cailleateau, A. Chang Fong, S. K. Fayyad, R. Kannan, P. A. Merino, J. Ortiz Vely, T. Oya, Y. Patel, B. A. Sarr, N. Toé. Assistants to Executive Directors: J. M. Burdiel, J. A. Costa, G. El-Masry, R. Ferrillo, A. Galicia, C. Gaseltine, O. Himani, G. H. Huisman, C. Imashev, W. C. Keller, A. M. Koulizade, K. J. Langdon, G. J. Matthews, S. Narube, S. Rouai, A. Sighvatsson, V. Verjbitski, R. von Kleist, Wang Y.

1. SDRS, ACCESS LIMITS, AND COFINANCING TRUST ACCOUNTS

The Executive Directors met informally to consider a statement by the Managing Director on access limits, SDRs, and cofinancing trust accounts (CTAs). They also had before them illustrative calculations for selective SDR allocations (SM/94/152, 6/17/94; and Sup. 1, 7/5/94).

The Managing Director made the following statement:

In light of our recent discussions on the SDR and on the role of the Fund in financing the economies in transition and the broader issues that have been raised regarding access by all members to the Fund's resources, I would like to outline the elements of a comprehensive package to help provide a basis for agreement among Directors on these important issues.

With respect to access policy under Fund arrangements and the systemic transformation facility I would suggest that we proceed with a temporary increase in the annual access limit applying to stand-by and extended arrangements. The staff had proposed an increase in the limit to 85 percent of quota. While most Directors could support this proposal, particularly as part of a package, some Directors would prefer a higher limit. I know some of you have strong reservations about increasing access limits much beyond the staff's earlier proposal, and I appreciate the reasons for your caution on this matter. Nevertheless, to balance the various views and issues, I believe an increase to 90 percent of quota--together with a reminder that the exceptional circumstances clause remains available if the need arises--would provide a solid contribution toward a broader package. The proposed increase is intended to provide confidence to members with potentially large financing needs--including, importantly, the need to accumulate more quickly appropriate levels of reserves--that the Fund will be in a position to respond in a timely manner and on an appropriate scale in support of strong policies. As the potentially large needs of some of the countries concerned could persist for a number of years, I would suggest that the increase in the access limit be effective for a period of three years after which the limit would revert to its current level. Of course, the situation will be reviewed annually.

Among those members facing large balance of payments needs are a number of the transition economies, but also other members adopting particularly bold stabilization and reform programs. As the needs of these members are met, we can expect to see an increase in the average level of access--as a percent of quota--provided under Fund arrangements. However, there is also a broader question as to whether, for the membership more generally, average access should increase beyond what it has been since the current limits were set at the time of the last quota increase.

The views of Directors on this issue at our meeting on June 17 (EBM/94/54, 6/17/94) were mixed, with some Directors emphasizing the need for the Fund to play a larger--while still catalytic--role in financing members' adjustment programs. I take it to be the sense of the Board that, to the extent it is justified in terms of the strength of the programs adopted and the needs for balance of payments financing under those programs, recommendations to provide access above the levels prevailing over the past few years would be seen as appropriate. This could be expected to raise further the average level of access provided under stand-by and extended arrangements.

As to modifications to the systemic transformation facility (STF), Directors generally favored an extension of its availability for another year, permitting a first purchase under the facility to be made until end-1995. Many Directors also supported an increase in the access limit, although a number believed that such a move would not be appropriate. Directors generally expressed concern that the staff's proposal, as it was formulated for our June 17 discussion, could weaken the incentive for members to move to an upper credit tranche arrangement and that potentially larger resources for stand-alone STF purchases could increase the risks to the Fund. Directors also thought that the proposed five tranches would be too complex. Among those Directors favoring an increase in STF access, there was considerable support for simplifying the staff proposal by keeping the first two purchases at 25 percent of quota and adding a third purchase, of perhaps 35 percent of quota, that would be made available only in the context of an upper credit tranche arrangement.

The staff elaborated on the motivation underlying its proposals at the June 17 meeting. The point was stressed that there was no intention to weaken conditionality or to reduce the incentives under the STF to move expeditiously to an upper credit tranche arrangement. At the same time, the staff saw a role, in what they considered would be a very few cases, for maintaining the possibility of additional stand-alone purchases, admittedly as a fallback position, when the hoped-for progress toward an upper credit tranche arrangement took more time than initially anticipated. We agreed to reflect on these issues in light of Directors' views and to seek to reconcile the various considerations, including the desire of many for simplicity. After further reflection, and considering the proposed increase in access under stand-by and extended arrangements, I would put forward for your consideration the following proposals for modifying the STF.

The first two STF purchases of up to 25 percent of quota each would continue to be available on the same basis as under the current decision.

Additional STF resources of up to 30 percent of quota would be made available in two purchases of up to 15 percent of quota each.

There would be a strong presumption that the third and fourth STF purchases would be made available only in the context of a Fund arrangement. A third or fourth purchase could be made on approval of an arrangement or on completion of a review under an arrangement. This would maintain the strong incentive for members to move to upper credit tranche arrangements as soon as possible. Two purchases rather than one would provide greater flexibility in the phasing of overall resources made available to the member. For example, while it would be possible to front-load the total resources provided in the context of an arrangement, this could be avoided, in appropriate cases, where disbursements needed to be phased in line with future policy steps.

I think it would also be desirable to provide some flexibility to permit third and fourth stand-alone purchases in the exceptional circumstances that a small number of late starters may face. A possible example would be a member that is making serious reform efforts resulting in significant progress, but where there are doubts about whether sufficient institutional capacity and policy instruments yet exist to implement an upper credit tranche arrangement. In order to maintain Fund financial involvement in these circumstances, we might leave open the possibility of additional stand-alone purchases to help sustain the member's reform efforts. Of course, great care would have to be exercised in allowing stand-alone purchases, and the Board would decide how to proceed with these situations on a case-by-case basis.

The availability of the first STF purchase would be extended to end-1995 and the last date for all other purchases would be mid-1997. There would normally be a six-month interval between STF purchases, but the requirement that the second purchase be made no later than 12 months after the first purchase would be eliminated.

A question has been raised regarding the implications of an increase in the access limit under stand-by and extended arrangements for access policy under the ESAF. It is the view of a few Directors that the provision of resources under ESAF arrangements has been highly constrained, resulting in either an undue compression of imports, unduly slow accumulation of reserves, or requests for bilateral funding that have severely strained resources available from those sources. The stock of resources committed to the ESAF by contributors is limited, and it has always been the intent to try to assure the availability of those resources to as many eligible countries as possible. This

is even more important now that the list of eligible members has been expanded to include a number of the transition economies that are expected to require relatively large resources under ESAF arrangements. As indicated in the paper discussed on June 17, it would be feasible to handle a few such cases within existing resources; however, a general increase in access for all ESAF-eligible countries would severely constrain the little margin that was available under the initial target for the expanded ESAF--and even that initial target has not yet been reached. It could be appropriate in some cases to blend ESAF resources with General Resource Account (GRA) resources, but the scope for this will be limited if the Fund is to continue--as it should--to provide support to the poorer countries still confronting severe external difficulties on terms that will help assure resolution of their problems rather than compounding them later.

In deciding access to ESAF resources in individual cases, a number of factors are taken into account, including the need to husband these resources as described above. The Staff could weight this factor less heavily than it has in the past, but I would recommend that course of action only on the clear understanding of its implications: the most important being that it may advance the date when ESAF resources have been fully committed, and under circumstances in which some eligible member countries may not have been provided the support their adjustment efforts warrant. Thus, to proceed in this direction--which is indeed a direction that will help to ensure an evenhanded approach--there must be a clear sense from the Board of these implications of higher access to ESAF resources. In order to permit the Fund to remain in a position to have the concessional resources it needs to support the reform efforts of its poorest members, we will need to consider whether and how to further enlarge and extend the ESAF including, if necessary, using a limited amount of the Fund's gold.

On the subject of an SDR allocation, I believe the time has come to move forward toward a recommendation that can be presented to the Interim Committee at the Madrid meetings. For reasons I have previously stated, I still favor a straightforward general allocation of SDR 36 billion as the most expeditious method, both to provide a needed supplement to other sources of growth in the world supply of reserves and to provide new members of the Fund with a significant stake in the SDR system. However, while most Directors continue to support this approach, it appears that there is not yet the requisite voting majority to proceed with a general allocation alone. Moreover, as many Directors recognize, there are sound reasons for considering a possible amendment of the Articles in order to address the issue of "equity." A compromise that will secure the requisite voting majority could need to

combine the features of such an amendment with those of a general allocation.

