December 4, 1995

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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 94/36

10:00 a.m., April 18, 1994

Contents

Executive Board Attendance

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

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
M.-A. Autheman	M. Sirat
J. Bergo	
H. Evans	
H. Fukui	T. Fukuyama
K. P. Geethakrishnan	
J. E. Ismael	
D. Kaeser	
A. Kafka	A. Calderón
K. G. Kagalovsky	A. V. Mozhin
W. Kiekens	J. Prader
G. Lanciotti	N. Coumbis
K. Lissakers	B. S. Newman
	A. Galicia, Temporary
A. Mirakhor	M. Dairi
L. J. Mwananshiku	
	O. Havrylyshyn
C. V. Santos	
S. Schoenberg	E. Wagenhoefer
	Y. Y. Mohammed
D. E. Smee	
E. L. Waterman	
	Wei B.
A. G. Zoccali	A. F. Jiménez de Lucio

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

Also Present

Administration Department: G. F. Rea, Director; H. J. Struckmeyer, Deputy Director; G. Vaughan. African Department: M. Touré, Counsellor and Director. Central Asia Department: O. J. Evans, K. Okamura. European II Department: J. R. Wein. External Relations Department: S. J. Anjaria, Director; M. R. Kelly, Deputy Director; G. Hacche, S. W. Kane. Fiscal Affairs Department: V. Tanzi, Director. IMF Institute: S. Nawaz. Legal Department: F. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; S.-D Gong, J. L. Hagan, Jr., D. E. Siegel. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; P. F. Allum, S. B. Creane, H. M. Flickenschild, A. G. McGuirk, M. A. Tareen. Research Department: M. Mussa, Economic Counsellor and Director; R. A. Feldman, P. Isard. Secretary's Department: L. Collier, A. Leipold, A. Mountford. Southeast Asia and Pacific Department: L. M. Koenig, Deputy Director. Statistics Department: J. B. McLenaghan, Director. Treasurer's Department: D. Williams, Treasurer; G. Wittich, Deputy Treasurer; R. H. Floyd, D. Gupta, D. K. Kar, A. Muttardy, O. Roncesvalles, T. M. Tran. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Bureau of Language Services: P. Delannoy, Director. Office of the Managing Director: P. R. Narvekar, Special Advisor; G. R. Saunders, Personal Assistant; J. G. Blanch, S. Griesdorf, P. J. McClellan, P. J. McPhillips, M. Oka, J. Prust, H. Wiesner, L. Wolfe, A. A. Zimmerman; M. Caiola, Director, Office of Internal Audit and Review. Advisors to Executive Directors: J. M. Abbott, M. A. Ahmed, P. Cailleteau, A. Chang Fong, R. F. Cippa, A. Cserés, S. K. Fayyad, Hon C.-W., J. C. Martinez Oliva, P. A. Merino, Y. Patel, A. Raza, B. A. Sarr. Assistants to Executive Directors: S. Al-Huseini, R. N. A. Ally, S. Arifin, J. M. Burdiel, J. A. Costa, G. Z. El Masry, R. Ferrillo, C. Gaseltine, O. Himani, A. M. Koulizade, E. Kouprianova, N. Laframboise, G. J. Matthews, F. Moss, S. del C. Olgiati, M. Ryan, A. Sighvatsson, V. Y. Verjbitski, R. von Kleist, Wang Y.

1. REPORT BY DEPUTY MANAGING DIRECTOR

The Deputy Managing Director said that the previous week he had chaired a joint meeting of the central bankers of the states of the former Soviet Union and Baltic states and the cooperating central banks providing technical assistance coordinated through the International Monetary Fund, which was held in St. Petersburg, Russia. The meeting was attended by representatives of some 23 central banks as well as representatives of the multilateral institutions, including the World Bank, the European Bank for Reconstruction and Development, the Organization for Economic Cooperation and Development, the Bank for International Settlements, and the European Union. The purpose of the meeting was to take stock of the progress to date and to explore ways of focusing and improving technical assistance in the future. Following a wide-ranging discussion over a two-day period, both the recipient central banks and the donor central banks had come away with a greater appreciation of the impact that technical assistance was having within the states of the former Soviet Union and the Baltic states, and of the magnitude of the task that remained in building central banks in those countries.

The major role played by the Central Bank of Russia and its branch in St. Petersburg in organizing and providing support for the meetings, was very much appreciated by all participants, the Deputy Managing Director continued.

All participants had expressed their great appreciation of the role of the Fund's Monetary and Exchange Affairs Department in coordinating technical assistance, and of the Fund as the central coordinator, the Deputy Managing Director concluded.

The Chairman remarked that he was personally encouraged by the Deputy Managing Director's remarks and by the reactions to the Fund's efforts. He was also grateful to the cooperating central banks and to the donors, the former for making major efforts to assimilate new techniques, and the latter for being generous in helping the Fund to provide high-quality technical assistance.

2. ADMINISTRATIVE AND CAPITAL BUDGETS, FY 1995; AND JOINT VIENNA INSTITUTE - BUDGET APPROPRIATION

The Executive Directors, meeting in restricted session, considered the Managing Director's statement on the Administrative and Capital Budgets for FY 1995 (EBAP/94/20, 3/28/94). They also had before them a nationality distribution list of staff (EBAP/94/24, 4/7/94), the Managing Director's statement on accounting for post-retirement benefits (EBAP/94/31, 4/14/94), a paper on the preliminary review of the Fund's income position for FY 1994 and FY 1995 (EBS/94/75, 4/7/94), a paper on electronic data processing for FY 1995 for the offices of Executive Directors (EBAM/94/57, 4/14/94), and a

staff paper on a request for approval to participate in the Joint Vienna Institute for the scholastic year 1994/95 (EBAP/94/22, 4/1/94).

The Executive Board took the following decisions:

Administrative Budget Estimates, FY 1995

1. Appropriations for administrative expenses for financial year 1995 are approved in the total amount of $474,830,000. This amount will apply to the various categories of the expenses as follows:

I.	Personnel Expenses	
	A. Salaries	$208,930,000
	B. Other Personnel Expenses	121,585,000
		330,515,000
II.	Travel Expenses	
	C. Business Travel	48,470,000
	D. Other Travel	25,710,000
		74,180,000
III.	Other Administrative Expenses	
	E. Communication	11,510,000
	F. Building Occupancy	43,360,000
	G. Books and Printing	7,375,000
	H. Supplies and Equipment	8,315,000
	I. Data Processing	18,000,000
	J. Miscellaneous	11,350,000
		99,910,000
	Total	504,605,000
IV.	Reimbursements	-29,775,000
	Total Budget	$474,830,000

2. Commitments may be made for each numbered category I-III up to the amount indicated above. Any commitment going beyond the total approved for each category will be submitted to the Executive Board for approval.

3. The staffing of the Fund as set forth in Table 14 of EBAP/94/20 (3/28/94) is approved. The ceilings for total authorized regular staff (2,216.5) and for the total authorized staff (2,738.0) shall not be exceeded without prior approval by the Executive Board.

Adopted April 18, 1994

Capital Budget for Projects Beginning in FY 1995

1. Appropriations for new capital projects beginning in financial year 1995 are approved in the total amount of $17,445,000. This amount will apply to the various categories as follows:

I.	Building Facilities	$10,030,000
II.	Computer Equipment	7,415,000
	Total Capital Budget	$17,445,000

2. Commitments may be made for building facilities up to $10,030,000, and for computer equipment up to $7,415,000. Any commitment going beyond these amounts will be submitted to the Executive Board for approval.

Adopted April 18, 1994

Assessment Under Article XX, Section 4, FY 1994

Pursuant to Article XVI, Section 2, and Article XX, Section 4, of the Articles of Agreement, and Rule T-2 of the Fund's Rules and Regulations, it is decided that:

(i) The General Department shall be reimbursed for the expenses of conducting the business of the SDR Department for the period from May 1, 1993 to April 30, 1994, and

(ii) An assessment shall be levied on all participants in the SDR Department. The special drawing rights holdings accounts of participants shall be debited on April 30, 1994 with an amount equal to 0.0182 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department.

Adopted April 18, 1994

Structural Adjustment Facility Within Special Disbursement Account (SDA), and ESAF Trust - Reimbursement of General Resources Account, FY 1994

Pursuant to Paragraph 10 of Decision No. 8238-(86/56) SAF, adopted March 26, 1986, and Paragraph 3 of Decision No. 8760-(87/176), adopted December 18, 1987, it is decided

that the General Resources Account shall be reimbursed the equivalent of SDR 19,200,000 for the expenses of administering the Facility and the Trust for the period May 1, 1993 to April 30, 1994, and the reimbursement shall be made at the close of the financial year.

Adopted April 18, 1994

Joint Vienna Institute - Budget Appropriation

The Executive Board approves the Fund's participation in the Scholastic Year 1994/95 of the Joint Vienna Institute (JVI) during the period July 1994-June 1995, at a cost of $3,735,300. The Executive Board notes that this amount would be reduced by any amount made available from the Japan Administered Account and other financial contributions that may become available during the next year, and that the FY 1995 component of the cost is included in the FY 1995 Administrative Budget (EBAP/94/20, 3/28/94).

Adopted April 18, 1994

3. ALLOCATION OF SDRS AND RELATED ISSUES

The Executive Directors considered the following statement by the Managing Director on an allocation of SDRs and related issues:

At the conclusion of our meeting on SDR allocations and the issue of equity, I suggested that instead of offering a set of concluding remarks or summing up of what was a very interesting discussion, it would be more useful to reflect further on the issues raised in that discussion and also to hold informal discussions with Executive Directors. I also suggested that we should try to find more precise avenues for making further progress, which we could discuss at the Executive Board's meeting on SDRs on April 18 in preparation for reporting to the Interim Committee.

I was impressed in our meeting on March 31, 1994 by the readiness of Executive Directors to try to find a solution for those participants that had never received an allocation or had not participated in all allocations of SDRs since the first allocation in January 1970. The main conclusion of that meeting was, however, clear: the Fund has no authority either to make a selective allocation to new members or to reallocate SDRs through a cancellation of existing SDRs combined with a new allocation. While some Directors felt that the issue of distribution could be addressed through an amendment of the Articles, most Directors were opposed to the idea of amending the Articles to expand the scope for addressing this issue, whether through targeted allocations of SDRs to new members of the Fund or through simultaneous

cancellation and allocation. The issue of equity has thus to be addressed by other means.

Apart from this issue, further consideration needs to be given to a traditional allocation of SDRs to all participants in proportion to present quotas. Most Directors favor an allocation of SDRs. However, several Directors believe that there is no long-term global need to supplement existing reserve assets or that the existence of such a need has not been adequately demonstrated. Consequently, there is not yet a sufficient majority to indicate the necessary broad support for an allocation of SDRs at the present time. However, almost all Directors were of the view that practically speaking, there is no better way to address the problem of equity than to offer new members an appropriate stake in the SDR system through a new allocation. In this regard, several Directors noted that equity did not require SDR allocations relative to quota as large as the average for the members that had participated in previous allocations.

While many Directors supported a post-allocation distribution scheme at our meeting on March 31, 1994, some Directors felt that such a scheme did not need to be linked to a new allocation of SDRs. Other Directors felt that a post-allocation redistribution scheme raised considerable difficulties for their authorities that would effectively preclude their countries from participating. Consequently, we need to look again at such arrangements, bearing in mind Directors' views on the matter.

I believe that we can build on these positions. Indeed, a few Directors at our last discussion encouraged further exploration of the idea of an SDR allocation and of the issues related to it. This statement is put forward for your consideration in that context, and, as is indicated below, in order to facilitate a broad consensus, I am suggesting several modifications to my initial proposals, in particular as regards the issue of a post-allocation redistribution of SDRs.

I am firmly of the view that an allocation of SDRs is justified to meet a long-term global need for reserve supplementation. The reasons for this position have been elaborated in a number of papers discussed by Directors, and there is no need to repeat all the arguments at this time. I would only wish to call your attention to the slow overall rate of growth in the world economy and the slow growth of international trade. Furthermore, as you are aware, most members, in particular the low-income countries and the transition economies, have external reserves equivalent to less than 12 weeks of their imports of goods and

services, 1/ and I would also note their painfully slow progress in achieving external viability with sustainable growth. An allocation of SDRs in present circumstances would ameliorate this distressing situation in a number of ways; the case for an allocation is overwhelming.

In the light of the above, I propose the following for the consideration of the Executive Directors:

1. An allocation of SDR 36 billion, with the first allocation amounting to SDR 16 billion followed by four subsequent annual allocations each amounting to SDR 5 billion. I believe that a decision taken in the near future to allocate SDRs regularly over a five-year period, and the modest additions to reserves that such allocations would permit, would help improve confidence in the very low reserve countries and provide a more stable base on which to pursue adjustment. Furthermore, the series of small allocations would respond to the idea put forward by some Directors for "small annual allocations" in the future with the aim of slowly increasing the share of SDRs in members' reserves and thereby helping to improve viability of the asset. If warranted by unexpected major developments, consideration could be given to propose to the Board of Governors a change in the rate of annual allocations or even to halt or cancel allocations in the remainder of the basic period.

2. An allocation of SDRs over a five-year period could be phased over a new basic period. Basic periods run consecutively. The present basic period runs from January 1, 1992 to December 31, 1996. Unless the Board of Governors would decide otherwise, the duration of a basic period is five years and the allocations of SDRs take place at yearly intervals. As we are about halfway through the sixth basic period, I would suggest that it be brought to a close and the seventh basic period be instituted covering the period July 1, 1994 to June 30, 1999. A decision to end the sixth basic period and start the seventh basic period would require the approval of the Board of Governors, in the context of the proposal by the Managing Director for an allocation of SDRs, concurred in by the Executive Board, by an 85 percent majority of the total voting power.

3. In view of the difficulties of a practical or legislative nature raised by most of the post-allocation redistribution schemes for a number of countries, I propose that

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1/ For these countries with limited access to international financial markets, a new SDR allocation would also reduce their costs of holding reserves, which have risen sharply and have remained high since the late 1980s, by approximately 10-15 percent.

we do not now pursue schemes of redistributing allocations of SDRs, as such. Nevertheless, the problems they were designed to address remain with us. Consequently, it is of the essence that each member in a position to do so express its readiness to contribute by all means possible alongside the Fund to the transfer of resources to help meet the financing requirements of members adopting strong reform programs and needing unusually large balance of payments support. The needs of such developing and transforming countries are great. Their share in an SDR allocation of SDR 36 billion can meet only a small part of their needs and well below desirable increases in their reserves. 1/ Further amounts of monetary or balance of payments-related resources will be needed as and when countries adopt appropriately strong reform programs. The General Resources Account of the Fund can and will be of assistance in view of its relatively strong liquidity position at present. However, it is most appropriate that when the financing needs of a country or a group of countries are likely to be substantial for the period ahead, the contribution of the Fund should have associated with it co-financing provided by a significant group of member countries on similar, and perhaps more generous, terms and conditions.

The principle of such "cofinancing" is sound. It not only has the merit of preserving the essential catalytic character of the Fund's financial support of strong adjustment programs, but it also prudently spreads the risks of additional lending while adding substantially to the credibility of the Fund's policy recommendations. To this end, I am proposing that members contribute to "cofinancing trust accounts" (CTAs), which would be administered by the Fund. These accounts can be established by the Fund by a majority of the votes cast and would be outside the General Resources Account. They would offer an appropriate vehicle through which members could make resources available in cofinancing operations with the Fund, including for those wishing to do so, in a form of post-allocation distribution of SDRs.

The main technical features of a CTA could take the following form, although the precise modalities would need to be elaborated later:

1. The main purpose of the CTAs would be to generate additional balance of payments financing beyond the amounts that would otherwise be available. The amounts provided by the CTAs could be expected to provide the equivalent of the resources

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1/ See the Statement by the Managing Director on External Financing Requirements of Transition Economies and Possible Sources of Financing (EBD/94/63, 4/8/94), p. 8.

provided by the Fund under arrangements with eligible members or a considerable proportion of them.

2. Members could contribute resources to these accounts from their existing reserves, from new allocations of SDRs, or from other acceptable resources. The mode of disbursements would depend on the nature of a member's contribution. The resources would be on-lent to a specific member by the CTA on terms at least as favorable as those provided by the Fund.

3. Separate CTAs could be established for different beneficiaries as appropriate, and they would be used in conjunction with upper credit tranche arrangements or arrangements under the enhanced structural adjustment facility (ESAF).

4. Disbursements of financial resources by the CTAs would be made pari passu with Fund disbursements under a member's arrangement with the Fund, and for the same limited purposes as the Fund's disbursements--namely, for balance of payments financing, including reserve accumulation.

5. Individual members could decide which CTAs they wish to lend to and in which form. They could also decide to pool their risks for lending through a particular CTA.

6. All members in a relatively strong balance of payments position would be encouraged to contribute to the CTAs, and contributors would not be restricted only to the industrial countries.

The recent experience with the enlarged and extended ESAF demonstrates that a number of countries outside the group of industrial countries are in sufficiently strong balance of payments and reserve positions to consider using part of their SDR holdings--including the new allocation of SDRs--or other resources in such cofinancing operations. A broad-based participation would underscore the universal cooperative character of the Fund as well as its global vision. Resources made available through the CTAs would not have the characteristics of concessional financing.

7. The availability of resources from the CTAs would not depend on an SDR allocation, but use of SDRs would not be precluded; other acceptable resources could also be used. The CTAs could be established at the discretion of the contributors. A CTA could be established as soon as one or more countries expressed the wish to use such an instrument to channel balance of payments financing to a particular member in conjunction with Fund financing in support of an upper credit tranche arrangement or an ESAF arrangement.

8. From the informal reactions of Executive Directors to the suggestions outlined in this note, it would appear that the acceptability and extent of cofinancing arrangements by Fund members would be greatly increased if repayments to contributors by the CTAs would be somewhat protected by some suitable means. In this connection, it was noted that assurances could be provided in a manner that was similar to the assurances provided to lenders to the ESAF Trust. Directors will recall that in the case of the ESAF Trust "[t]he Fund is committed, if it appeared that any delay in payment by the Trust to lenders would be protracted, to consider fully and in good faith all such initiatives as might be necessary to assure full and expeditious payment to lenders." 1/ In my view, the strength of the adjustment programs supported by the Fund's resources and by the CTAs should itself provide adequate assurance of repayment. It would be important nevertheless that Executive Directors indicate the type of assurance that would in their view trigger additional contributions without diverting resources that would otherwise be committed for balance of payments financing. If a sufficient majority of Directors supported such a scheme, consideration could be given to its modalities in due course.

The modalities of the various suggestions outlined above would need to be elaborated. At this stage, it would be helpful to have the reactions of Executive Directors and suggestions for further consideration of these urgent issues. I would, however, wish to stress four aspects of the suggestions:

First, they are put forward at a time of serious and pressing needs for financial assistance by two major groups of Fund members. I believe that the Fund, and the international community, need to respond appropriately, including with suitable conditionality, and in a timely fashion. In my view, we should act now rather than later. An early decision on an allocation of SDRs is needed. The modalities of the CTA also need to be elaborated. I would, however, suggest that the scheme outlined above provide sufficient flexibility that our immediate attention could be focused on the issues relating to an SDR allocation and its various modalities. The details of the CTA proposal could be considered subsequently.

Second, I would stress that the resources to be contributed to the temporary financing of Fund members through the CTAs would

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1/ Executive Board Decision No. 8759-(87/176) ESAF, as amended. See Selected Decisions, Eighteenth Issue (June 30, 1993), p. 26 and Chairman's Summing Up of the Discussion on the Enhancement of the Structural Adjustment Facility - Operational Arrangements (EBM/87/171, 12/15/87), reproduced in Selected Decisions, pp. 41-47.

be strictly balance of payments financing, and would maintain the monetary characteristics of such financing. Their basic security would be the same as the Fund's security, namely, the strength of the adjustment programs. Furthermore, given the context of a new allocation of SDRs, the use of the CTA instrument would reduce the need to generate new budget-related or official development assistance-type resources for such operations.

Third, I would also stress the need to share the risks that are inevitably involved in meeting the need for financing on the scale that is needed. Hitherto, it has been the strongly held view of Executive Directors that the Fund's financing must remain catalytic in nature and cannot and should not absorb all the risks in a given context. The suggestion of a cofinancing scheme is an important part of my response to this dilemma.

Fourth, and finally, one could expect that after the implementation of such a scheme, and particularly with the prospect of subsequent annual SDR allocations, the issue of an allocation of SDRs to those countries that had not participated in earlier allocations would be significantly resolved. Furthermore, the creation of the CTAs would contribute further to its resolution, while having also the merit of providing for some added use of SDRs in the system.

Mr. Posthumus submitted the following statement for the record:

Today's meeting is intended to see whether a compromise can be found on the contentious issue of an SDR allocation. I am somewhat disappointed, however, by the suggestions in this respect in the Managing Director's statement. First, the proposal to allocate SDR 16 billion followed by four annual allocations of SDR 5 billion, instead of SDR 36 billion can hardly be called a compromise. Second, the proposal to set up cofinancing trust accounts, although simple and thus attractive, gives rise to questions.

As to the proposal for an SDR allocation, this chair has suggested that small annual allocations of SDRs be made, but not with the aim "of slowly increasing the share of SDRs in members' reserves." Rather, the aim was to keep the SDR mechanism alive with a view to alleviating possible disruptions in the provision of reserves in the future. Of course, if our long-standing proposal had been accepted earlier, cumulative allocations would have been higher than they are now. The proposal to allocate SDR 15 billion was also made because I had hoped that it would be possible to do something for the many new members that have never had the opportunity to participate in an allocation. I do not, however, support the proposal to allocate SDR 16 billion plus four annual allocations of SDR 5 billion, because it is no compromise.

My proposal to allocate SDR 15 billion was at least an effort to compromise between no allocation and one of SDR 36 billion. I believe that such a more modest scheme provides a better basis for reaching compromises on an SDR allocation.

On the second issue, I agree with the Managing Director that the principle of "cofinancing" is a sound one. However, the way the envisaged CTAs are proposed to be financed raises questions.

First, the Fund is an institution entitled by its members to create international money, but only in a carefully controlled way. In order to increase the Fund's potential to create money or to actually create it, the Articles of Agreement prescribe a thorough decision-making process. The Articles also provide objective nonpolitical criteria for Fund support. I wonder whether the proposal to invite central banks to make available part of their reserves to CTAs for financing programs outside the framework described can be reconciled with the spirit of the Articles of Agreement.

Second, the proposal aims at "countries in a relatively strong balance of payments position" as potential contributors to CTAs. I note that these are also the countries that participate in the operational budget of the Fund. This raises the question whether the establishment of CTAs would not reduce the preparedness and the capacity of these countries to make their resources available to the Fund.

Third, a similar question arises regarding the longer-term financing needs of the Fund. Would a Fund member that has lent part of its reserves to one or more specific countries still be prepared to contribute to a quota increase if the need arises? Also, through the CTA system this member is able to regulate the flow of its resources to specific countries, something it cannot do in the framework of regular Fund operations. A further question then is: should CTAs not be regarded as undermining the multilateral framework of the Fund?

Fourth, the Managing Director has stated that "...the strength of the adjustment programs supported by the Fund's resources and by the CTAs should itself provide adequate assurances of repayment." If this is true, and I think it should be, why should the Fund be so hesitant in using additional resources of the General Resources Account? The establishment of CTAs would not increase the level of assurances. This is acknowledged in the statement that the basic security of the resources made available through CTAs would be the same as the Fund's security, namely, the strength of the adjustment programs.

My final questions relate to the statement that "...given the context of a new allocation of SDRs, the use of the CTA instrument would reduce the need to generate new budget-related or ODA-type resources for such operations." Is this meant to convey the message that monetary financing through CTAs can substitute for the need, and remove the incentive, for budgetary outlays? Can we really expect that the central banks of the world, being monetary institutions, will seriously consider taking part in such forms of budget deficit financing?

In sum, I think that the proposals put forward do not sufficiently address the issue of the financing requirements of the countries in transition. A better way would be to increase Fund financing itself, provided that strong programs are put in place. Moreover, the industrial countries should seriously consider making room in their budgets for additional financing through CTAs, but resist the temptation to use uncontrolled monetary financing. This approach, which will also retain the Fund's catalytic role, presumes that the members are prepared to consider an increase in the Fund's resources if the liquidity position so requires.

Mr. Ismael said that he wished to reiterate his chair's support for an allocation of SDR 36 billion. He could agree to a phased allocation as suggested by the Managing Director--namely, SDR 16 billion at the beginning of the seventh basic period on July 1, 1994 and four consecutive annual allocations of SDR 5 billion each. The closer synchronization of supply of and demand for reserves should eradicate inflationary concerns about the total allocation. He suspected that the consensus would reflect agreement on a total allocation of SDR 36 billion during the seventh basic period and any proposed variation to the program would not again question the need for allocation.

He also supported the cofinancing scheme suggested by the Managing Director, Mr. Ismael remarked. That would enhance global financial support to strong reformers but at a diffused risk to the Fund. Without such risk sharing, the Fund's exposure to some members might become untenable. At the same time, such a system could facilitate the reallocation of SDRs. The repayment protection under the ESAF had been acceptable to current contributors and should therefore be adequate in the case of CTAs.