Concerning the possible amendment, I would hope that the Board could now reach a consensus concerning its main features so that the staff may proceed to prepare the relevant draft documentation; SDR allocations pursuant to such an amendment would not be based on a long-term global need for reserves and would stand separately on their own merits. I would encourage Directors who have not previously expressed their views on these issues to do so at the meeting on July 6, under the working assumption that there will be some form of amendment. Symmetrically, I would encourage Directors to state clear positions on the size and phasing of a general allocation of SDRs that they would be prepared to support. At the Board meeting on June 23 (EBM/94/56, 6/23/94), most Directors who spoke on the issue favored an amendment based on "Method III" as described in SM/94/152, "SDR Allocation--Illustrative Calculations." Such an amendment would allow all members of the Fund with ratios of net cumulative SDR allocations to current quotas below a critical benchmark the one-time opportunity to raise their SDR allocations to correspond to this benchmark ratio. Directors supporting this approach generally suggested benchmark ratios in the range between 17.42 percent--equal to the ratio of total SDR allocations to total quotas for members that have participated in all previous allocations--and 25.8 percent--equal to the highest ratio of SDR allocations to quota for countries that have consented to increases in quotas under the Ninth General Review.

For a number of reasons, I would now urge that the Board find consensus on an amendment in the form of Method III, with the benchmark ratio set at a relatively high level. First, with Method III we would avoid thorny issues of eligibility and of "reverse inequity." Specifically, under this form of amendment no newer member of the Fund would have the opportunity to acquire a higher ratio of SDR allocation to quota than the ratio for any older member of the Fund. Second, for those who believe, as I do, that there is a significant global need to supplement existing reserve assets through a new allocation of SDRs, there should be no objection--other than possible delay in ratification--to meeting part of this long-term global need as a consequence of an amendment of the Articles that addresses the issue of equity. Third, as a practical matter, it may be easier politically to secure ratification of an amendment, and to secure ratification more quickly, if a greater number of members would find their individual SDR allocations directly and significantly affected by the amendment.

We could consider alternative approaches to establishing a benchmark ratio. We have discussed the ratio of 25.8 percent.

Another approach would be to re-establish the effective ratio that prevailed before the large expansion of the membership. For example, the average ratio of net cumulative allocations to quotas at end-1989 stood at 23.7 percent. Or we could select a somewhat higher ratio, perhaps, 30 percent, which would mean that part of the selective allocation would be distributed across the membership in proportion to current quota like a general allocation. The selective allocations under these alternative benchmark ratios would amount to SDR 16 billion under the first alternative, SDR 13.2 billion under the second alternative, and SDR 22 billion under the third. Such allocations would range from 37 percent to 60 percent of the allocation that I have recommended on the basis of long-term global need.

As many Directors have suggested, a general allocation of SDRs should be considered in conjunction with the SDRs that would be provided through an amendment, perhaps based on Method III with a high benchmark ratio. I would suggest that most or all of such a general allocation should come promptly while we await ratification of the amendment providing for the special allocation. The size of the general allocation should, in my view, fill in the difference between the SDR 36 billion that I have proposed and the total SDR allocation that would be made available under the amendment.

To move forward toward a consensus on the question of SDR allocations, allowing adequate time for the preparation and discussion of the necessary details before the Madrid meeting, it would be useful if Directors could now address the following questions. First, assuming that there will be both a general allocation and an amendment to provide for special allocations to address the issue of "equity," would Directors favor, or be prepared to accept, Method III as described in SM/94/152? Second, under this form of amendment, what benchmark ratio for special allocations would Directors favor, and what ratios would they be prepared to accept? Third, would Directors want the amendment to allow future members of the Fund an appropriate opportunity to acquire special SDR allocations after joining the Fund? Fourth, under the assumption that there will be an amendment to provide for special allocations in accord with Method III with a relatively high benchmark ratio, what size and, if any, phasing of a general allocation of SDRs would Directors favor, taking account of the allocations made available under the amendment? Finally, would Directors recommend, as I would suggest, that we consider reinstating a reconstitution requirement?

In our recent discussions, many of you responded positively to the concept of cofinancing trust accounts and the role they could play in providing additional resources--not only in the context of an allocation but also for the utilization of existing

SDRs--to members undertaking adjustment programs; some of you even indicated an interest in providing financing through this mechanism. Your comments on the possible features of such accounts, including the important qualities of liquidity and security, have been helpful and we will come forward with a paper for further consideration.

Many Directors are rightly concerned about the potential impact over time of the proposed higher access limits on the liquidity position of the Fund; the staff will closely monitor developments, especially in relation to discussions concerning the Tenth and Eleventh Review of Quotas. On burden sharing, many of you have stressed the need to address the issues explicitly and comprehensively. I recommend that we aim for better balance in the distribution of the costs of operating the Fund. You will have a paper discussing alternative approaches to burden sharing shortly, for discussion on July 20.

During our discussion on June 17, many of you mentioned the historic challenges of integrating the transition economies into the international monetary and trade system, the central role of the Fund in this process, and the need to preserve the monetary character and catalytic role of the institution through a concerted effort by the international community. As I indicated earlier, I am prepared to go forward with these proposals on the understandings that they command the broadest support among the membership; that the membership stands ready to increase Fund quotas should the Fund's liquidity position fall close to the traditional threshold for considering this; that although the average level of access provided under Fund arrangements could be expected to rise, there is to be no weakening of conditionality and the Fund's role is to remain essentially catalytic; and that the membership, through you, reaffirms the Fund's preferred creditor status and readiness to provide financing in the future, in the terms provided when the STF was established.

Mr. Kafka made the following statement:

The discussion scheduled for today, even though informal, is of basic importance. It is desirable that all member governments, particularly those who will be meeting in Naples this week, be informed of the various opinions held by members of this Executive Board on the questions dealt with in the Managing Director's statement, which were also dealt with at our meeting of June 23.

I would like to start where I finished at that meeting. The problems before us imply a package deal as, without it, we would not be able to come to a practical conclusion. The need for a package deal is imposed by the high majority necessary not only

for decisions to reform the Articles and to allocate SDRs, but also to extend the STF.

As part of an appropriate package, we could go along with an increase in annual access limits to 90 percent of quota, subject to annual reviews and a return to present quota limits after three years. We could accept that as a consequence of this increase, average access would be higher than that prevailing in the past few years--but there would still be no change in the cumulative access limits.

With respect to the STF, as part of an appropriate package deal, we would be prepared to go along with the extension of the STF for an additional year to end-1995, as well as with an increase in the access limit to 80 percent. However, we would insist--and be prepared to go along with--the additional 30 percent tranche suggested by the Managing Director, but we think it should be quite clear that this, in two purchases, should be available only in the context of a Fund arrangement in the upper credit tranches. We would be prepared to accept the possibility of additional stand-alone purchases, but these should be understood to be wholly exceptional.

With respect to the ESAF, we would go along with your proposals. We certainly support the suggestion that the need to husband our limited resources should be emphasized less heavily than in the past, but with the clear understanding outlined in the Managing Director's statement; namely, we are prepared to consider a further enlargement and extension of the ESAF and, if necessary, to sell a limited amount of the Fund's gold for that purpose.

A substantial general allocation of SDRs is an indispensable part of the package deal. The allocation should be no less than 15 percent of quota in 1994 and 5 percent of quota in each of the following years. This will assure us that the SDR will be kept alive. We would prefer that all of this should be a general allocation. We are prepared, however, to accept an amendment to the Articles that would authorize special allocations not based on a long-term global need, with total special allocations deducted from the above-mentioned sum provided, however, that a 15 percent general allocation would take place prior to the selective allocation. For the special allocation, we would prefer Method III and accept a benchmark ratio that might be as high as 17.42 percent. We would also allow future members of the Fund to obtain special SDR allocations on the basis of a benchmark equal to the average ratio then prevailing. As we have already stated on several occasions, we would favor reinstatement of a reconstitution requirement.

The package that I have described greatly increases the risks that the Fund will run, and this is particularly the case with respect to extension and increase in access of the STF. It is therefore necessary to impose safeguards. We look forward in this respect to the paper discussing alternative approaches to burden sharing. But, in our opinion, this is not sufficient. I would again stress the suggestion which we made several times of instituting a demand for collateral for those drawing on the STF. We would like to recall that such collateral can be of various kinds, including a guarantee issued by member countries closely related to those that are the beneficiaries of the STF.

We look forward to the discussion of the paper on burden sharing.