He was willing to recommend to his authorities, in particular those with ample international reserves, to make a contribution of part of their newly allocated SDRs to the proposed CTAs so as to demonstrate their support for the initiative to help other member countries in special difficulties, Mr. Ismael concluded.

Mr. Kagalovsky made the following statement:

I welcome this opportunity to have a final discussion on SDR issues before the Interim Committee meeting. We have already had several productive exchanges of views, and now is a good time to reach conclusions.

Seventy-two countries--40 percent of all Fund members--have not participated in some or all SDR allocations. Thirty-six Fund members, including 22 countries in transition, have never participated in SDR allocations. This situation undermines the essence of the concept of the SDR as the principal reserve asset.

Our previous discussion of this matter showed that while support for a general SDR allocation is not yet sufficiently strong, there is wide recognition in the Board that the problem of equity among the membership is urgent and should be addressed soon.

The Fund's legal counsel have told us that the Fund has no authority either to make a selective allocation to new members or to reallocate SDRs through a cancellation of existing SDRs combined with a new allocation. In that case, I see no other solution to the equity problem than an amendment of the Articles of Agreement.

As I recall, 11 Directors at our previous discussion were opposed to the idea of an amendment, but I had the impression that many Directors were ready to discuss this idea if other ways could not be found to allow for a catch-up allocation of SDRs to new members. My proposal now is to undertake a special amendment to the Articles that will give us an opportunity to resolve the equity problem.

This chair is prepared to start working expeditiously with the Managing Director and other members of the Executive Board on the text of such an amendment. For practical reasons, it would be helpful to have a first draft of the amendment by the time of the forthcoming Interim Committee meeting.

To facilitate the search for a compromise, I suggest that, while trying to resolve the problem of equity for the new members, we need to avoid any reductions in absolute terms in the amounts of SDRs previously allocated to other Fund members. It is important from the beginning to define what could be perceived as an acceptable resolution of the equity problem. In principle, this chair believes that the Fund should be able to allocate SDRs to a new member at the time when it joins the Fund and the SDR Department. The size of the initial allocation could be determined on the basis of its quota and the average ratio of accumulated

SDR allocations to Fund quotas. Thus, with the adoption of the respective amendment to the Articles, the issue of equity could be resolved both for the current so-called "new members"--through a special catch-up allocation of SDRs--and for future newcomers.

It is important to indicate in our report to the Interim Committee that the case for an amendment appears to be strong in the light of the Fund's objective of making the special drawing right the principal reserve asset in the international monetary system.

Following the complete and consistent resolution of the "equity problem," the Board can proceed with its deliberations on the idea of the new general allocation, an idea that this chair supports.

I found the Managing Director's proposal on creating CTAs to be extremely interesting. This suggestion reminds me of a proposal made by the Russian Federation to the Group of Seven industrial countries a year ago to create a special fund for balance of payments support for other states of the former Soviet Union, to be administered by the Fund, that would provide additional financing to these countries when they had a Fund-supported program.

The great advantage of the CTA is its conditionality in the form of a program supported by the Fund.

I want to urge creditor countries to rearrange their assistance, so that instead of providing bilateral credits, they may use the CTA as a more effective form of assistance based on appropriate conditionality.

I welcome the Managing Director's view that we should not link creation of the CTA with an allocation of SDRs. I completely agree that the "CTA could be established as soon as one or more countries expressed the wish to use such an instrument to channel balance of payments financing to a particular member in conjunction with the Fund financing in support of an upper credit tranche arrangement or an ESAF arrangement." It is therefore surprising that we are discussing the CTA issue at a Board meeting devoted to the SDR. This is a completely different, but important, question, and we should discuss it separately.

Lending from CTAs, even if financed by a single country, for example, should be treated differently than bilateral loans. They should have the same status as purchases from the Fund: they should not be subject to any rescheduling and should be repaid on a priority basis.

In sum, my authorities find the CTA proposal extremely interesting, and we are ready to discuss all remaining details of this scheme.

Ms. Lissakers made the following statement:

The Managing Director has presented a strong case that the official financing requirements of countries undertaking comprehensive economic and political transformation will be larger, last longer, and be of a different character than has been true of most Fund operations. We agree with this general assessment, particularly as it applies to the states of the former Soviet Union. Adjustment from a command to a market economy requires adjustments of a different order than typical structural adjustment programs. The problems of transition are most acute in the states of the former Soviet Union, where the gap between the old command system and the market is largest.

The Fund is the established international mechanism for dealing with the economic problems presented. It has the demonstrated capacity to adapt to the changing needs of the world economy and of members, as it did during the debt crisis. The Fund's resources have recently been increased through a large quota increase, and liquidity is at an historic high. Arrangements have been made to position the Fund to deal with a riskier world, including the strengthened arrears strategy and larger precautionary balances. From this vantage point, we believe that it is proper to look first at how the Fund can deploy existing resources to meet the exceptional requirements anticipated before going back to member governments to seek additional resources.

A quota-based allocation--which is the only option consistent with the Board's interpretation of the Articles--would not provide very much for the transition economies. Moreover, an allocation to generate additional resources to finance a recycling mechanism is a misuse of the allocation process. For my country, and I suspect others, the legislative and budgetary implications of a transfer are no different whether SDRs or national currencies are used. The case for an SDR allocation, therefore, must be judged on the basis of the criteria specified in the Articles of Agreement. We are still not persuaded that a compelling case has been made for a large SDR allocation.

The Managing Director's current proposal reflects these realities. Instead of a SDR recycling mechanism, he proposes a cofinancing trust account. Contributions to the CTA would be voluntary and entirely independent of any SDR allocation. Furthermore, the CTA would simply be used to top up ordinary Fund resources. In effect, the CTA is designed exclusively to shift a portion of the risk of lending to eligible countries from all

members of the Fund to the CTA contributors. We do not see that such risk shifting serves any purpose in this context.

The Fund is the proven mechanism by which the international community seeks to address the balance of payments financing needs of its members through collective action and accepted burden-sharing arrangements. Those countries that are in strong balance of payments and reserve positions may provide the actual financing, but all members share in the risks. There have been occasions when individual members have provided additional resources through various lending arrangements, but again the Fund and its members collectively have borne the risks of the on-lending to countries. The only exception to this practice has been the ESAF, where a group of members provide the resources and undertake the risks. But the ESAF is also exceptional in that it provides resources on nonstandard Fund terms. That is not being proposed for the CTA. I will come back to this point.

In our earlier discussion, the Managing Director suggested that relying solely on Fund resources to provide financing to the transforming countries could hasten the need for another quota increase. From my perspective, however, the greater concern is seeking additional resources from budget-constrained governments so soon after they have agreed to provide the largest quota increase in the Fund's history. Moreover, as a growing number of members receive financing outside the Fund, the raison d'être for future quota increases and, indeed, the Fund itself, will be questioned.

The Managing Director's statement indicates that financing through the CTA would preserve the monetary characteristics of such financing. From the creditors' point of view, it is not clear that this is the case. A loan to the CTA would not give rise to an increase in a member's creditor position. In the event of default, there would be less security behind a claim on the CTA than there would be behind a member's creditor position. Other countries' accounting may be different, but for the United States, it is the liquidity and security of our creditor position that allows us to treat advances to the Fund as an exchange of monetary assets outside the budget accounts.

Finally, it is not clear to me why the CTA, or any separate facility, should simply top up Fund lending by providing the same terms and conditions. The benefits of a separate arrangement is that it can seek to address issues that might not be suitable for regular Fund-supported programs. The predecessors to the ESAF were created specifically for the purpose of providing financing on terms and with amounts and conditions that were seen as outside normal stand-by arrangements.

We appreciate the Managing Director's proposals and believe that they appropriately raise a critical issue for the Fund and its members. The international community is only beginning to come to grips with the challenges, opportunities, and the risks associated with the economic and political transformations taking place in the last years of the twentieth century. Our success in this effort could well determine whether the next century will be more peaceful and prosperous than the present one.

Mr. Schoenberg made the following statement:

The Board has convened for the third time today in less than three weeks to discuss an allocation of SDRs and related issues. You will notice that I have included the discussion on the financing needs of transition countries in this count. What is most unfortunate from our point of view is that with each subsequent discussion, the individual questions and problems get further blurred and mixed up. We should strive to strictly distinguish between three different issues: a general allocation of SDRs; the so-called equity issue concerning new members; and the financing needs of transition and developing countries.

It serves the sharpness of thought to distinguish these three sets of problems clearly. We caution against reporting to the Interim Committee in a way that does not clearly distinguish these three different problems, and we could not endorse such an approach.

I really need not repeat that the basic condition for the allocation of SDRs--namely, a long-term global need--has to be demonstrated. It surely has not been demonstrated that the slow overall rate of growth in the world economy and the slow growth of international trade cited by the Managing Director are due to insufficient global liquidity. Those countries or group of countries that do experience low growth are confronted by their own, very specific problems. Accordingly, the solutions to those problems--for instance, for sub-Saharan Africa, the transition countries, or some large industrial countries--also must be very much different. Surely their problems cannot be solved by waving the "magic wand" of an SDR allocation, all the more so, as the bulk of the new SDRs will be added, as it is claimed, to reserves. In addition, I should like to point out that the concept of a "long-term global need" prevents short-term cyclical considerations from being taken into account.

With respect to the argument on the costs of holding reserves, it is difficult to imagine any situation of the world economy in which SDR allocations would not reduce the costs of acquiring or holding reserves, at least for some countries. Also, the "painfully slow progress in achieving external viability,",

mentioned in the Managing Director's statement cannot be cured by allocating unconditional liquidity. Finally, one might wonder whether an allocation of SDRs spread out over five years would be compatible with the letter and spirit of the Articles of Agreement, which state that SDR allocations can only be made if the "long-term global need, as and when it arises" is demonstrated. We have some doubts about forecasting a global need five years from today. For all these reasons we would suggest that the Managing Director should concentrate on the provisions of the Articles of Agreement when discussing the pros and cons of an SDR allocation.

The second question, the so-called equity issue, is still being discussed by my authorities. We would like to contribute to the solution of this problem by presenting constructive ideas. We think, in any case, that there should be better ways to solve this issue than a general SDR allocation, which--as I mentioned last time--would compare to using a sledge hammer to crush a peanut. It is somewhat difficult for me to comprehend why some Directors who argue that the equity issue urgently needs to be addressed appear to reject all those alternatives through which the problem could be solved directly and squarely, inter alia by an amendment of the Articles.

The third issue--meeting the indispensable financing needs of transformation and developing countries--has to be examined independently from the question of possible SDR allocations. Our discussion on Wednesday was an important step in the right direction, even if the SDR played a much too prominent role. It is difficult to avoid the impression that the needs of the transformation countries and the related questions of post-allocation redistributions or some other form of cofinancing are made merely to promote a general allocation of SDRs. As I stated on Wednesday, the economic problems of transformation countries have in the past been due more to insufficient reform progress than to a lack of funds.

We also want to stress that balance of payments financing by an allocation of SDRs is the international equivalent of national monetary financing of public deficits. While there may be some ministers of finance who would resort to monetary financing when the public budget has little leeway, others, including the German Minister of Finance, have long ago acknowledged that monetary financing does not solve problems but rather creates new ones.

We are not too happy that the Managing Director implies a need to reduce the role of the Fund as the main, if not only, lender for monetary balance of payments financing by pressing for so-called CTAs. As contributors are welcome to direct funds to countries of their choice, this is a deviation from the principles

of equity among members and of multilateralism. If indispensable financing needs can be demonstrated and the accompanying program is strong enough, the Fund should supply the needed money, utilizing existing access limits. If the Fund's liquidity does not suffice, we should increase that through the appropriate means, namely, a quota increase. I would add that the supporters of an allocation of SDRs regularly fail to mention that the distribution of risk is different between an allocation and a quota increase--the quota increase spreads risk as near to optimal as we can hope to achieve.

The Chairman observed that Mr. Schoenberg and Ms. Lissakers had indicated that in the current context, an SDR allocation to countries facing balance of payment difficulties would represent an insignificant contribution to resolving their financing problems. In his view, an allocation of SDR 1 billion for the Russian Federation, for example, was not "peanuts" when Russia's reserves were currently equivalent to 1.8 months of exports; in the circumstances, SDR 1 billion was critical financing.

Mr. Schoenberg stated that while he was not referring primarily to the Russian Federation, he would argue that, looking at capital outflows from that country over the past few years, an additional SDR 1 billion would not make much difference. He was instead referring to the need of the international monetary system as a whole, which was the criterion for an SDR allocation. The fact remained that in order to make an allocation of SDR 1 billion available to Russia, an overall allocation of SDR 36 billion would be required; in his view, that would be "using a sledge hammer to crush a peanut."