Mr. Bergo made the following statement:

As Mr. Autheman mentioned during our last discussion, the time has come to put an end to prenegotiation tactics and start negotiating. Although the result of these negotiations will not make any of us completely happy, we could hope for, and should aim at, a result that gives us a reasonably equitable distribution of unhappiness. I see the Managing Director's statement as an important stepping-stone toward such a compromise solution.

Accepting an amendment to the Articles of Agreement in order to solve a somewhat questionable equity problem certainly does not make this chair very happy, especially as a general allocation along the lines that this chair has earlier advocated would have provided a perfectly acceptable solution to the problem of perceived inequities, while meeting the global need for supplementing liquidity. I have also been reluctant to accept an increase in access limits for the STF. Like many others, I am concerned about weakening the incentive to move toward full conditionality programs.

Having expressed my dissatisfaction with certain elements of the proposed solution in the Managing Director's statement, I would like to comment on its content so as to indicate to what extent and under which conditions the proposal could be acceptable to my authorities.

My authorities can hesitantly, as part of a compromise solution, go along with the proposal to raise access limits for stand-by and extended arrangements to 90 percent of quota. In doing so, we would again strongly underline that there must be a link between actual access and the degree of conditionality. It is also important for us that it be clearly understood that this increase is temporary, and that the decision be formulated in such a way that it is clear that after three years, access limits would

automatically revert to the previous limits without any need for a new decision.

My authorities would be even more hesitant to accept an increase in access to the STF over and above the present level of 50 percent. An increase of the magnitude suggested in the statement could only be contemplated if conditionality is appropriately increased and the additional drawing is strongly linked to a stand-by or extended arrangement. Although I can understand, to some extent, the desire to have some flexibility in cases where the adjustment process becomes protracted owing to special unavoidable circumstances, I am hesitant to open up this possibility owing to the "moral hazard" aspects it might entail. Should this Board meeting reveal a strong support for providing added flexibility, I would suggest that the staff prepare a paper that would explicitly spell out the exceptional conditions under which a stand-alone tranche, in addition to the existing two tranches, would be made available. The possibility for additional stand-alone drawings should, in any case, stop well short of the 80 percent proposed access limit. As indicated earlier, this chair supports a one-year extension of the STF.

Even if increased access limits and SDR allocations do not address the same concerns, there is obviously a need to view the two in conjunction, and not only for negotiating purposes. Being generous on the access limits, as we think the proposal is, would be seen by some--also in my constituency--as implying a somewhat lesser need for SDR allocations. As I mentioned earlier, this chair continues to believe that a general SDR allocation is the best way to solve the perceived inequities. However, we recognize that this probably will not muster sufficient support in the end, and that a compromise entailing an amendment of the Articles of Agreement to allow for a once-and-for-all catch-up allocation and a smaller general allocation must be sought. With the access limits indicated, total SDR allocations could be somewhat less than management's proposal of 36 billion. With regard to the precise figure, the views differ in my constituency--with SDR 26 billion or thereabouts as the midpoint in a broad range that goes from SDR 16 billion up to the proposed figure. An allocation of about SDR 26 billion might be appropriate, not least because that is the midpoint of the range of views within my constituency.

Concerning the modalities of an amendment, I can accept Method III, which seems to command broad support. As part of a package, and dependent on the outcome of the other elements, I would be ready to support a special allocation using Method III, with the benchmark in a range between the present average ratio--17.42 percent--and the maximum ratio--25.8 percent. Our feeling is that the benchmark should be closer to the first figure than to

the second. The remainder, up to the figure agreed for total SDR allocations, should then be made up by an initial general allocation and subsequent small annual allocations.

As I view the special allocation as part of a special package, this should be a once-and-for-all operation, and we should revert to the regular system of general allocations afterward.

I am in broad agreement with the Managing Director's comments on the possibility of increasing access under the ESAF. We need to study further the implications of higher access, but we should keep in mind that access limits are already at a high level. For that reason and considering the limited availability of resources, I am skeptical about increasing access to the ESAF at this point. A further enlargement, before we have fully secured the targeted contributions to the recently enlarged ESAF Trust, seems a distant goal and would require a shift in priorities by some of the largest member countries.

Mr. Zoccali made the following statement:

On the whole, we could support many of the constructive suggestions that were made, if they are part of an integral package that includes a significant general allocation of SDRs and a more equitable distribution of the costs of operating the Fund.

On access under stand-by and extended arrangements, we can support the proposal to increase access limits to 90 percent of quota, to make the increase effective for a period of three years subject to annual reviews, and, to the extent justified, raise average access to a level above that prevailing over the past few years.

On modifications to the STF, our position was clearly stated on June 17. We could go along with an extension of its availability for another year if there is a consensus, although we remain unconvinced regarding the efficacy of its enlargement, particularly if the requirement that the second purchase be made no later than 12 months after the first purchase is eliminated and the subsequent tranche or tranches are not directly linked to an upper credit tranche arrangement. By leaving the door open to third and fourth stand-alone purchases we are diluting even further the paving nature of this facility, which in effect would allow for purchases until mid-1997. I share Mr. Bergo's views in this regard.

On access under the ESAF, there is a need to balance the initial resource constraint with evenhandedness toward the poorest members. In this context, moving in the direction of a general

increase in access for all ESAF-eligible countries seems self-defeating, unless there is serious undertaking to further enlarge the existing facility, perhaps along the lines suggested by the Managing Director.

On an SDR allocation, we continue to favor a straightforward general allocation of SDR 36 billion on its own merits for resolving the so-called equity issue without abandoning the spirit of the Articles or weakening the reserve asset characteristics of the SDR. Securing the necessary congressional ratifications for an amendment to the Articles of Agreement to address only the equity issue through a special allocation is, in our view, an unworkable option. We are, nevertheless, prepared to go along with a consensus that includes an amendment in the form of Method III, with a benchmark ratio set at a relatively high level--not lower than 25.8 percent--and a general allocation of SDR 20 billion with a substantial up-front component while ratification of the amendment is being sought. Additionally, we would favor a provision allowing future members of the Fund an opportunity to acquire special SDR allocations after joining the Fund at the benchmark ratio to be agreed now for all members. We do not favor re-instituting the reconstitution requirement. The attractiveness of the SDR as a reserve asset, which to date has not been questioned, is in great measure due to participants' ability to freely use them.

We welcome the Managing Director's recommendation to aim at a better balance in the distribution of the costs of operating the Fund and find merit in pursuing the suggestions put forth by Mr. Posthumus during our last meeting and to including the required enabling provisions in any package entailing an amendment of the Articles.

Mr. Kaeser made the following statement:

We welcome the opportunity to have a comprehensive discussion on the package deal that should be reached on access limits, the STF, and SDRs. We would have preferred to have this issue discussed at a regular Board meeting as it was previously agreed at the Board on June 23. At least, we would like to have concluding remarks after today's discussion.

I would like to stress that this chair's position is very close to the Managing Director's proposed package deal. The divergences could be overcome in a spirit of compromise if other members of the Board are in the same state of mind.

As to access under stand-by and extended arrangements, I wish to recall that on June 17, 1994, we questioned the need for greater access as average access is still well below the present

limit. We also expressed the concern that increased access could lead the Fund to cover such a large share of the financial needs of member countries that the financial integrity and the monetary character of the Fund would be jeopardized.

In the framework of the proposed comprehensive package, we can accept the increase of the access limit under stand-by and extended arrangements to 85 percent of quota. The new limit should apply only in a minority of cases when the Board deems it appropriate to give such a large financial support to very strong and promising programs. In effect, average access should raise only marginally. The increased limit should be effective only for three years, and there should be a review every year.

As to the modifications of the systemic transformation facility, we confirm our support for extending the STF for another year, with the last purchase taking place in mid-1997. We continue to support an increase of access by 30 to 35 percent. This increment should become a third tranche. This third tranche should become a strong incentive to enter into an upper credit tranche arrangement, and should be made available only when an upper credit tranche agreement is approved by the Executive Board. The creation of an additional tranche already gives more breathing space to the eligible countries.

In our view the creation of two additional tranches is not advisable because they are likely to slow down the reform process. Above all, we disagree with the possibility of permitting more stand-alone purchases. What is intended to remain an exception would become the rule: additional stand-alone purchases would be a strong incentive for eligible countries to drag their feet; stand-alone purchases would become a moral hazard. The granting of more stand-alone purchases should in any case call for collateral or other forms of guarantees. If more flexibility is contemplated in the operation of the STF, then it should apply to the conditionality attached to the first tranche.

We do not think that access under ESAF arrangements should be increased for the time being. The mobilization of additional resources for the ESAF successor would be difficult. In many countries, the ESAF contribution is still under parliamentary ratification and we should not overload the boat. The idea to use the Fund's gold could interfere with this ratification process. Parliaments would hardly give away national budgetary resources if the Fund itself suggests selling its gold. The sale of gold would probably become another Pandora's box.

Concerning the SDR allocation, we have already consented to a combination of a selective and a general allocation of SDRs. For the selective allocation, we prefer Method III, as it ensures

equity. With respect to the benchmark, a key element seems to be the ability to foster enough support among members to secure the swift ratification of an amendment of the Articles. Thus, we can agree with a benchmark set at a relatively high level. In searching for a compromise, we would be somewhat flexible in the relative share of the targeted and the general allocations, but the total amount of SDR allocated may not exceed a ceiling of 36 billion. The general allocation should come into force at the same time as the amendment of the Articles, and not before.

Providing low-cost international liquidity free of any conditionality may induce governments to adopt more expansionary policies or a slower pace in their adjustment efforts. For this reason, and because the SDR should retain its character as a reserve asset, we strongly support the reinstatement of a reconstitution requirement, at least for the SDRs emanating from the general allocation. This requirement should not prevent a country to sell the newly allocated SDRs in case of a balance of payment need, but it should be obliged to buy them back, within, say, the following five years.

As to cofinancing trust accounts and burden sharing, we are ready to discuss these issues, as usual with an open mind, on the basis of documents that should be provided to the Board. We do not, however, consider them to be part of the package.

Mr. Kiekens made the following statement:

We are asked for our early and clear-cut reactions to the proposal on a comprehensive package including access to Fund resources, modification of the STF, an SDR allocation, and other issues. I will try to convey this chair's views as clearly and briefly as possible.

On access under stand-by and extended arrangements, I agree that an increase in access to 90 percent of quota--together with a reference to the existence of the exceptional circumstances clause--constitutes a fair compromise that should elicit a consensus in this Board. Additional elements of this compromise are the duration of the increased access--three years subject to annual reviews--and the understanding that strong programs and large balance of payments needs justify a higher average access to Fund resources than has been our recent practice.

As to modifications to the STF, I agree that it should be extended another year, and also with the new final date for an STF purchase, as well as with elimination of the 12-month limit for the period between the first and second purchases. Eliminating this limit will introduce greater flexibility, as will the proposal to tranche additional access of 30 percent of quota

into two equal purchases of 15 percent of quota. However, it is still my authorities' view that the additional access should, as a rule, be granted only when a Fund arrangement with regular conditionality standards is in place. Stand-alone STF purchases should be avoided. Indeed, extending the life of the STF in itself provides new opportunities for those members that up to now have not requested a second purchase under the STF and that do not yet possess sufficient institutional capacity and policy instruments to implement an upper credit tranche arrangement.

On access under the ESAF, I believe that it is premature to start talking about changing our policy even before the enlarged and extended ESAF has become operational. Moreover, we have not completed our discussions on cofinancing trust accounts, which might also be useful for some ESAF-eligible members.

On the SDR allocation, I have already expressed the preference of this chair for Method III in any combination of a selective and a general allocation. I also indicated my preference for using 17.42 percent as the benchmark ratio, but I would be willing, in the spirit of compromise, to accept a higher ratio if necessary, even one going beyond 25.8 percent, in order to give all Fund members a stake in the selective SDR allocation. The higher the benchmark ratio, the larger the selective part of the allocation, and thus the smaller the accompanying general allocation. I accept the Managing Director's point that we should aim at an overall allocation, general and selective combined, of SDR 36 billion. As we are now moving in the direction of two "bullet" allocations, one general and one selective, rather than a series of annual allocations, I could live with a somewhat smaller overall amount if this is the way we can achieve a compromise. A combination of an SDR 16 billion general allocation and a selective allocation of equal size seems to have some appeal in this context. Still, on SDRs, I continue to hold the view that in addition to the contemplated transitional provisions to be applied once and for all, an amendment to the Articles should include a permanent provision governing the allocation of SDRs to future new Fund members. I can go along with the Managing Director's recommendation to reimpose a reconstitution requirement for SDRs, but we may need to take another look at the technical details of its operation. As we elaborate these rules, we must pay due regard to the necessary liquidity on the SDR market. I would also like to emphasize that my authorities very much hope to have a draft resolution on a general SDR allocation as well as on the Fourth Amendment of the Articles ready by the time of the Madrid meetings. In view of such a time frame, it would seem advisable for the Legal Department to prepare draft texts to this end as soon as possible.

As you may recall, I recently expressed my uneasiness about the continuous expansion of our so-called comprehensive package. I recognize that a number of my colleagues attach much importance to the issue of burden sharing. I certainly subscribe to the principle that we should aim for better balance in distributing the costs of operating the Fund. But putting this principle into practice will require a multitude of discussions, which it might not be possible to conclude satisfactorily by the time of the Madrid meetings. Let us try and move in parallel on both fronts, and refrain from making a consensus on the principal issues that we discuss today dependent on an additional agreement about an issue that is only loosely related.

I will reaffirm my authorities' readiness to increase Fund quotas if circumstances warrant, provided, inter alia, that the Fund's resources are being put to good use with no weakening of conditionality. I have also no difficulty in reiterating my authorities' affirmation of the Fund's preferred creditor status.

The Chairman said that he looked forward to drawing some helpful insights from the discussion on Mr. Posthumus's suggestions regarding the financing the Fund, even if the paper did not offer precise conclusions at the current stage. All seemed to agree that the Board should avoid a multitude of discussions on burden sharing.

Mr. Geethakrishnan remarked that even though the Managing Director's statement did not address some issues that he had raised previously on behalf of his authorities, he could endorse the compromise package, subject to two comments.

It should be stressed that a special allocation would require approval by various parliaments--an enormous difficulty he would like to see avoided, Mr. Geethakrishnan stated. If, however, parliamentary approval became unavoidable, it was essential that the special allocation be accompanied by a substantial general allocation to ensure that it gained the support of parliaments. That was the first point. Deriving from that, an allocation of SDR 36 billion became a key and a starting point of the entire package.

The second point related to the position of developing countries, Mr. Geethakrishnan commented. Nearly 30 percent of developing countries already had a high SDR/quota ratio, and most would benefit only minimally from a special allocation at the levels being considered. Moreover, each of those countries stood to lose substantial ground in that respect by the move from a general allocation to a general allocation plus special allocation. In the spirit of compromise, however, he could accept that there was a need for a moderate special allocation. He would prefer a benchmark ratio of 14.7 but could accept a ratio of 17.42, which was the average for all countries that had participated in all previous allocations. In any event, his support for the package was contingent on a total allocation of SDR 36 billion.

Mrs. Hetrakul made the following statement:

I commend the Managing Director's excellent effort to bring to a successful conclusion our discussion on access limits and SDRs. These issues have an important bearing on the operation of this institution and its principles.

This chair supports the comprehensive package within which acceptance of one element should lead to acceptance of others. The major element is the SDR allocation. Without this element, this chair would not be able to support the remainder of the package.

On the SDR allocation, this chair still prefers a general allocation in the amount of SDR 36 billion. But, at the same time, I am also aware of the need to move to a consensus on this issue. Obviously, there is difficulty in having either a general allocation or a special allocation on its own. In order that a consensus can be reached, I can therefore support a combination of a general and a special allocation totaling SDR 36 billion. The general allocation can be made immediately, followed by the special allocation once the Articles of Agreement are amended.

On the distribution between the two types of allocation, I prefer the option under Method III for the special allocation with a threshold ratio of 23.7 percent; this will result in a special allocation of SDR 13.2 billion, whereas the general allocation amounts to SDR 22.8 billion. However, I can also go along with the consensus for the threshold ratio of 25.8 percent.

In addition, it would be only fair that future members of the Fund be given the same opportunity to acquire SDRs at the same ratio of allocation to quotas.

On access limits under stand-by and extended arrangements, current access limits are not constraining the Fund's assistance under the two facilities. But, I must agree with the Managing Director that the Fund must stand ready to offer assistance to the growing future need of its wider membership. I therefore support the Managing Director's proposal for a temporary increase in access limits under stand-by and extended arrangements to 90 percent of quota for a period of three years, subject to annual review.

As for access under the STF, we are becoming increasingly aware of the enormous task faced by transition economies, and we should not underestimate the importance of their success to the world economy. Obviously, the Fund must be at the forefront of such efforts in initiating, coordinating, and catalyzing the assistance that is required. The establishment of the STF was a

timely response. To allow eligible countries the opportunity to make use of the STF, I support the extension of the first purchase under the STF for another year to the end of 1995.