Mr. Kagalovsky commented that addressing the equity issue through a special SDR allocation would provide the Russian Federation with about SDR 600 million, or $800 million. In fact, a special allocation of SDR 2.1 billion would provide about SDR 1.6-1.7 billion to the 23 countries in transition, the majority of whom were facing an acute shortage of reserves. A general allocation of SDR 36 billion, in contrast, would provide Russia with about SDR 1 billion. In either case, his authorities did not view that as "peanuts."

Mr. Kiekens made the following statement:

I strongly endorse the proposal for an SDR allocation under present circumstances for two major reasons: first and foremost, because it is an appropriate way of meeting part of the long-term global need for reserve supplementation; and second, because it is a straightforward way of addressing, at least in part, the issue of equity vis-à-vis the new member states. I know there are colleagues who continue to insist that there is no need for additional reserves, and who point to the high reserves/imports ratio of the developing countries as a group. I would raise the following three objections to their view:

First, many developing countries are presently undertaking adjustment efforts in the hope of joining the growing group of successful adjusters. These countries need high reserve levels to cushion their adjustment programs against unforeseen shocks. High reserves would also be a sign of their solvency and would form a solid basis enabling them to borrow from the private capital markets.

Second, trade among developing countries is now booming, and this boom can be expected to continue since the conclusion of the Uruguay Round. When we base our assessment of developing countries' present reserve needs only on historical data, we deny their new role in global trade and we also fail to meet their need to hold more reserves than in the past.

Third, if we look only at the average reserve/import ratio for the developing countries as a whole, we conceal the low ratios of the low-income countries and entirely ignore the low ratios of the transition countries.

Mr. Chairman, you have suggested that it may be better for the moment not to pursue our discussion about retransferring SDRs. I fear that our silence on this issue would leave the field to those who argue that an SDR allocation would be inflationary and would deliver only unconditional resources to spend, rather than to hold. The Belgian proposal is still the only appropriate answer to those concerns, because a retransfer of SDRs through the Fund would limit the amount needed for the overall allocation and attach conditionality to its use. In order to facilitate consensus, I am prepared to take a flexible position by accepting a first allocation of reduced size, if there is a firm prospect that it will be accompanied by an appropriate retransfer mechanism. Let me also remind you that, at the earliest appropriate moment, we must continue to consider how to address the equity issue more decisively. As a means to this end, I wonder whether the Legal Department could examine the possibility of a voluntary transfer of a certain amount of SDRs together with the voluntary acceptance by the recipient of the obligations under the allocation. Article XIX, Section 2(c) might provide an appropriate legal basis for this purpose.

As to the proposal for cofinancing trust accounts, I will comment on three aspects: the ability of CTAs to mobilize more financing than would otherwise be available; the monetary character or liquidity of CTA claims; and the distribution of the risk attached to such claims.

On the first point, I fail to see why CTAs would be able, as a rule, to generate more balance of payments financing for a given country than it could otherwise obtain. We have the Group of

Twenty-Four industrial countries framework and the Consultative Group framework; on occasion we have used country support groups; we have sometimes seen the formation of groups of friendly countries; and Japan has set the example of bilateral cofinancing for Fund-supported programs. All these approaches have operated flexibly on a country-by-country basis. But this flexibility has not eliminated burden-sharing problems. In the CTA system I see nothing to prevent budget problems in the creditor countries from causing burden-sharing concerns and inadequate overall financing. In fact, linking Fund financing to bilateral financing through a CTA would risk involving the Fund in a gap-filling exercise. Instead of leaving the Fund in the position of the catalyst for other balance of payments resources, it would risk making the Fund the residual provider of balance of payments resources and putting pressure on the Fund to fill any gaps left by insufficient bilateral contributions, so that the stabilization and reform program in a given country could be launched. Such a scheme might, in the end, shift the decision-making process away from the Fund to the major creditor countries.

On the second point--the liquidity of CTA claims--I do not see how an extensive array of CTAs can increase the liquidity of the additional official bilateral balance of payments resources provided to countries. Your statement refers to the example of the ESAF Trust Account. Remember that it was by pooling our additional balance of payments assistance to the low-income countries that we were able to increase the liquidity of creditor countries' claims on the ESAF Trust. Why not then opt for a multilateral pool of resources instead of a whole string of bilateral credit lines? Here it is also useful to recall the motives behind the creation of the General Arrangements to Borrow (GAB). This mechanism was intended to supplement the resources of the Fund, and its multilateral character was intended to enhance the monetary character of any claims arising from its use. I think that the avenue of a GAB-type arrangement merits further exploration. We could consider setting up a multilateral pool of resources from a number of creditor countries, with entirely voluntary participation not limited to the Group of Ten or the industrial world, in order to provide the Fund with additional liquid resources for certain countries and certain targeted uses.

My third point is risk distribution. In the case of the General Arrangements to Borrow, the risk lies with the Fund. In the case of the ESAF Trust, the risk lies with the creditors, to whom the Fund has given certain assurances. Surely it is possible to find a mechanism to give the Fund assurances against the additional risk it would incur while giving debtor countries access to a new GAB-type resource pool. Obviously, in such a case, the Fund would be covering more than its traditional 8-10 percent share of the gap-filling.

Here I find I must add something about the catalytic role of the Fund. What, exactly, does this catalytic role mean? As I understand it, the Fund's financing paves the way for other capital inflows, initially mostly from public sources, but later mostly from private sources. Indeed, as we have seen with many Fund-supported programs, private capital inflows will take over as the credibility of a country's adjustment program is established. Ex post, we typically find that the Fund has financed altogether and on average some 10 percent of the total financing requirements during the first stage of a country's balance of payments adjustment. But it is by no means an axiom that for the Fund to remain catalytic, it must never go far beyond a 10 percent threshold. Especially when the picture is narrowed to official balance of payments financing, excluding private inflows, there should be flexibility between the shares of bilateral and multilateral financing. Always provided that a country's program is sufficiently strong, it should not matter whether the Fund covers a large part of the country's total official balance of payments financing in a given year. Here, I agree with those speakers who stated last Wednesday that the Fund is ultimately its membership, and that therefore in some particular cases, Fund financing can be seen as a close substitute for bilateral official financing. I would add that such particular cases can arise in a context of highly liquid international organizations and tight national budgets.

We will need to continue reflecting carefully on all options, with an open mind. I hope that the option of an SDR allocation will accordingly be treated with an open mind by those who up to now have opposed it.

Mr. Lanciotti made the following statement:

Before recalling our position on SDRs and related issues and commenting on the new suggestions put forward in the Managing Director's statement, I would like to state, with the utmost clarity, that this chair could not be more sensitive to the exhortations made by the Managing Director and directed to the Board and to the international community to respond appropriately and in a timely fashion to the serious and pressing needs for financial assistance to developing countries and economies in transition.

On the occasion of the most recent Board discussion on the matter at hand, this chair reconfirmed its position in favor of a moderate allocation of SDRs and also gave its own interpretation of what was meant by "moderate": a figure at the lower end of the proposed range of SDR 20 billion to SDR 36 billion. Moreover, in the light of the emphasis now rightly given to the problem of

equity, we took a step forward in declaring our readiness to consider a redistribution mechanism.

Therefore, from our standpoint, the new suggestions put forward by the Managing Director are, indeed, a possible compromise. The gradual allocation over time of SDR 36 billion--SDR 16 billion during the first year, followed by four subsequent annual allocations of SDR 5 billion each--is a way to accommodate the preference of those, our chair included, who support a moderate allocation.

The idea of cofinancing trust accounts, separating the two parts of the original proposal--allocation plus redistribution--and allowing them to be considered independently, although not addressing the difficulties of some countries, makes, nonetheless, the proposal much more flexible.

The flexibility that I see as particularly interesting is that concerning the time frame. So much so, that even the former proposal of a selective allocation to new members could be seen in a different light and reconsidered. If we could put the CTAs in place immediately and implement a moderate general allocation, we would have all the time necessary for amending the Articles as required for a selective allocation, which would definitely resolve the equity problem.

Mr. Kaeser made the following statement:

Concerning a new allocation of SDRs, our position is well known. We can support the Managing Director's recommendation for a new allocation. In our view, low level of reserves of many members, especially the countries in transition, could warrant an allocation of SDR 36 billion. Such an allocation would represent a big step toward resolving the equity problem arising from the fact that a large number of member countries did not receive SDRs because they joined the Fund after the active allocation periods.

According to management's new proposals, the current allocation period would be closed and a new allocation period instituted covering the period from July 1, 1994 to June 30, 1999; and a first allocation of SDR 16 billion would be made in the first year of the new period followed by four subsequent annual allocations of SDR 5 billion. These new proposals have been made with a view to gaining the support of the small hard core of countries that are blocking a new allocation. If this endeavor proves to be successful, we could join the consensus, in spite of the fact that a straightforward allocation of SDR 36 billion would serve the equity issue somewhat faster than an allocation by installments.

We are, however, not ready to support the idea of regular allocations of SDRs in subsequent five-year periods. In our view, we should reassess the global need for reserve supplementation at the beginning of each allocation period rather than set a fixed rate of increase in SDRs and should change it if unexpected major developments occur.

We would like to urge the Fund to explore in depth the various aspects and implications of a "hard" SDR that would preserve its purchasing power over years. The hard SDR would provide the world economy with a unit of account of constant purchasing power that could be useful in international trade. If it were to be used in the Fund operations, the hard SDR would protect the quota base as well as allocated SDRs from erosion through inflation. Last but not least, the introduction of the hard SDR would probably not require an amendment of the Articles of Agreement. This suggestion should not be viewed as an alternative to an SDR allocation but as a contribution that the Fund could provide to the ongoing debate on the international monetary system--a debate in which the Fund has little to offer for the time being.

As to the proposal on the creation of CTAs, we note that the management and the staff have cut the link between the creation of SDR and a post-allocation redistribution--a link to which we had objected strongly, as it would have paved the way for a monetization of development aid. In fact, there is now only a loose relation between the issue of an allocation of SDR and the creation of CTAs. We could have discussed this proposal in connection with the financial requirements of the countries in transition. We could also discuss it on its own merits.

The CTA scheme partially answers one major concern. By making resources available for balance of payment financing only in conjunction with upper credit tranche or ESAF arrangements, CTA funds would benefit from the conditionality of Fund-supported programs. The incentive of delaying the implementation of the needed policy changes should therefore be reduced.

The CTA could be a useful vehicle to provide support to member countries whose quotas are small compared with their financial needs, as is the case for the "other states of the former Soviet Union." A cofinancing scheme could also reduce the administrative work in the contributing and in the recipient countries as well.

Many questions remain: the size of the CTA; the terms and conditions applying to them, as it would be difficult to create a second ESAF; the protection of creditors, which should not be less favorable than the one implicitly provided to ESAF creditors; the

implications of CTAs for consultative group procedures. The list is long, but we are open to discussing these questions. This being said, we reserve fully our position concerning this financing scheme and possible participation.

Mr. Calderón made the following statement:

We agree with the Managing Director that a new allocation of SDR 36 billion would be needed to supplement the projected increase in global demand for non-gold reserves of SDR 300 billion. Therefore, the conditions required by Article VIII for an SDR allocation would be fulfilled.

We also agree with the proposed distribution of the allocation, with a first allocation amounting to SDR 16 billion, followed by four subsequent annual allocations of SDR 5 billion each. This phasing reduces the possibility that the allocation would contribute, in any way, to spur world inflation.

Some Directors have argued that the case for a new allocation has not been adequately demonstrated. A consensus on this issue is difficult to find. However, we think that there are other related issues that, combined, make a strong case for management's proposal.

A new allocation, as the staff has argued, would give new members a substantial relative stake in the SDR system. This would address, although in a limited way, the question of equity. More important, the new allocation could contribute to the transfer of resources to the economies in transition and other countries that have financing requirements and that are willing to adopt strong reform programs. This would decrease the level of risk for the Fund's current and future lending to the region.

I think that there is a consensus that the most important guarantee for the Fund, and for any creditor, is a strong reform program. Only a substantial reduction in inflation and, in general, macroeconomic stability, will lead to growth, to private investment and, therefore, to a reduction in country risk. However, as the Managing Director's statement on the external financing requirements of transition economies showed, even with strong adjustment programs, these economies will have large financing requirements. Moreover, for the period 1994-96, and after additional Fund lending, there still remain substantial unidentified financing gaps.

The problem is that the greater the uncertainty in the sources of financing, the higher the risk for the Fund, not only for future lending but also for current debt exposure. And, because we strongly believe that the Fund must continue to play

its catalytic role, there is a limit--although we have not reached it--to the Fund as a source of financing.