The STF was designed to support transition economies that are willing to cooperate with the Fund in finding appropriate solutions to their problems. Some progress has been made, but there is still a long way to go. Under the circumstances, I could go along with the additional third and fourth STF purchases of 15 percent each. However, these third and fourth purchases must be in the context of a Fund arrangement and not as stand-alone purchases.

On access under the ESAF, I support evenhandedness in the Fund's treatment of all its members. The poorest among the membership continue to struggle to overcome similar challenges that transition economies are facing. I therefore welcome the proposal to increase access under the ESAF.

I look forward to the forthcoming papers on the cofinancing trust accounts and burden sharing.

Mr. Mirakhor said that he shared the views of Mr. Zoccali, Mr. Geethakrishnan, and Mrs. Hetrakul. He wished to emphasize that his chair considered that a total allocation of SDR 36 billion was central to all other elements of the package, and that any weakening of access would weaken support for the package.

Mr. Autheman stated that he welcomed the Managing Director's new proposal on access under stand-by and extended arrangements. He could support an increase in access limits up to 90-100 percent of quota. The Board should not be hesitant in deciding to increase access limits; it was doing so not to weaken conditionality but to address in a better way the issues of growth and sustainable external and internal balances in countries undertaking adjustment programs.

He would appreciate some clarification regarding the proposals on the average level of access, Mr. Autheman continued. He understood that the increase in average access must reflect an increase in access not only for countries benefiting from the new limit but also for other countries with lower financial needs or less perfect programs.

On the STF, he shared Mr. Kaeser's views in opposing stand-alone purchases, Mr. Autheman commented. Such purchases would send the worst message to members. However, he understood the need for flexibility in some programs where members were making serious reform efforts and "where there are doubts about whether sufficient institutional capacity and policy instruments yet exist to implement the arrangement." In those instances, rather than creating two additional tranches, it would be more appropriate

to give the Board some flexibility to use the third tranche in parallel with a stand-by arrangement.

He did not believe there was a need to increase access under the ESAF as the existing limits had never been fully used and average access was well below the current limit, Mr. Autheman stated. There was, however, room for increasing effective access within the existing limits. On the issue of an ESAF successor, the Board still had some time to consider that matter.

As to an SDR allocation, he believed that the Board needed to get a clear signal from country authorities on the prospects for agreement on that issue before the Madrid meetings, Mr. Autheman considered. If there was no prospect of agreement, he would share the views expressed by some Directors that the Board should not spend too much time on the matter. Nonetheless, he continued to hope that an agreement could be reached on an SDR allocation.

He did not share the view that Method III, with a high ratio, could be a substitute for a general allocation, Mr. Autheman commented. If such an idea were put forward, he would strongly prefer a well-focused, special allocation for members that had not participated in previous allocations. If there were general agreement on a mixed allocation, he would be ready to consider a higher special allocation along the lines of Method III.

He had no definitive view on the reconstitution requirement, Mr. Autheman observed. He was certain that the reintroduction of a sophisticated reconstitution requirement would not be satisfactory. He would, however, be interested in some in-depth analysis of the issue.

He would not favor extending the package to cover burden sharing, Mr. Autheman stated. That issue needed to be addressed on its own merits. Limiting the issues included in the package would increase the prospects for its acceptance by members.

Mr. Santos made the following statement:

I would like to join previous speakers in thanking the Managing Director for putting forward this package on which it is hoped a consensus can be forged, enabling us to respond appropriately to the Interim Committee's call for the Fund to continue playing a central role in supporting the adjustment efforts of a large number of countries. Like other speakers, we consider the package to be comprehensive and balanced enough to deserve an additional effort toward a consensus. We are prepared to discuss the package as presented, reserving issues such as burden-sharing and achieving a better balance in the distribution of the costs of operating the Fund for discussion in the near future.

On access policy under stand-by and extended arrangements, we can go along with the suggestion for an increase in access limits to 90 percent of quota effective for a period of three months. The provision on exceptional circumstances should also be retained.

On access under the ESAF, we take note of the statement that the relatively large resource requirements of a few transition economies could be handled within the existing ESAF resources, but that a general increase in access for all ESAF-eligible countries is not feasible as it would severely constrain the little margin available under the expanded ESAF. Therefore, we support other speakers who expressed the view that higher access under the ESAF should be extended to all ESAF-eligible countries only after securing necessary funding.

We can also go along with the proposed modifications to the STF on the condition that the third and fourth tranches be normally made available in the context of Fund arrangements. On the issue of flexibility to accommodate the exceptional cases referred to in the Managing Director's statement, in our view, limiting the stand-alone purchases of the third tranche would provide enough flexibility to deal with these cases. Here, it is important that the assurances given when the STF was established be reaffirmed.

As to the SDR allocation, in our view, one critical element of the package is the total amount of SDRs allocated. In this respect, it is our strong belief that a total allocation of SDR 36 billion, with a substantial proportion for a general allocation, is a minimum. We are prepared to accept a general allocation plus a selective allocation using Method III. We can support an approach whereby the general allocation would become effective prior to the completion of the amendment to the Articles of Agreement.

On the treatment of future members, it is fair to make provision in the amended Articles of Agreement to allow them to receive a special allocation of SDRs upon acceding to full membership in the Fund. The benchmark ratio used for selective allocations for existing members would be acceptable to us.

We do not favor the re-introduction of the reconstitution requirement.

Ms. Lissakers made the following statement:

One day to consult on the Managing Director's proposal is a fairly brief time, so I do not have much to add beyond what this chair has already expressed on the various components of the

proposed package. My comments are very much along the lines of Mr. Autheman's.

On access, it seems to me that the Interim Committee made a very clear statement that the Fund should play a larger role in meeting member's financial needs. We believe that raising access under stand-by and extended arrangements to 100 percent of quota would be an effective way to respond to that instruction from the Interim Committee. Raising access to 90 percent of quota could conceivably achieve the same objective; after all, what we are seeking is an increase in the average effective access of programs. Our desire is simply to make a clear statement that we want fuller use of the Fund's resources for good programs. Perhaps the staff could comment on the precise meaning of the paragraphs describing the outcome under a 90 percent limit.

On the STF, we continue to have strong reservations about the desirability of having small additional tranches, particularly if they would be stand-alone. We believe that a stand-alone tranche would weaken the link between the STF as a transition to a stand-by arrangement, and that having smaller tranches could both lead to protracted non-upper credit tranche programs and weaken the incentive to move to strong programs. We continue to view a single third tranche of 35 percent of quota linked to a stand-by arrangement as a more effective approach in this regard.

On the vexing issue of SDRs, we appreciate the desire of management and our colleagues to advance the debate. Time is indeed short if we are to reach a decision before the Annual Meeting. I can not give a definitive response at the moment on either the form or content of a selective allocation beyond what we have already said. On the question of selective allocation, we continue to believe the strongest case can be made for those countries that have not had the opportunity to participate in an SDR allocation simply because of the timing of their membership in this institution. We recognize that a special allocation for these countries may create perceptions of reverse inequity for other members, although it is difficult to find a formula that will not result in some perceived inequity for certain members.

We are prepared to consider pragmatically the scope of a possible amendment, provided it does not become in effect a back-door means of achieving a general allocation without a finding of global need. Such an outcome would compromise the monetary character of the SDR by creating a new basis for an allocation to all members that is fundamentally at odds with the current SDR rules and procedures. In this regard, we have particular concerns about proposals for benchmarks that exceed the level necessary to provide all members with at least some SDRs and begin to approximate the amounts that might be distributed under a

general allocation. Such an outcome would be tantamount to a general allocation by another name. At the same time, we recognize that a very low benchmark would exclude the vast majority of members from receiving any allocation, even under Method III, and would thus not address the perception of reverse inequity.

Furthermore, we have reservations regarding the assumption in the Managing Director's proposal that a general allocation should top up a special allocation in order to achieve a target of SDR 36 billion. Such an approach creates the clear perception that a special allocation is simply a general allocation without a finding of global need. Moreover, my authorities are not persuaded that a convincing case has in fact been made for a large general allocation. I would be hard pressed to justify support for a combined special and general allocation that effectively produces an outcome on which they have already expressed reservations.

On the question of reconstitution, like others, we would be interested to hear more about what the staff has in mind. My impression is that reconstitution in the past did not work well in getting participants to hold SDRs, and I would like to know how the staff would intend to remedy this problem.

On the ESAF, we understand the desire to maintain the current balance between access under different Fund facilities; that seems perfectly justified and reasonable. As Mr. Autheman has correctly pointed out, the limits have not been approached so far under ESAF programs, and perhaps the first question to ask is why effective access has been as low as it has been to date. The formal limits do not appear to be a constraint at the moment. There is also the question of how one would intensify the use of ESAF resources without exhausting available funds prematurely. Also, we would need to see further careful consideration of possible plans to enhance ESAF resources so soon after agreeing on ESAF II and before some member countries, including the United States, have fully fulfilled their pledge for ESAF II.

Mr. Mohammed made the following statement:

On the SDR allocation, like the Managing Director, we continue to favor a straightforward general allocation of SDR 36 billion as the most expeditious method, both to provide a needed supplement to global reserves and to provide our new members with a significant stake in the SDR system. However, as we pointed out at our June 23 meeting, we could go along with a combination of a general allocation and a special allocation, provided that the general allocation is a "reasonably sized" one,

and provided that it precedes an amendment of the Articles to permit a special allocation.

Assuming there will be an amendment, we would favor an amendment based on Method III, with the benchmark ratio set at a relatively high level to ensure that most members receive an allocation. Beyond this, let me add in response to the questions raised in the statement that most, if not all, of the general allocation should be made promptly. The size of the general allocation would be the difference between SDR 36 billion and the size of a special allocation resulting from an amendment based on Method III; the amendment should allow future members an appropriate opportunity to acquire special allocations after joining the Fund; while we can go along with some phasing of the general allocation, the fact that the special allocation requirements would take some time to fulfill, any phasing should be limited in scope; and with respect to a reconstitution requirement, our views are similar to those expressed by Mr. Zoccali.

On access under stand-by and extended arrangements, we can go along with the Managing Director's proposal to increase the annual limit to 90 percent of quota. The increase could be for three years, subject to annual reviews, as proposed by the Managing Director, and the continued appropriateness of the new limit would be considered at the time of the annual reviews of access policy and limits. As to the applicability of higher access, our view is that recommendations to provide access above the levels prevailing over the past few years for the membership in general would be appropriate under the circumstances highlighted in the Managing Director's statement. Thus, we believe that such recommendations would be appropriate, in general, to the extent they are justified in terms of the strength of the programs adopted and the needs for balance of payments financing.

The proposals put forward by the Managing Director regarding the extension and modification of the STF go some way toward addressing the concerns raised at our June 17 meeting. We can be persuaded to lend support to these proposals provided that the overall package, particularly its SDR component, is acceptable to us.

With regard to ESAF access, we agree that the limited stock of ESAF resources makes it essential that the issue be considered of how that limited pool of resources may be enlarged if the subject of access is to be raised at this time. We would support giving consideration to all possible options in this regard, including the possibility of using a limited amount of the Fund's gold.

Mr. Smee made the following statement:

We are very disappointed with the process: the paper was not early enough for authorities to have sufficient time to review proposals. As July 2 was a national holiday in Canada, we have not had the opportunity to properly consult with our authorities who, by now, are at the Group of Seven Summit.

All I can do is reiterate this chair's position on the main issues: we want to see higher access to Fund resources both in terms of higher limits and higher average access; we support maintaining the STF's paving characteristics; we support an amendment to the Articles to ensure that all members in the Fund have a stake in the SDR system.

We do not think it is useful to overload the package.

We should have a substantive discussion of the package next week--on July 13 at the earliest.

Mr. Al-Tuwaijri made the following statement:

I appreciate the Managing Director's effort in compiling this package. I will comment on certain elements only.

This chair's view on access policy under Fund arrangements has not changed. I continue to feel that an increase in access limits is not warranted at this time. My preference would have been to increase actual access with appropriate conditionality within the current limits. This would adequately support the adjustment efforts of our membership while preserving the monetary character and catalytic role of the Fund. Nevertheless, I am prepared to support an increase in annual access limits under stand-by and extended arrangements as a symbolic gesture of the Fund's commitment to helping our members in transition. Regarding the STF, I do not believe that it would be advisable to adopt the proposed changes to access limits. By allowing for the possibility of a greater number of stand-alone purchases combined with higher access, we would effectively weaken conditionality. The perceived need to provide less conditional or unconditional resources is better addressed through an SDR allocation. With regard to SDR allocations, I continue to strongly support a general allocation of SDRs as a first-best option to address the reserve needs of members. In the interest of reaching broad support for such an allocation, I support combining a general allocation with a selective allocation along the lines proposed by the Managing Director.

I do not find it advisable to link issues such as burden sharing to the proposed package. These matters are unrelated, and

such a link will only complicate our discussions and delay timely agreement.

Mr. Fukui made the following statement:

I would like to comment briefly on some of the issues raised by the Managing Director's statement. But at this stage I cannot be very specific about the questions raised.

On access limits to Fund programs under stand-by and extended arrangements, my authorities support, in general, an increase in access limits; they believe it would be meaningful to send a clear message that the Fund intends to be more deeply involved in expanding assistance to those countries that are committed to an economic policy that observes adequate conditionalities. With regard to the appropriate size of the new access limits, although we agree to raising the limit by a significant amount--the suggested figure of 90 percent is meaningful, but we are not necessarily committed to that figure--it would be more appropriate to examine further various options, taking into account the whole package of proposals.

With regard to the STF, my authorities support extending its availability for another year. On the modality of the new STF, as I stated at the Board discussion on June 17, increasing the number of tranches to five, as proposed by the Managing Director at that time, might complicate the system of the STF. I also said that if the number of tranches were increased, linking the STF in some way with approval of a stand-by arrangement would be an important issue. I note with appreciation that the Managing Director has given due consideration to these points and has made a good effort to come up with a compromise. However, on the question of whether three or four purchases is better, I need more time to decide. For the reasons I already mentioned, I have strong doubts about the stand-alone arrangement for the third and fourth purchase under the STF.

In principle, the Managing Director's proposal marks good progress in that it aims at facilitating the process leading to a stand-by arrangement; but still, we are not sure whether it is appropriate to make it a rule to phase purchases up to four times, thus prolonging the process leading up to a stand-by arrangement. In this regard, does the statement that "two purchases rather than one would provide greater flexibility" mean that "four purchases" is expected to be the rule, or rather the exception to enable a flexible response in exceptional cases?

Regarding access policy under the ESAF, my authorities are strongly opposed to enlarging or extending the ESAF at this stage, and in particular, the use of the Fund's gold holdings for this

purpose. My authorities only recently received approval from the Diet for a very large contribution to the ESAF. We emphasized that Japan agreed to take up a larger share of the ESAF in light of the extreme budget constraints and difficulties in other countries. I am afraid that discussion in the Fund on enlarging the ESAF at this stage could adversely affect future discussion by the Diet on annual contributions to the ESAF. Also, the hint of possible use of the Fund's gold to enlarge the ESAF could make the discussion even more difficult.

On SDRs, I would reiterate that my authorities understand the need to address the problem of equity for new members, and for this purpose they believe that an amendment of the Articles of Agreement is inevitable and needs to be done in a clear and simple way. At the same time, if it is necessary in order to reach a compromise--I would like to emphasize the need for compromise--and make it easier for an amendment to the Articles to be accepted, we can be flexible and accept a modest general allocation of SDRs. But Method III is a completely different approach in that it increases the SDR share across the board for all members. I have some legal questions on this method; namely, whether this kind of unanimous increase is supposed to occur every time we are going to have new members, or whether we must make equal all the shares of SDRs for all members by this sort of amendment any time we have a quota increase. This will make the principle quite different from what we call a selective, simple, and limited amendment. Apart from these legal and technical questions, Method III requires further consideration. In general, the bigger the percentage of the increase, the smaller the need for a general allocation. In particular, if the percentage is as high as 30 percent, I see little reason for an additional general allocation. We need further consideration on this point.

I am not in favor of a reconstitution requirement. In our view, ensuring the effectiveness of this type of reconstitution is questionable, so we do not see any strong reason to reintroduce this requirement. We are also reluctant to expand the package to include such issues as burden sharing. I am afraid that it makes our discussions complicated and would delay their conclusion.

After adjourning at 1:05 p.m., the meeting reconvened at 3:00 p.m.

Mr. Mozhin said that his chair had not changed its position: it continued to believe that the annual access limits applied to both upper credit tranche arrangements and to STF arrangements should be increased to 100 percent of quota. If a decision was taken to increase annual access limits under the STF to 100 percent of quota, his chair would support the proposed two additional tranches, each amounting to 25 percent of quota. However, if a decision was taken to increase access limits to 80 percent of quota, his chair would suggest the addition of only one tranche amounting to

30 percent of quota, rather than two tranches, each amounting to 15 percent of quota.