Consequently, management's proposal for a cofinancing trust account, funded by part of the new allocation, would provide additional sources of financing and, therefore, would not only spread the risk for these additional resources but would also decrease the risk for the Fund's current and future exposure.

There is a possibility that some countries in our constituency with ample international reserves, could contribute to the CTA.

Mr. Bergo made the following statement:

First let me thank you, Mr. Chairman, for your interesting statement, which certainly is a valuable effort to bring the issue of an SDR allocation closer to its conclusion by modifying previous proposals and introducing additional elements, even if not directly linked to the SDR question, for our consideration.

As to the CTA proposal, I agree with the Managing Director that the modalities of a possible system of CTAs need to be elaborated and further clarified. In the absence of such elaboration, it is difficult to indicate our views on the establishment of such a system. At present, I will have to reserve my final position on such an arrangement. Of course, acceptance of an arrangement should not be taken as an indication of readiness to contribute. I also agree with the Managing Director that this need not be a focus of immediate attention; the details of a possible proposal can be considered at a later stage.

Let me, nevertheless, offer a few observations. Like Mr. Kiekens, I am skeptical about the possible merits of CTAs as a vehicle to increasing the total available balance of payments and reserve financing of the countries in transition and other groups of countries with financing needs. For central banks to be willing, and legally able, to invest their reserves in CTAs, it seems obvious that guarantees as strong as those given with respect to ESAF contributions would have to be forthcoming. The prospects of additional amounts coming forward if funds had to be appropriated and come out of the budget, I would regard as slim, indeed, but I could be wrong. In the event that the Fund provides such guarantees, the question of whether that alters risk taking and the Fund's involvement in other ways certainly arises.

The need for further study to determine the feasibility and attractiveness of CTAs is obvious, and let me hasten to add that I am in no way opposed to such studies.

With regard to the more immediate need to reach a conclusion on the SDR question, there is not much to add on the position of this chair. We note, however, with satisfaction that a post-allocation redistribution scheme in any of its earlier proposed forms will not be pursued. We can support the Managing Director's proposal to spread the SDR allocations over a five-year period, and we would have no objections to closing the present and instituting the seventh basic period this summer. Phasing the allocations would allow the Board of Governors to change, halt, or cancel allocations in the remainder of the basic period if circumstances warrant. The total allocation should be of moderate size, and my inclination would be somewhat more moderate than the present proposal by the Managing Director.

Mr. Autheman made the following statement:

I would like to address three specific issues. First, is there an alternative to an SDR allocation to address the equity issue? Second, can higher access be a substitute for an SDR allocation? And third, I would like to give some preliminary comments on the CTA proposal.

If we take the equity issue seriously--and I am not convinced we all do--we have two solutions: either move to amend the Articles or agree on an allocation. If we think that there is no global need according to the principles followed by the Governors for past SDR allocations, the only possible solution is an amendment of the Articles. But here, I would insist that we need to act consistently, applying the same principles today that were applied 16 years ago. In that light, I would like to know when and under what conditions Mr. Schoenberg would find that a global need exists. It would be interesting to know what criteria would have to be fulfilled. If our definition of a global need is such that these conditions can never be met, it would be responsible to advise our ministers to consider amendments to Articles or, instead, to say that it is time to put an end to the equity issue.

At the time of the 1978 discussion on this matter, the decision to allocate SDRs did not depend on any finding that the long-term global need could not be met except by an allocation. The crucial point was that an allocation could contribute to meeting this need. More important, the assessment of long-term global need was then made in a prospective way. A current shortage of reserves is not required, as the assessment has to relate to the future growth of reserves and the need for supplementation. If we consider that there is no global need for the coming five to ten years, it means that between 1978 and 2005 there will be no increased need for an SDR allocation; in those circumstances, why should we pay any attention to this equity issue?

As to the modalities for an allocation, I find the Managing Director's presentation interesting from a pedagogical point of view. It is difficult to challenge the view that an initial allocation of SDR 16 billion, followed by four allocations of SDR 5 billion a year, would create a great inflationary risk. But apart from the proposal's pedagogic merit, I think that it would be simpler to act in a straightforward manner and to agree on a specific allocation without too many technical devices.

On access versus allocation, I agree with Ms. Lissakers that higher access could be our main contribution to the growing financing needs of several members. But I disagree with the higher-access-only strategy. The arguments that there is an identity between the Fund and its members cannot be pushed too far--that is, to the point where members withdraw any visible support to Fund policies and actions.

We all know that the success of Fund-supported programs relies both on conditionality--the successful implementation of agreed policies--and market credibility. And we know that it is difficult to strengthen market credibility by withdrawing members' visible support to Fund operations. We therefore need to shift the balance between multilateral financing and bilateral financing. And I agree that we need to increase the relative share of multilateral financing within official financing. But I would not support the extreme view that we can solve every problem by this unique means.

Similarly, I have great sympathy for Mr. Posthumus's wisdom, and I like his point that industrial countries should seriously consider making room in their budgets for additional financing while resisting the temptation to use uncontrolled monetary financing. But will they? We know that they will not. Can we then consider some controlled monetary financing?

While we like the idea of cofinancing, we would be reluctant to consider a solution that would lead to a decline in the multilateral approach and where the principle of voluntary contribution would mean that multilateral support to the Fund would be reduced in the end. Moreover, we think that this approach can only be considered if we make significant progress in identifying the monetary component of Fund-supported programs.

I think that the solution has to be found in the following direction. Bilateral contributions to financing gaps are of a budgetary nature, but financing the buildup of reserves or monetary stabilization can be met with monetary resources under appropriate conditions. I have great sympathy for the idea launched by Mr. Kiekens of extending and revitalizing the General

Arrangements to Borrow so as to extend such arrangements to other members to meet today's needs.

The question of risk is a difficult one, and we should try and find a middle way. If the risk is with the Fund, monetary financing is no problem. If the risk is with the country, monetary financing is impossible. I think that we should try and make some progress in devising some built-in guarantee so as to allow this sort of cofinancing to develop. For example, we could consider other approaches. The pooling of a trust is important in this respect. I think, also, that we could act with the Fund, but not jointly with the Fund. For instance, any arrears vis-à-vis a co-financier might be considered as a default vis-à-vis the Fund in the sense that it would curtail the access of the member in default to the use of Fund resources until it has settled its arrears.

Mr. Fukui made the following statement:

I understand that the Managing Director's statement is intended to try to reach a compromise on an SDR allocation, given the current division of opinion on the matter, but in our view, the new proposal is not convincing. Our position on an SDR allocation has not changed. As I do not want to reiterate that position, I will make a few comments on the salient points of the Managing Director's statement.

The new proposal to phase allocations does not allay our concern that the case for a general allocation cannot be justified by a long-term global need to supplement reserves in the current basic period. The new proposal will result in an allocation of the same size--namely, SDR 36 billion--within five years, and it needs to be justified on that basis.

I recognize that during our previous discussions on the matter, there was some strong feeling among Directors about the need to address the so-called equity problem, particularly for new members. I have sympathy for this equity problem, but our last discussion convinced me that a selected allocation is not permitted under the present Articles. I therefore agree with the Managing Director that the equity issue can only be addressed by traditional allocations of SDRs, although I am concerned that too much emphasis and publicity will be given to the issue of equity.

I agree to continue the discussion on an SDR allocation, as a judgment based on the criterion of overall need is not simple and straightforward. In this regard, I believe that more attention should be paid to the fact that the share of SDRs in global reserve holdings is declining and is projected to fall to about 2.2 percent at the end of 1996.

On the redistribution mechanism, our view has not changed. Under Japanese law it is not permitted to lend yen or SDRs to a trust fund other than to the Fund itself. I think this legal requirement is generally understandable and is generally shared by most countries because resources to support monetary reserves need to maintain the highest credibility.

As to a budgetary arrangement or trust fund, such as the proposed CTAs, there is no legal requirement on our part. Such an arrangement as the ESAF is possible for our country. But this arrangement does not necessarily go along the lines of the proposal. As long as a budgetary allocation is required, I cannot see any significant difference between this approach and bilateral assistance, and Japan has been involved greatly in bilateral assistance. In some cases, the mere fact that the CTA is administered by the Fund and is complementary to other Fund facilities may enhance the incentives for donor countries to participate. Eventually, however, the CTA's merit could be marginal and reduce the flexibility attached to bilateral arrangements.

I share management's concern about the increasing risk that lies ahead in relation to transition economies. But at the moment, the Fund's liquidity is comfortably high, and we can be more flexible about enlarging access. Above all, the risk assumed by the Fund is shared by all member countries.

In the event that the issue of CTAs can be dealt with separately, I agree to continue the discussion with a view to working out the details of the proposal.

Mr. Evans made the following statement:

I think that Mr. Schoenberg has correctly identified the three main issues here: the general allocation of SDRs; the redistribution of SDRs; and the question of how best to finance countries in transition. The third issue, in particular, is best considered separately from SDRs.

On the first issue, the general allocation, there is no change in our position.

On the second issue, the redistribution of SDRs, I agree with the Chairman's statement that the Board should not pursue that matter further.

On the question of cofinancing trust accounts as a way of leveraging Fund assistance, for the majority of potential contributors, the use of SDRs to cofinance programs alongside General Account resources would either not be permitted under national legislation or would require provisioning or classification as

public expenditure. The United Kingdom's legislation would not permit use of our reserves in this manner.

Cofinancing trust accounts also raise the question of spreading the Fund's risk. In the past, the Fund has benefited enormously from its preferred creditor status. I wonder whether, to the extent that bilateral resources increasingly cofinance Fund disbursements, the differences between the two might not become increasingly blurred, particularly if the Fund provides some kind of protection for the cofinancing arrangements.

I also wonder whether CTAs will produce more financial support than the present framework: will they substitute rather than add to existing untied finance? It seems to me we would want to be clear that the prospects for greater financial support would need to be strong to be worth putting the Fund's preferred creditor status at risk.

I certainly see problems for U.K. participation in any such cofinancing arrangements, which, even if it did not involve SDRs, would still count as part of public expenditure.

Your remarks, Mr. Chairman, on the need for the Fund and international community to respond appropriately to the pressing needs of major groups of Fund members, including with suitable conditionality, were particularly striking. Here, I come back to a point I have made before: an SDR allocation has zero conditionality. It is not, therefore, in our view, the most appropriate response. The better route is to increase access to conditional Fund resources. There will, of course, be a need for bilateral efforts to continue, whether through export credit or debt relief. To that extent, I agree with Mr. Autheman that increasing access is not a panacea. Nevertheless, I think that it is a sensible way to go.

In sum, while I sympathize with our objective, Mr. Chairman, I am not sure CTAs would galvanize the new sources of funds that you hope for.

The Chairman said that he took seriously Mr. Evans's comments on putting the Fund's preferred creditor status at risk. As to the possibility of higher access, he was ready to contemplate that suggestion and, if that was the Board's preferred approach, to recommend it to the Interim Committee. That approach, however, also posed a problem with respect to the Fund's preferred creditor status. Such status had been honored as long as Fund resources played a catalytic role, but it could be put at risk if the Fund's share in overall financing reached, say, 60 percent of overall financing. In any event, the Board would return to that suggestion in the near future.

Mr. Schoenberg, commenting on the equity issue, stated that it was difficult to determine whether there was an equity issue at all. In fact, a recent staff paper had come to the conclusion that there was no equity issue and had pointed out that the Fund's founding fathers had even introduced safeguards in the Articles of Agreement to ensure that there would not be catch-up allocations for future new members.

Fund membership had, of course, rights and obligations, Mr. Schoenberg continued. He recognized that in the absence of a global need, the prospect that new member countries would not receive an SDR allocation might create a political problem and that there was a case for addressing that problem.

As to the conditions under which his chair would see a case for an allocation, the answer lay in the history of the SDR, Mr. Schoenberg commented. In the 1960s and early 1970s the fear that the United States might balance its balance of payments and that there might not be sufficient reserves to meet the demand of the international economy for reserves had led to the creation and allocation of SDRs. As to whether it was necessary that a projected need for reserves could not be met by other sources, the SDR's history showed that the instrument was created because it was feared that no other sources could provide the necessary liquidity.

Mr. Autheman said that he understood that in Mr. Schoenberg's view, global need meant imperative need--a need that could not be met any other way. He was not aware of that meaning of the adjective "global."

The Chairman commented that Mr. Schoenberg was entirely correct regarding the link between the fear of a liquidity shortage and the creation of the SDR instrument. But history also indicated the way in which the concept of global need was viewed by earlier Executive Directors. In particular, the experience of 1978 was an interesting one. At that time, Directors determined that there was a long-term global need for owned reserves in view of the mounting debt problem on the horizon. Indeed, the record of the Board's discussions indicated that a long-term need for owned reserves was the only concept referred to at that time. In his view, the need for owned reserves in the current international setting was even more convincing than it was in 1978.

Mr. Zoccali made the following statement:

> We appreciate the Managing Director's substantial efforts to highlight and help attenuate the systemic consequences of acute reserve stringency affecting the economies in transition and low-income developing countries. Although the existence of a long-term global need for reserve supplementation viewed in those terms still appears difficult for some to accept even in this new world order, we share the Managing Director's conviction that a sufficiently strong case has been made. The so-called equity problem, compounded by the situation of the economies in transition, has only enhanced the acceptability of a new allocation of

SDRs. Other reasons for supporting a new allocation are not less significant. This chair has repeatedly expressed the view that the SDR is a well-constructed reserve asset, and, as such, it can legitimately satisfy part of the demand for owned reserves with potentially large systemic benefits, particularly in light of the increased volatility in global financial markets. This aspect also has a bearing on the definition of long-term global need. Consequently, it remains our view that the international community would do well to keep the SDR alive, even with a modest new allocation that will not fulfill the undertaking envisaged in the Articles of making it the principal reserve asset of the international monetary system.

The decoupling of a new allocation from a post-allocation redistribution scheme and the creation of CTAs as proposed in the Chairman's latest statement is a constructive step forward with potentially favorable externalities, including that of enhanced coordination, greater and timelier availability of resources in support of strong adjustment efforts, and the preservation of the catalytic nature of Fund financing.

In this regard, we fully agree that the best assurance of repayment of CTA contributions is the strength of the adjustment programs supported by the Fund's resources. Nonetheless, the acceptability and extent of the cofinancing arrangements are also linked to the degree of perceived risk of those programs as well as to the duration of the commitment. These aspects warrant further discussion. In addition, even if resources channeled through CTAs are strictly devoted to temporary balance of payments financing, this would not, in our view, be sufficient to maintain the reserve character of the contributions. Thus, the liquidity and budgetary implications posed by this type of additional financing deserve further study.

This said, a new allocation, even the modest one proposed, to be distributed over a five-year period and with the understanding of changing the rate of annual allocation or even canceling it in the remainder of the new basic period, if warranted, would, in our view, significantly facilitate a broader-based participation in a CTA-type scheme that is not restricted to industrial countries.

Regardless of the mechanism intended to channel additional conditional resources to recipient countries--be it a voluntary redistribution, a contribution to CTAs, or an enlarged General Arrangements to Borrow--it is unlikely to be relevant if the governments concerned fail to implement the measures needed for stabilizing and transforming their economies. The Fund should be better positioned to advance this objective without being constrained by a disproportionately large share of the intermediation risk that increased access would entail, possibly at the expense

of its privileged creditor position, which has generally withstood the test of time.

Mr. Galicia made the following statement:

The objective of this exercise as we understand it is to obtain a consensus on an SDR allocation in order to address the conditional liquidity needs of many Fund members that have inadequate levels of reserves and are compressing their imports.

For some years now, the discussion has gone beyond the realm of technical analysis, as an overwhelming case for an allocation has been made by the staff and most members of the institution. However, several Directors are still not convinced that there is a long-term global need to supplement existing reserves. In the effort to reach a compromise, several ancillary issues have been raised--the so-called equity issue, redistribution mechanisms, and now CTAs. These issues are valid and merit consideration. Nevertheless, it seems that this protracted process of reaching a consensus is contaminating the original proposal and all of the issues of Fund financing are being intertwined.

We consider that an SDR allocation is valid on its own merits and that we should be careful not to complicate it in such a way that risks eroding its widespread support by the membership. In this regard, it would be preferable to separate the compromise proposal put forward by the Managing Director on an SDR allocation from the proposal on CTAs administered by the Fund. In our view, each proposal is independent. We support the compromise proposal for an SDR allocation as set out in the Managing Director's statement.

Regarding the principle of cofinancing, our authorities have not been able to react to the issues posed in the staff paper. Nevertheless, our preliminary view is that cofinancing has to be understood as a bilateral effort by a member country to support a specific adjustment program or group of countries undertaking adjustment programs. The voluntary participation in cofinancing, in our understanding, will reflect the reasonable national or geopolitical interests. This raises concerns regarding the "voluntary nature" of a proposal implicitly targeted to countries in a relatively strong balance of payments position.

We have no objections to the Fund administering CTAs, but it should not guarantee the exposure or in any way share the risk involved in cofinancing. The only assurance that the Fund can give to countries bilaterally cofinancing a member's program is the strength of the adjustment effort and the close monitoring of the member's policies.

We believe that the rationale for an SDR allocation is to provide unconditional liquidity to member countries. This aspect of the SDR allocation cannot be compromised. Regarding bilateral financing by industrial countries to different countries or regions to complement Fund resources, we have no objection to the Fund administering these resources, but in no way should this be considered as part of the multilateral efforts of the institution or should the Fund cover the risks associated with this supplementary financing.

Mr. Mohammed made the following statement:

Let me begin by reiterating a position that we have taken at the March 31 discussion, namely, that as a practical matter, there is no better way to address the problem of equity than to offer new members an appropriate stake in the SDR system through a new allocation. The case for a new SDR allocation, as we have maintained on several occasions, has long been convincingly made on the basis of the criterion of long-term global need to supplement existing reserve assets. In our view, the fact that a large number of Fund members have not participated in previous SDR allocations adds to the strength of an already compelling case for an allocation at this stage.

Beyond this, we support an allocation of SDR 36 billion. Notwithstanding some remarks I have heard today, it is our hope that the flexibility embodied by the Managing Director's proposal to first allocate SDR 16 billion, to be followed by four subsequent annual allocations of SDR 5 billion each, would serve to alleviate at least some of the concerns that have led some to oppose a new allocation.

We can also agree with the suggestion to bring the sixth basic period to a close and to start the seventh period in the context of a proposal for an SDR allocation. But this is a second-order matter. The issue of immediate concern is agreement on the allocation itself.

I agree that the cofinancing scheme outlined by the Managing Director provides for a good measure of flexibility. In our view, the proposed cofinancing scheme could provide a useful framework for launching a collaborative effort to help meet the financing requirements of countries requiring large balance of payments support. Obviously, this scheme would require further elaboration and that could be the subject of a separate discussion. For now, and since the scheme provides for added flexibility, the focus should be on an allocation of SDRs and its various modalities.

Mr. Santos made the following statement:

We welcome and appreciate management's proposals, which strike a workable compromise on the various issues related to an SDR allocation. We fully support the proposal for an allocation of SDR 36 billion to all participants in the SDR Department. We are among several chairs that have recognized that there are indications of a long-term global need to supplement existing reserves and that such a reserve supplementation will have invaluable benefits for the world economy. In our view, a traditional allocation would also provide, at this stage, the only credible approach to addressing the problem of equity vis-à-vis new members that have not participated in previous SDR allocations.

We can also go along with the modalities of the suggestion to bring to a close the sixth basic period and begin the seventh basic period with a fresh allocation of SDR 16 billion this year, followed by annual allocations of SDR 5 billion during the remainder of the period.

Concerning the establishment of cofinancing trust accounts, we agree that this scheme provides the needed flexibility and risk spreading to act quickly on assistance to the balance of payments of two major groups of Fund members. In this regard, the proposal looks attractive. I have been listening with interest to the views of those more likely to contribute to CTAs. At this stage, and in order to make an informed decision, I look forward to the staff's comments on the issues raised both on the conceptual and operational modalities of CTAs.

Mr. Smee made the following statement:

I did not support an SDR allocation of SDR 36 billion, and I do not support a phased SDR allocation as proposed by the Managing Director. My authorities do not agree that an "overwhelming case" can be made for an SDR allocation. A long-term global need, the only condition under the current Articles for an allocation, has not yet been demonstrated.

As to the arguments in support of an allocation in 1978, I would point out that the world has since changed to such an extent that it is no longer appropriate to use the same measure as in 1978. We have more reserve currencies now than in 1978. Moreover, in 1978 the global economy faced a sharp increase in world oil prices--prices had quadrupled in 1973 and would double again in 1979--and balance of payments difficulties in the United States had led it to come to the Fund for a reserve tranche drawing. At present, we have lower oil prices and lower inflation than in

1978. While I am always willing to admit there is a maldistribution of global reserves at any given moment, I do not think the arguments of 1978 in that regard justify an allocation in present circumstances.

On equity, I must admit that I found the General Counsel's arguments at our last discussion on this issue to be convincing; the drafters of the First Amendment knew what they were doing when they did not provide for catch-up allocations for new members. Nevertheless, the current situation is unprecedented in the sense that even if there is no global need, there is a matter of fairness to be addressed when so many members have not had an opportunity to participate in an SDR allocation.

I am one of those Directors who believe that the issue of equity for new members can best, and most efficiently, be dealt with by a one-off amendment to the Articles--a clean amendment with no "add-ons" or "Christmas trees." I believe that we should channel our time and energy in this direction so that we can accomplish the necessary preparatory work to be completed at Madrid.

Cofinancing trust accounts are an intriguing introduction to the underlying theme of an SDR allocation and redistribution, while not requiring an SDR allocation per se. I admit that they may be attractive in some instances. However, I would note that no matter whether you say that CTAs would maintain the "monetary character" of balance of payments financing, for Canada, and I believe for some other countries, such types of financing mechanisms, whereby the risk is borne by the contributor, would still have budgetary implications. Thus, while CTAs may be a "new" approach, the "old" arguments and obstacles remain.

Mr. Mirakhor observed that the high oil prices of the 1970s had also provided an enormous amount of liquidity for recycling by oil-producing countries. In the current environment of low commodity prices, however, one half of the world was starving for owned reserves. The imports of developing countries from industrial countries were badly compressed, and if they had to set aside any extra liquidity for reserves, they could not import from the industrial countries. In sum, the economic facts used to argue against an SDR allocation in current circumstances could also be used to argue in support of an allocation. Indeed, earlier staff papers had made clear the need for expanding liquidity through an SDR allocation to help increase owned reserves.

Mr. Smee commented that Mr. Mirakhor's observations regarding the 1970s made his own case even stronger. The liquidity creation owing to the increase in oil prices had been followed by a recycling of petrodollars by banks and without conditionality, and had led to the debt problems of the 1980s, from which the world economy was still recovering. If there was a

need, it was for conditional financing, and for that purpose, the Fund had adequate liquidity.

Mr. Mirakhor said that he would be interested to know how much of the liquidity that was created in the 1970s had come to the Fund.

The Treasurer stated that, apart from the oil facility created in 1974 and renewed in 1975, some SDR 7.8 billion of the liquidity created had come to the Fund through borrowing to finance the supplementary financing facility. Later the Fund had borrowed almost SDR 12 billion under the enlarged access policy. The infusion of liquidity in the late 1970s and early 1980s had been badly needed in view of the need of certain countries for access to Fund financing of up to 600 percent of quota. At the same time, the Fund had been seeking a major quota increase in order to bolster its conditional lending in 1978 as well as an SDR allocation to help supplement Fund financing through an increase in members' owned reserves.

Mr. Geethakrishnan said that he agreed that there was a strong case for a sizable general SDR allocation. Such an allocation would also take care of the problem of "perceived" inequity--"perceived" because equity had to be seen against a given set of rights and wrongs. As all allocations made so far flowed from the Fund's own Articles, it could not be said that the current outcome was inequitable.

While he could go along with the Managing Director's proposal for an up-front allocation of SDR 16 billion followed by SDR 5 billion a year for four years, his own preference was to have an up-front allocation of SDR 36 billion and leave it at that for the moment, Mr. Geethakrishnan remarked. Like Mr. Schoenberg, he believed that committing the Board to recommending in each of the coming four years that there was a global need in each of those years so as to justify an SDR allocation might fall afoul of the Articles.

As to CTAs, there were aspects, such as the issue of risk, that needed to be gone into in detail, Mr. Geethakrishnan observed. The concept was, however, a welcome compromise, and he particularly welcomed the Managing Director's suggestion that participation in CTAs should be broad-based so as to underscore the universal character of the Fund as well as its global mission. That would be along the lines recently agreed for the ESAF successor. While he had not had the benefit of consultation with his authorities on the issue, he personally believed that it was a good concept and worthy of support, and he could commend it to his authorities.

Mr. Mirakhor stated that his chair had always supported SDR allocations. In his view, the minimum that had been suggested--SDR 36 billion--was, in fact, a minimum. Moreover, his chair would prefer an up-front allocation as suggested by Mr. Geethakrishnan.

On equity, he agreed with Mr. Mohammed and other Directors who considered that the question could best be answered by a general allocation,

Mr. Mirakhor continued. He also believed that amending the Articles for that purpose was not a realistic alternative at the present time.