He supported management's proposal regarding the link between additional purchases under the STF and purchases under upper credit tranche arrangements, Mr. Mozhin remarked. Only under exceptional circumstances should stand-alone purchases under the STF arrangements be allowed.

He continued to support a moderate general SDR allocation along the lines proposed by management, Mr. Mozhin stated. At the same time, he considered the resolution of the equity issue to be a strong priority. He could go along with any of the three alternative scenarios for calculating selective SDR allocations described in Table 1 of the supplementary paper.

He did not support the reintroduction of the reconstitution requirement, Mr. Mozhin commented. As of April 30, 1994, SDR holdings of 74 participants in previous SDR allocations, or more than one half of participating members, amounted to less than 10 percent of their total SDR allocation. Under the circumstances, he did not see how the reintroduction of the reconstitution requirement could be a part of a broad-based compromise.

Mr. Havrylyshyn said that with respect to access limits for stand-by and extended arrangements, he would agree to an increase to 90 percent of quota, but he would stress the importance of Fund members standing ready to increase quotas if the Fund's liquidity position fell toward its traditional threshold. He would favor an explicit commitment by the Interim Committee for a timely quota increase. In any event, the proposed increase in access should be temporary, and he supported the proposed limit of three years.

On modifications to the STF, he could support an extension of the facility for one year and the proposed increase in access limits, Mr. Havrylyshyn stated. He, however, continued to have doubts about whether more than one additional tranche was needed. In his view that issue was less important than the link with the stand-by arrangement. The STF should remain the front porch of a regular Fund arrangement, and it was therefore important to closely link the last STF tranche to the first purchase under a regular arrangement.

He had some concerns about "a strong presumption" that the last STF purchase would be made available only in the context of a Fund arrangement, Mr. Havrylyshyn continued. The phrasing of the original STF decision had been stricter; the second STF purchase was to be based, inter alia, on a finding by the Fund that there had been satisfactory progress. He had understood that during recent discussions on extending the STF and increased access, Directors felt a need for tightening the link with the stand-by arrangement.

The views of his chair on a general SDR allocation were well-known, and they had not changed, Mr. Havrylyshyn stated. If the Board agreed on an

allocation along the lines of Method II(a), because that method alone was based on a clear principle that all countries that had become members after December 31, 1969 and, therefore, had not participated in earlier allocations, were eligible for a selective allocation. That method equally provided that future members would be allowed the opportunity to acquire SDRs through a selective allocation after joining the Fund.

He did not support an amendment of the Articles along the lines of Method III, for two reasons, Mr. Havrylyshyn continued. First, the introduction of that Method would create an undesirable precedent for future selective allocations whenever members' SDR/quota ratios were divergent. Second, introducing that Method for a one-time selective allocation to all members was stretching the use of an amendment of the Articles too far. He supported the view that if there were to be an amendment of the Articles, the Board should take the opportunity to deal, in parallel, but purposefully, with enhancing the financial structure of the Fund and burden sharing.

On reconstitution, he was somewhat ambivalent, Mr. Havrylyshyn commented. He was, however, open to considering the issue on the basis of concrete proposals regarding the modalities for reconstitution.

He hoped that agreement on the package deal would not be further complicated by introducing issues regarding changes in other Fund facilities, Mr. Havrylyshyn remarked.

Mr. Evans said that the discussion so far had confirmed his earlier view that a later date for the consideration of the issues would have been more fruitful.

He supported a substantial increase in access under stand-by and extended arrangements, and could go along with limits of 90-100 percent of quota, Mr. Evans continued. As to the systemic transformation facility, he would like to retain its character of paving the way for a stand-by arrangement and therefore would prefer to see increased access under the STF linked to a stand-by arrangement.

On an equity allocation of SDRs, he could support Method III, Mr. Evans remarked. He could also support a benchmark of up to 17.4 percent.

He agreed with others that some clarification was needed regarding the proposal on average access, Mr. Evans commented. In that regard, he believed that three principles should govern any increase in access: the Fund should be prepared to provide more finance for a given level of conditionality; there should be no reduction in the level of conditionality; and strong programs should be accompanied by high access, where justified.

On related issues, his chair had supported the idea of addressing the issue of burden sharing explicitly and comprehensively, but he agreed with other speakers that that was a difficult and complex issue, Mr. Evans

remarked. He had real doubts as to whether it was sensible to include that element in the package. As to the ESAF, his chair had always been a strong supporter of the facility, in deeds as well as words. He recalled that a few years earlier, the United Kingdom had supported the idea of financing the ESAF with proceeds from sales of the Fund's gold. He would be interested to know more precisely what the Managing Director had in mind when referring to further enlarging and extending the ESAF. He looked forward to more constructive discussion of the Managing Director's proposals when they were further clarified and country authorities had had more time to consider them.

Mr. Lanciotti made the following statement:

At this juncture, I am not aware of relevant changes in the position of my authorities on the issues of access and SDRs. As is well known, this position is a reasonably flexible and constructive one, aiming at finding a solution that allows our institution to respond appropriately, and in a timely fashion, to the needs for financial assistance of less developed countries and economies in transition.

Therefore, I will recall the most significant elements of our position and briefly comment on those points of the Managing Director's statement that should be clarified or with which I do not agree.

It seems feasible to raise temporarily the annual access limit applied to stand-by and extended arrangements from 68 percent to 85 percent of the quota. To be effective, this higher maximum should be accompanied by a clear recommendation of the Board that the proportion of the maximum actually used should, in principle, not be reduced. On this point, I find that the Managing Director's statement needs some clarification.

I am firmly convinced that there is a need to extend and enlarge the STF, probably on the order of magnitude proposed by the Managing Director. I must admit, however, that the modalities of the proposal lend themselves to criticism. In my view, any STF financing in one or more tranches exceeding 50 percent of quota should be granted only when a country has agreed to a stand-by arrangement. In this manner, the advantages of a better mixing of the maturities would be retained while the principles of conditionality would also be preserved.

As to the time profile of the new STF, my preference, whenever applicable, is for a scheme of two tranches, plus a larger one to be provided together with the first tranche of the stand-by arrangement. This scheme maximizes the incentive for the country to enter into an upper credit tranche arrangement with the Fund. But, I can understand

that there might be cases in which a more adaptable approach is appropriate.

It is not clear whether the concept of flexibility adopted in the statement relates only to the time profile or whether it is meant to be extended to the splitting of the last STF tranche or tranches from stand-by arrangement conditionality.

I deem it pointless to comment on detailed proposals concerning SDR allocations at a time when there is disagreement even on whether and how to have any such allocation.

Mr. Marino said that his views were similar to those of Mr. Zoccali. He would support the temporary increase in annual access limits as proposed by the Managing Director, but he wished to reiterate that higher access implied more risk--a point to be kept in mind when the Board discussed precautionary balances and the distribution of the costs of operating the Fund.

He would also support the proposed modifications to the STF, Mr. Marino remarked. However, he would expect that the third and fourth STF purchases would be made in the context of an upper credit tranche arrangement. The extension of the facility also seemed adequate.

With regard to the ESAF, increased effective access was desirable and could be contemplated even if it required the blending of ESAF resources with GRA resources, Mr. Marino commented.

Regarding SDRs, he favored Method III, Mr. Marino stated. He would want to see a general allocation of at least SDR 20 billion, with a combined size of general and selective of at least SDR 36 billion. He was opposed to the reintroduction of the reconstitution requirement for the reasons given by Mr. Zoccali. He agreed with Mr. Havrylyshyn that, if the package called for amending the Articles of Agreement, that opportunity should be used to advance, in parallel, on an amendment to better balance the distribution of the costs of operating the Fund.

Mr. Wei said that he could support the proposed package. He would, however, join those Directors who had emphasized that the SDR allocation was the most important element in the package. It would be difficult for his authorities to approve the rest of the package in the absence of agreement on the SDR allocation in an amount of SDR 36 billion. Although he would prefer a general SDR allocation, he was prepared to join the consensus in approving the combined approach. However, he would insist that the general SDR allocation should precede the selective SDR allocation.

Mr. Schoenberg remarked that he saw little merit in frequent consecutive Board meetings on the same topic at such short intervals, as his authorities had not had an opportunity to examine thoroughly the implications of the comprehensive package that the Managing Director had

presented only three days earlier. Consequently, his position had not changed. His chair continued to be opposed to a new general allocation of SDRs, because it saw no global need for supplementing existing reserves as laid down in Article XVIII of the Articles of Agreement. In that regard, it was disappointing to note that in the Managing Director's letter of July 1, 1994, addressed to the Heads of States of the Group of Seven industrial countries, the issue of global need had not been mentioned at all.