Directors' remarks on the Chairman's proposals had reminded him of the experience with raising funds for the ESAF successor, Mr. Mirakhor commented. Early efforts had been frustrating, but over time, the membership--even countries with little to give--realized the need to help the poorest members. Indeed, out of seven members in his own constituency, four had contributed to the ESAF, because they saw a need and were willing to invest in the process. He would therefore encourage management not to lose heart, but rather to continue to press ahead with efforts to gain the support of more stockholders for some kind of post-allocation program to benefit countries with strong programs and a need for Fund financing.

Mr. Waterman made the following statement:

Our position on the question of a general allocation has not changed. We do not believe that there is a global need to supplement reserves at present.

As to the equity issue, I agree very much with Mr. Smee. I think the neatest way forward would be to amend the Articles, and I would certainly support that. But comments suggest that that may not be a realistic way forward. If it is not, I would certainly also support the possibility of increasing access limits.

The proposal to create a series of CTAs is certainly an interesting one. I think that we would need further elaboration before we could take a considered position on it. I would note in passing, however, that it is clear, in terms of the advice I have received, that for Australia at least, as is probably the case for a number of other countries, such a transaction would involve a budgetary allocation. Basically, the funding would be competing against other aid budget items. I am not sure that my authorities would necessarily see CTAs as preferable to the provision of assistance by way of bilateral support.

Mr. Wei made the following statement:

On the SDR allocation, I would like to reiterate our position that a general allocation is the most realistic way of dealing with the current situation, including the equity issue, and we support an up-front allocation of SDR 36 billion for the reasons we have stated on previous occasions.

We are, however, ready to accept the Managing Director's compromise, namely, an allocation of SDR 36 billion, with an initial allocation of SDR 16 billion followed by four subsequent annual allocations of SDR 5 billion each. We support this

proposal because it reflects our firm belief that there is a long-term global need for a moderate but meaningful reserve supplementation. Moreover, flexibility is added in this modification: "if warranted by unexpected major developments, consideration could be given to propose to the Board of Governors a change in the rate of annual allocations or even to halt or cancel allocations in the remainder of the basic period." We hope to see a more positive response from those who still oppose an allocation.

We believe that it is important to separate the issue of an SDR allocation from the post-allocation redistribution schemes and therefore support the idea of not pursuing schemes for redistributing SDRs. The decision on whether to have an SDR allocation should be made first.

With regard to the "cofinancing" mechanism, while my authorities need more time to study it, I believe that with the approval of an SDR allocation, it will be easier for the developing countries, in a relatively better balance of payments position, to consider contributing to CTAs.

We thank the Managing Director for his outstanding effort in addressing these issues.

Mr. Mwananshiku said that he supported the proposal for an allocation of SDR 36 billion. However, the allocation should be made up front rather than over five years. That would go a long way in meeting the question of equity, and also in addressing the needs of many countries. The idea of establishing CTAs was also acceptable.

Mr. Lanciotti remarked that he did not share Mr. Schoenberg's view that an equity issue did not exist simply because the drafters of the First Amendment had not provided for catch-up allocations. That the drafters of the Articles could not foresee the current exceptional circumstances did not mean that the problem of equity was only a perceived one or one that could be discounted.

Mr. Schoenberg recalled that he had indicated that his authorities were still seriously considering the equity issue, even if they had not decided to support an SDR allocation. Moreover, he had not stated that there was not an equity issue; rather he had said that it was difficult to determine whether there was an equity issue. He continued to believe that there was a problem that needed to be looked into, and his chair would seek to be helpful in that regard.

The Economic Counsellor and Director of the Research Department recalled that Mr. Posthumus had indicated that while he supported the compromise proposal, he did not regard it as consistent with earlier suggestions for small annual allocations, noting that the proposal would

raise gradually the ratio of SDR holdings to total non-gold reserves. It was important to put those issues in a proper quantitative context. The level of SDRs relative to non-gold reserves was currently a little below 3 percent. It had peaked at 8.4 percent at the end of 1972, and at the end of 1981--the end of the last allocation--it had been 6.5 percent. During the 20 years between 1972 and 1992, the ratio had averaged somewhat more than 5 percent.

If the Managing Director's proposal were put into effect, at the end of the allocation period in 1999, the level of SDRs holdings relative to non-gold reserves was projected to be 4.2 percent, or significantly below the average of the preceding 20 years, the Economic Counsellor continued. Thus, while the proposal would raise the ratio, the increase would be modest--from about 3 percent at present to about 4 percent at the end of the period. If the magnitude of the allocation was revised downward, say, to SDR 20 billion, the ratio would increase only slightly to just above 3 percent. In any event, the notion that the overall allocation would raise SDR holdings to unprecedented levels relative to non-gold reserves was not accurate. Indeed, to achieve the roughly constant ratios envisaged when the proposal for small gradual allocations was first advanced, substantially larger allocations than the Managing Director had proposed would be needed. That observation was also consistent with the staff's view that the growth in the demand for reserves was much larger--by tenfold--over the five-year period to 1999 than the proposed total allocation of SDRs. As the allocation was well within the expanding demand for reserves on a worldwide basis, the issue of benefits versus risk was clearly on the side of benefits at the margin.

While he did not wish to reopen the discussion on long-term global need, some additional comments by Directors in that regard merited further reflection, the Economic Counsellor commented. When the SDR was created in the late 1960s, the international monetary system was, as Mr. Smee had suggested, quite different from what it was at present: the system was gold-based and gold was the key reserve asset. It was important to recognize that when the initial decision was taken to allocate SDRs, there existed an easily available mechanism to expand the total world supply of reserves, which had been specifically provided for in the Articles of Agreement--namely, to increase the official gold price. The decision was made not to utilize that power, but instead to allocate SDRs. Thus, at the outset, the issue had been balancing alternative means of increasing the supply of reserves, rather than regarding the SDR as the instrument of last resort. That issue had risen again when it was decided to allocate SDRs following the elimination of gold from its role in the international monetary system under the Second Amendment.

It remained a matter of judgment as to the existence and the magnitude of the need to supplement reserves, the Economic Counsellor observed. That was probably the intent of the framers of the Articles; there was no automatic formula or mechanism that could be worked out that would determine that need and its magnitude.

As to the equity question, as several Directors had suggested, it was, in the end, not an issue of what the Articles said, but rather of what constituted equity in a broader context, the Economic Counsellor remarked. What the Articles had to say, however, was of critical importance in determining what was permissible under the Articles.

On the issue of financing and financing needs, it was important to add one element to the discussion of the potential for enlarged access, the Economic Counsellor and Director of the Research Department stated. Uniformity of treatment was a long-established principle in the Fund. It did not necessarily mean treating every member the same, because different countries found themselves in different circumstances. The creation of the systemic transformation facility, all agreed, was a useful response to those different circumstances. It might also be appropriate to consider enlarged access, as long as it was generally available to the membership and not limited only to a specific group of members. There were, however, limits to action in that area; at a certain point, the principle of uniformity of treatment would be violated. It was important not to approach that point in seeking to deal with the problems of a particular set of countries.

The Chairman made the following summing up:

> This follow-up discussion of the question of an SDR allocation and related issues has been useful, and together with our discussion on March 31, 1994, it provides a basis for reporting to the Interim Committee.
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> Our discussion at the end of March considered the situation of those members that had not received an allocation of SDRs or had not participated in each allocation since January 1970. In general, Directors agreed that the Fund does not have authority presently to make a selective allocation to new members or to reallocate SDRs through a cancellation of existing SDRs combined with a new allocation. Most Directors did not favor amending the Articles to provide the legal basis for either selective allocations or simultaneous cancellation and allocation. Nevertheless, a few Directors favored consideration of an amendment for the specific purpose of addressing the equity issue. I also note Mr. Schoenberg's indication that his authorities keep the equity issue under consideration.
>
> Many Directors took note that a traditional allocation of a moderate amount of SDRs could go a long way toward reducing the degree of inequality in members' ratios of cumulative allocations to quotas: an allocation of SDR 36 billion would raise the ratio for new members to 60 percent of the average ratio for participants in previous allocations.

The issue of equity apart, most Executive Directors continued to express support for an allocation of SDRs in present circumstances on the basis of the arguments with which we are familiar--there exists a long-term global need to supplement existing reserve assets, given the projected increase in demand for reserves, the relatively high cost of reserve acquisition faced by many countries, or the lack of access to international capital markets, and the fact that many members of the Fund currently have low reserve holdings relative to their imports. It remains my view, for these reasons, that there is an overwhelming case to propose an allocation of SDRs.

A number of Directors, representing a substantial minority of the voting power, continue to believe that an allocation of SDRs is not at present warranted either because, in their view, there is no long-term global need to supplement reserve assets, or that such need has not been adequately demonstrated. These Directors stressed the role of the Fund's conditional resources in meeting the financing needs of the transition economies, and they believed that credit from private capital markets would continue to be sufficient to meet the reserve needs of the countries that followed sound macroeconomic and financial policies.

Nevertheless, in view of the support that exists for my suggestion of an allocation of SDR 36 billion, I believe, like Mr. Fukui, that we should continue our consideration of this matter.

Most Directors agreed not to pursue schemes for post-allocation redistribution of SDRs at this time. However, there was support, I believe, to pursue the idea of developing instruments that would better enable members in a position to do so to transfer balance of payments financing to those members with large financing needs in the context of strong adjustment programs. In particular, many Directors expressed interest in developing the idea I have called cofinancing trust accounts (CTAs), which would be administered by the Fund. Such CTAs would not be linked directly with an allocation of SDRs, and the financing of the proposed CTAs could come from members' existing reserves, from new SDR allocations, or possibly from other sources. The resources made available to the CTAs would need to be additional to the balance of payments financing that would otherwise be available. I am particularly impressed by the willingness of a number of chairs and countries to consider CTAs to make reserves available, including developing countries, who have referred to the globalized context in which we are now operating, and the growing interest of many developing countries with sufficient exchange reserves to contribute their share in the solution of the major problems of the world. There were, however, a number of Directors who expressed doubts about the proposals for CTAs, especially

about their additionality, the justification for risk sharing, and the risk of weakening the multilateral framework in which the Fund operated. These doubts were expressed by Directors from a number of countries that were potential contributors.

While we need to work out more fully the modalities of such a scheme, the main principles underlying this approach seemed to attract the support of a number of Directors today. The resources made available to the CTAs would need to be additional to the balance of payments financing that would otherwise be available. These resources would be disbursed pari passu with Fund disbursements, ensuring appropriate conditionality.

Protection for the claims by lenders to CTAs is a difficult and delicate issue: some Directors felt that the strength of the adjustment programs should provide sufficient "security" to loans to CTAs. I tend to share this view and am ready to discuss the suggestions that I have made in my opening statement. We will need to return to this question.

The first item of business is, however, continued consideration of an SDR allocation in the period ahead. I will report to the members of the Interim Committee on our two most recent discussions on an SDR allocation, and as part of the documentation for the Interim Committee, I would propose that my statement of today and this summing up be submitted to the Interim Committee members.

4. EXTERNAL FINANCING REQUIREMENTS OF COUNTRIES IN TRANSITION AND POSSIBLE SOURCES OF FINANCING

The Executive Directors continued from EBM/94/34 (4/13/94) their consideration of a statement by the Managing Director on external financing requirements of transition economies and possible sources of financing (EBD/94/63, 4/8/94).

The Chairman made the following concluding remarks:

This was a very wide-ranging, frank, first discussion of the external financing requirements of transition economies and their potential sources for financing. In passing, I would like to thank Executive Directors for their contributions to this debate.

All speakers emphasized that it is impossible, given the difficulties these countries confront, the inherent political and other uncertainties, and the lack of experience of the international community with the unprecedented scale of transformation required, to forecast the financing requirements of the transition economies as a group with any degree of precision. In particular,

it was important to clarify that any figures shown in the documentation for this discussion should not be seen as a benchmark against which to measure financing actually provided in the future. This would, of course, importantly depend on the strength and sustained pursuit of adjustment and reform efforts. Against this background, there was recognition that the approach chosen--namely, to establish a baseline that relies on programs negotiated or under negotiation for some countries, and assumes for others early stabilization and reform implementation, as recently observed in some successfully reforming countries--should be seen as a reasonable method to provide a framework for discussing future approaches in light of our past experience.

In preparing for the Board discussions on April 20 on Policies of Economies in Transition - Assessment of Fund Experience, Directors will note the overwhelming evidence that the stronger the adjustment policies, the greater the success. I observed that the Fund's record in this connection is a source of satisfaction. We need the assurance of good policies, not only because of concern about the size of our resources and risks, but also because experience shows that this is the only way to shorten this difficult period of transition and to help the economies in transition to join promptly the group of countries enjoying high and sustainable growth.

Within the group of transition economies, the circumstances of individual countries vary greatly. Some have already achieved stabilization and implemented major reforms. They now attract increasing amounts of spontaneous private capital flows and, on current prospects, will not need major official support, including from the Fund, in the future. Others, however, have hardly begun, and the international community must stand ready to encourage them to initiate stabilization and embark vigorously on the necessary reforms and, when they do so, to support them on an adequate scale as long as they are unable to attract the needed foreign financing without its help.

As to the broad financing requirements indicated by the illustrative baseline scenario, Directors remarked that, even though one could hold more or less optimistic views regarding the behavior of private capital flows, the contribution that would seem to be required from official sources remains substantial, especially in the former Soviet Union.

In that connection, several aspects were emphasized. First, many of the transition economies have low debt burdens. Even for those with substantial debts, given their debt-service profiles, the contributions from debt relief on traditional terms would rapidly diminish. Second, the need for infrastructure, rehabilitation, and environment clean-up is huge, and Directors

stressed that, following adequate preparation of projects, it would be important for the multilateral development banks to increase their support for those countries adopting strong reform and adjustment programs. Third, action by Russia to raise the export price of oil results in the shifting of part of the external financing requirements on to the energy-importing countries of the former Soviet Union. Fourth, in addition to the size of the need, the time horizon was commented on, with Directors noting the lack of precision of the reform calendar in a number of transition economies, the probable need of public financing at the beginning, and the obvious need for high-quality programs up front. In that regard, our experience with the Baltic countries suggests early substitution of private capital flows is possible when the programs are strong and credible.

No definitive call was made for new instruments for financing, but the Fund must show that it is ready to consider, if necessary, the adaptation of its instruments and their use. The fact that we are looking at this possibility should reassure the interested countries. They must realize that the Fund is attentive to their needs and will not hesitate to help them with significant financing if the need is there and if they implement strong policies, as illustrated also by its experience in Eastern Europe.

Many speakers felt that the Fund's contribution will have to be maintained at a high level and could be stepped up in line with the comprehensiveness and quality of programs. Such an approach would be justified by its strong liquidity position and its proven ability in dealing with the challenges and risks that we face in the economies in transition. It was emphasized, however, that the guiding principle must remain that it is strong programs that deserve substantial financial support. We all agree that if consideration is given to a temporary increase in access to the Fund, this policy should apply evenhandedly to the entire membership. With regard to bilateral support, it is clear from the views around the table that it should continue to play a role, but Directors did not want to prejudge the final decisions, case by case, of their authorities.

As was recognized, larger and more concentrated lending by the Fund entails greater risk, and the purpose of our discussion was to bring these risks clearly to the attention of the Board and to begin to examine how they may be adequately addressed and shared so as to preserve the Fund's liquidity, its monetary nature, and its preferred creditor status. I have noted with interest the range of reactions to the suggestions in the statement that call for more concrete and specific assurances of support for the countries benefiting from such lending, as well as to the suggestion in my statement that, failing this, we might

need to consider supplementing the traditional financing assurances by formal guarantees in respect of the timely discharge of repurchase obligations. In this regard, I note the reservations expressed by a number of Directors. Several speakers also referred to the circumstances in which timely consideration of a quota increase would be needed.

As repeatedly noted in earlier discussions, most of you consider that an SDR allocation of the size mentioned in the statement would not only help address the problem of new members that have not participated in previous allocations, but also contribute, albeit relatively modestly, to meeting the likely financing requirements by building the reserves of transition economies. Additional resources would certainly be required. In this context, I take note of the interest manifested in mechanisms such as cofinancing trust accounts administered by the Fund, a topic to which we will return later.

In conclusion, and as personal remarks, let me briefly reiterate and summarize the two basic approaches that have been identified for the external financing of transition economies in the period ahead. One approach would be based on higher access to Fund resources. Mr. Autheman has called it the "higher access only approach." The other approach would be based on more global cooperative arrangements. These two approaches, as a matter of fact, have at least three common features: strong policies in place in the recipient countries; efforts to encourage increased financing to be provided by the multilateral development banks; and pursuit of appropriate debt relief by creditor countries.

The higher access to Fund resources approach, which I am ready to recommend if this is the preference of the membership, would require that higher access be applied with evenhandedness not only to countries in transition, but also to all countries in need in the Fund. Higher access would become available following the decision by the Executive Board. Application of such an access would follow careful risk evaluation on a case-by-case basis. In addition, it would be understood that the membership would stand ready to increase Fund quotas if our financial involvement with transition economies and other parts of the membership brought the Fund's liquidity close to the traditional threshold for action to raise the Fund's capital. Furthermore, the membership would stand ready, I hope, to reiterate to the Fund the assurances based on the Fund's preferred creditor status that it provided when the systemic transformation facility was introduced.

The second approach, based on more global cooperative arrangements, would include, first of all, Fund financing on present access rules. In addition, there would be an allocation

of SDRs, as proposed in my recent statement, and cofinancing provided by individual member countries in connection with Fund financing, using the techniques of the cofinancing trust accounts that would be administered by the Fund with the amendments our further discussions would suggest.

Mr. Kagalovsky said that it was incorrect to suggest that the increase in Russian oil export prices had resulted in a shift in financing requirements from Russia to energy importing countries of the former Soviet Union. It was more accurate to refer to the elimination by Russia of a price subsidy that had favored those countries. In addition, the text should mention the amount of SDRs that would need to be allocated in order to address the problem of new members that had not participated in previous allocations and to contribute to meeting the transition economies' likely financing requirements by increasing their reserves.

The Chairman responded that the text in question could say that the increase in the export price of Russian oil had resulted in the elimination of a price subsidy in favor of the energy importing countries of the former Soviet Union. Also, it would be helpful to mention the size of the SDR allocation.

Mr. Smee commented that the Chairman's personal remarks gave the impression that, of the two alternatives for providing external financing to transition economies, one would center on greater access while the other would involve greater global cooperation in order to implement SDR allocations and cofinancing trust accounts. In effect, that way of putting the issue placed the higher access alternative in a negative light--as if it were not the product of global cooperation and should therefore be seen as the clearly less preferable solution. In addition, the text might give the impression that the only way to provide greater access was to raise the current access limits. In fact, he favored providing higher access under the present limits. The text should not give the impression that some Directors favored dealing with the financing problem solely through increased access. One possible solution was increased access together with continued bilateral financing. Nor should the text give the impression that Paris Club rescheduling was likely to dwindle to a negligible amount.

The Chairman commented that, thus far during the debate, although everyone had called for strong adjustment programs and multilateral cooperation, there appeared to be two basic approaches among Executive Directors. Under the first, average access could be increased, with the attendant, sizable risks to the Fund, in the hope that such a discretionary increase, together with adequate economic recovery and growth in member countries, would suffice. That approach seemed to assume that the Fund could handle the current situation essentially by conducting business as usual. The second approach was based on what one could call a global cooperative solution, consisting of a combination of steps, including an SDR allocation--which would provide a substantial amount of resources--and cofinancing trust accounts, which would permit countries with strong reserve

positions, bolstered by the SDR allocation, to assist other member countries in a manner that would not pose difficulties for the parliaments of the members providing the assistance. He had not meant to suggest that the increased access approach was possible without international cooperation. In addition, one could conceive of a combination of elements of those two basic alternatives--for instance, increased access and cofinancing trust accounts. At present, however, it was useful to characterize the ongoing debate as having become focused on the two basic alternative approaches that he had described, and to characterize the second approach as the global cooperative one.

Mr. Schoenberg said that he sympathized with Mr. Smee. The proposed text might give the impression that, in addition to the usual approach based on access, the Fund was suddenly proposing a new mechanism that had an equal footing but was based outside the institution. The Chairman had suggested that the second basic approach would share the risks involved more equitably than the first approach. In fact, the opposite seemed to be the case, as only the creditors, rather than the whole membership, would bear the brunt of the risk under the second approach.

The Chairman responded that Mr. Schoenberg's concern about the potential risk was understandable and could be discussed further. However, the second approach could not be characterized as a new mechanism outside the Fund. In fact, it would be within the Fund, as it would assist Fund-supported programs with resources from the Fund and the membership.

Ms. Lissakers remarked that she shared Mr. Smee and Mr. Schoenberg's concern about characterizing the second approach as being the one based on global cooperation. In providing for a mechanism that involved a subset of the membership, the second approach obviously was not more globally cooperative than the first approach, which involved all of the members. None of the proposals on the table--an equity SDR allocation, a general allocation, cofinancing trust accounts, and increased access--were mutually exclusive. Thus far, Directors had been discussing a range of possible solutions, not two schools of thought about two mutually exclusive alternatives. She hoped that the concluding remarks would not give the impression that the debate had been on two distinct alternatives.

The Chairman commented that he, too, had an open mind on the question of the means by which to give members greater access. The staff would probably feel more comfortable not having to recommend the very highest access limit in individual cases. As to the designation of the two alternatives, it might be best to refer to them as two possible solutions, without attaching any particular characterization to either of them. Finally, he agreed that the two basic approaches were not mutually exclusive; elements of one could be combined with elements of the other.

Mr. Fukui said that he shared the concerns that had been expressed by previous speakers. Management had warned Directors about the risks involved in the approach based on an increase in access, but he himself felt that a

good deal of international cooperation would be required under the increased access approach, and he saw no need to change his position on that approach. The Chairman's wish to try to simplify the outcome of the debate thus far for the benefit of the Interim Committee members was understandable, but the reference to two approaches, based on higher access and greater global cooperation, would be misleading, as there had been significant and effective global cooperation in recent years.

The Chairman recalled that his description of the two alternatives had been presented as part of his personal remarks. If Directors considered that they were moving in the direction of a middle path, combining elements of the two basic approaches, that would be welcome and could be reflected in his concluding remarks.

Mr. Autheman said that there seemed to be two different concepts of the proposal to increase access: an increase in access under the current limits; and an increase in the current limits themselves. The results of both concepts might be effectively the same, but there was an important substantive difference. It should be clearly understood that higher access within the current limits would mean a reduction in conditionality, while an increase in the access limits themselves would involve greater financing with the same conditionality. Presumably Directors would not wish to give the Interim Committee the impression that the Board was criticizing the exercise of conditionality in the recent past.

The Chairman commented that, during the course of the debate thus far, he had heard no one suggest a reduction in conditionality.

Mr. Autheman responded that if higher access was understood to mean higher effective access within the current access limits, he would not support it, as that approach would mean either business as usual or lower conditionality.

Mr. Ismael remarked that the debate thus far reflected the difference between Western and Eastern thinking. To the Western mind, the means was most important, while for the Eastern mind the message was most important. In his view, as long as everyone agreed on the message, the debate could be brought to an end; neither side of the argument was apt to be fully satisfied with the outcome.

The Chairman said that Mr. Ismael's point was interesting. However, the Board should seek the Ministers' guidance, and, to that end, different approaches and the support that they might gather, should be described.

Mr. Smee considered that higher access under the existing access limits would involve an increase in conditionality, in line with the relatively strong program that would have to be in place to warrant the high access. No one had suggested that there should be increased access and reduced conditionality.

Mr. Kagalovsky stated that he agreed with Ms. Lissakers that the concluding remarks should avoid giving the impression that the Board was suggesting two distinct alternatives. It should be clear to the Ministers that there were several options--an increase in access, cofinancing trust accounts, SDR allocations, and an amendment of the Articles to deal with the equity issue--that were not mutually exclusive.

Mr. Kaeser commented that, as he understood it, the staff had noted that there was little room in which to increase access under the present limits, as some countries were already at the upper limit.

The Chairman said that apparently several Directors--Mr. Autheman, Mr. Kaeser, and Ms. Lissakers, for instance--would agree on higher access limits, provided the country's adjustment program and magnitude of need justified them. He was prepared to support either of the two alternatives or a mix of them, provided the Governors clearly recognized the difficulty of the tasks and the magnitude of the risk involved.

The Executive Directors concluded their discussion. 1/

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/94/35 (4/15/94) and EBM/94/36 (4/18/94).

5. STAFF COMPENSATION - 1994 REVIEW AND ADJUSTMENT

The Executive Board agreed that the salary structure will be increased by 0.6 percent in Grades A1 to B5 with effect from May 1, 1994 as reflected in the EBAP/94/19, Supplement 1 (4/13/94). Actual salaries will be increased on average by 2.7 percent with effect from May 1, 1994.

Adopted April 15, 1994

APPROVAL: December 11, 1995

LEO VAN HOUTVEN
Secretary

1/ The final concluding remarks on external financing requirements of transition economies and possible sources of financing were circulated on April 22, 1994 (BUFF/94/41).