He could, however, support a specific, well-defined amendment of the Articles of Agreement in order to allow new members to acquire an adequate amount of SDRs, thereby participating properly in the SDR system, Mr. Schoenberg stated. In that context, he was open and flexible on how best to determine the yardstick for such catch-up allocations.

On access limits under stand-by and extended arrangements, he could go somewhat higher than the 90 percent of quota proposed by management, Mr. Schoenberg remarked.

Regarding access limits under the STF, a procedure in which two tranches of 25 percent of quota each was followed by another two tranches of only 15 percent of quota each was too complicated and provided too little incentive, particularly if the two smaller tranches were subject to the existence of a stand-by arrangement, which his chair considered to be essential for any STF access over 50 percent of quota, Mr. Schoenberg commented.

He was inclined to believe that the inclusion in the package of too many additional elements--such as burden sharing and access under other Fund facilities--could make the process of finding a consensus unduly time-consuming and complicated, Mr. Schoenberg remarked.

Mr. Dlamini made the following statement:

In my view, the proposed package should be considered as it stands, and, in general, I have no difficulty in supporting the proposed access limits. As to the STF, I would like to express this chair's support for the proposed extension of the facility under the existing access limits. In addition, I would go along with the proposed provision for additional resources. As to the ESAF, there is no doubt that the current access limits are restrictive, causing countries to either continue compressing imports or slow down the pace of reserve accumulation. Ordinarily, therefore, a review of access limits would have been necessary at this time. In this respect, the Fund should examine all possibilities for enlarging and extending the ESAF, including possible use of limited amounts of Fund resources, including gold.

On the SDR allocation, this chair has consistently supported the Managing Director's proposal for a general allocation of SDR 36 billion. Taking SDR 36 billion as a starting point, my

responses to the questions contained in the Managing Director's statement would be as follows: I would support Method III, which has the advantages set out in the staff paper, including, in particular, the element of finance to existing members; and I would support a benchmark which would translate into SDR 16 billion for the selective allocation and leave SDR 20 billion for a general allocation.

Mr. Tetangco said that he was still in the process of consulting with his authorities and therefore had nothing to add to the views previously expressed by his chair on the issues for discussion.

The Director of the Policy Development and Review Department said that it was expected that four purchases under the STF would be the rule, and that the first two tranches, which were currently available in amounts up to 25 percent of quota each, would stand by themselves, with the second being made available upon a finding of progress toward an upper credit tranche arrangement. Under the new proposal, two additional tranches would be allowed, for amounts up to 15 percent of quota each, with the strong presumption that purchases would be made in the context of an upper credit tranche arrangement in all but exceptional cases. The intent was, in fact, to make the connection between access above 50 percent of quota and an upper credit tranche arrangement tighter than it was under the current decision.

The incentive for a country to move to an upper credit tranche arrangement was the availability of additional resources on longer maturity, the Director observed. In the staff's view, that incentive was not hindered by phasing the available resources in two purchases. Moreover, that approach had advantages in terms of providing operational flexibility in phasing total access under the STF cum stand-by arrangement. If there was a single tranche of 30 percent, it would have to be made available up-front, with the first purchase under the stand-by arrangement, which meant that the first purchase under that arrangement would, at a minimum, be equivalent to 35-40 percent of quota. That might be appropriate in some circumstances, but the staff could also foresee cases where a slightly more back-loaded phasing of purchases might be appropriate if policy implementation was also slightly back-loaded.

It was true that current access limits under the ESAF had not been a binding constraint, the Director of the Policy Development and Review Department stated. Effective and average access had been substantially below the limits. The binding constraint was the average access derived from the total stock of available resources and the desire to manage the facility in a way that assured the availability of those resources for eligible countries expected to qualify for the use of the ESAF.

Mr. Fukui observed that under management's proposal, once a country reached the third tranche of the STF, it had also reached the stage where a stand-by arrangement was applicable and viable. In that context, what was

the meaning of the fourth, additional STF tranche if the STF was supposed to be a mechanism for paving the way for a stand-by arrangement?

The Director of the Policy Development and Review Department remarked that the incentive for having STF resources available with the follow-on stand-by arrangement was the resulting longer maturity of resources and the possibility of enlarged access. In addition, the risk assessment in terms of medium-term capacity to repay the Fund differed when 30 percent of the resources provided in conjunction with the STF cum stand-by arrangement had five-year to ten-year maturities compared with three-year to five-year maturities under a stand-by arrangement.

The phasing of the third and fourth purchases under the STF related to the pace of implementation of policies under the program and the flexibility it allowed the staff in determining the phasing of combined access under the STF and stand-by arrangements, the Director of the Policy Development and Review Department stated.

Ms. Lissakers said that she understood from the staff's comments that the only way to enlarge individual ESAF arrangements and maintain an equitable distribution of ESAF resources among potential users would be to enlarge the total size of the facility.

The Director of the Policy Development and Review Department remarked that ensuring the availability of resources to qualifying ESAF-eligible countries meant maintaining average access at current levels under current policies. Higher or more rapid access under ESAF arrangements would mean exhausting ESAF resources at an early date or accelerating the refunding of the ESAF.

The Treasurer recalled that a number of Directors had observed that the reconstitution requirement that had been in place up to 1981 had been restrictive and was cause for second thoughts about reintroducing such a requirement. It was true that the first reconstitution requirement was restrictive, but one had to remember that it had been put into place at a time when the SDR interest rate was well below the so-called combined market rate. As SDR interest rate rose in relation to that rate, the reconstitution requirement was first reduced and then eventually abrogated when the SDR interest rate reached 100 percent of the combined market rate. He therefore agreed that it would be unduly restrictive to reintroduce the original reconstitution provisions. Nonetheless, it might be useful to review other forms of reconstitution that the Board might wish to consider.

The Chairman remarked that the discussion had been valuable in clarifying Directors' concerns, especially regarding the STF, reconstitution requirements, and burden sharing. That would be helpful to management in assembling the best possible package. In addition, those Directors who had been able, in a short period of time, to consult with their authorities, had provided a welcome demonstration of good will and the spirit of compromise. More important, many had tried to accommodate the suggestions of others with

a view to making the overall package as positive and strong as possible. All that was promising for the future.

Having said that, he had observed the insistence of many Directors that all elements of the package must be taken together, the Chairman continued. As the target was to finalize a package that could be adopted in Madrid, there was relatively little time available to reach agreement on the contentious element of the package--the SDR allocation. More effort would be needed to reach agreement on that issue as work proceeded in parallel on finalizing other elements of the package.

He was particularly pleased to note Directors' insistence on preserving the conditionality and quality of Fund-supported programs and the desire to add to the Fund's financing, the Chairman stated. Directors had underlined that stronger programs merited higher access limits.

On more specific points, Directors had no difficulty with the proposal on a third STF tranche, provided that it was related to an upper credit tranche program, the Chairman observed. He had noted the continuing reservations regarding the exceptional circumstances clause as applied to the STF. He would look carefully at Directors' comments in that regard.

On the ESAF, Directors recognized that the desire to increase average access derived from the principle of evenhandedness in the treatment of Fund members, the Chairman commented. In that regard, he had taken very seriously the point made by Mr. Kaeser and others that before launching new efforts to increase Fund resources, care must be taken to ensure that the financing of ESAF II was secured. Nevertheless, evenhandedness--meaning more financing in many cases--could lead to the exhaustion of ESAF resources more rapidly than expected and in that event, decisions would have to be made on increasing the Fund's ability to support members' adjustment efforts.

On burden sharing, work must proceed in an orderly fashion, beginning with consideration of the ideas developed by Mr. Posthumus, the Chairman remarked. In light of that discussion and Directors' views on alternative schemes, he would circulate a statement to prepare for further discussion on the matter. The Board should then be in a better position to see whether an amendment of the Articles would be required to achieve more balance in the burden-sharing mechanism, and whether such an amendment should be included in the package.

On reconstitution requirements, the staff would illustrate the kind of requirement it had in mind, taking into account Directors' suggestions, the Chairman continued. The Board was, however, far from a consensus on the matter. It might be necessary, in the spirit of compromise, to withdraw that element from the package after the Board had had an opportunity to examine the basic elements of the staff's proposal.

It would be important, the Chairman stated, at least before the end of the month, to have another tour de table to see better whether key difficulties could be overcome and to be in a better position to finalize the package before the Madrid meetings.

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

LEO VAN HOUTVEN
Secretary

