November 13, 1996

Approval: 11/20/96

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 94/87

10:30 a.m., September 19, 1994

Contents

Executive Board Attendance

M. Camdessus, Chairman
S. Fischer, First Deputy Managing Director
A. D. Ouattara, Deputy Managing Director

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-TuwaijriM.-A. AuthemanM. Sirat
J. Bergo	
H. Evans	J. Dorrington
K. P. Geethakrishnan	
J. E. Ismael	
D. Kaeser	
A. Kafka	A. Calderón
	A. V. Mozhin
W. Kiekens	J. Prader
G. Lanciotti	N. Coumbis
K. Lissakers	B. S. Newman
	P. A. Merino, Temporary
H. Mesaki	T. FukuyamaA. Mirakhor
L. J. Mwananshiku	B. S. Dlamini
G. A. Posthumus	
C. V. Santos	
S. Schoenberg	
A. S. Shaalan	Y. Y. Mohammed
D. E. Smee	
E. L. Waterman	
	Wei B.
A. G. Zoccali	

L. Van Houtven, Secretary and Counsellor
C. Clarke, Assistant

Also Present

Central Asia Department: O. J. Evans, Y. Horiguchi. European II Department: M. E. Hansen. External Relations Department: S. J. Anjaria, Director. Fiscal Affairs Department: V. Tanzi, Director. Legal Department: F. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. Munzberg, Deputy General Counsel; S.-d. Gong, J. L. Hagan Jr., Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; B. Christensen, S. B. Creane, A. K. McGuirk, M. A. Tareen. Research Department: M. Mussa, Economic Counsellor and Director; M. Goldstein, Deputy Director; R. A. Feldman, P. Isard. Southeast Asia and Pacific Department: L. M. Koenig, Deputy Director. Treasurer's Department: D. Williams, Treasurer Department; G. Wittich, Deputy Treasurer; J. C. Berrigan, J. E. Blalock, K. Christou, J. C. Corr, R. H. Floyd, D. Gupta, H. G. Jepsen, D. K. Kar, A. Muttardy, O. Roncesvalles, G. S. Tavlas, T. M. Tran. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Office in Europe: J. Ferrán, Director. Office of the Managing Director: G. R. Saunders, Special Assistant to the Managing Director; M. El-Erian. Advisors to Executive Directors: J. M. Abbott, M. C. B. Arraes, G. M. Blome, P. Cailleteau, R. F. Cippa, S. K. Fayyad, R. Kannan, Y. Margoninsky, M. F. Melhem, M. J. Mojarrad, T. Oya, B. A. Sarr. Assistants to Executive Directors: S. Al-Huseini, R. N. A. Ally, S. Arifin, A. G. Cathcart, J. A. Costa, D. Daco, D. Desruelle, G. El-Masry, A. Galicia, M. A. Hammoudi, O. Himani, G. H. Huisman, P. Jilek, W. C. Keller, K. J. Langdon, S. Narube, S. Rouai, A. Sighvatsson, V. Trivedi, V. Verjbitski, R. von Kleist, Wang Y.

1. ACCESS TO FUND RESOURCES ALLOCATION OF SDRS - DRAFT REPORT TO INTERIM COMMITTEE; AND RELATED ISSUES

The Executive Directors continued from the previous meeting (EBM/94/85, 9/15/94) their consideration of a draft report of the Executive Directors to the Interim Committee on access to Fund resources and an allocation of SDRs on the basis of a revised text (SM/94/205, Rev. 2, 9/16/94).

Mr. Kaeser said that he had circulated a proposal designed to help build a bridge between the different proposals already on the table.

Mr. Autheman noted that, at their latest meeting, the Franc Zone Ministers had expressed support for a general allocation of a significant amount of SDRs.

The Chairman commented that in the coming day or so he intended to tell Directors his personal views on the issues at hand, including any room he might see for a possible consensus. At the present meeting, it would be helpful to review the revised draft report paragraph by paragraph. Of course, no single part of the report could be finally approved in isolation from the final approval of the rest of the report.

First and second paragraphs (pages 1-2)

No comment.

Third paragraph (page 2)

Mr. Smee noted that line 13 stated in part that "it appears [necessary] [desirable] to reach agreements over the whole package." If it was "desirable" instead of "necessary," then the sentence that followed would be unnecessary and should therefore be bracketed in the next version of the report.

Mr. Al-Jasser considered that the word "appears" in the same sentence could be replaced by "is."

Mr. Kafka suggested that the same sentence could usefully refer to the "the high majorities" required for some of the relevant decisions.

Mr. Evans said that he did not agree with the idea embodied in the phrase "given the close interrelationship among the elements." There had been no suggestion of such an interrelationship by the Interim Committee. The elements in question had been regarded as being separate.

The Chairman suggested that the text in question could say that the interrelationship was seen to exist "by many Directors," rather than by all of them.

Ms. Lissakers agreed with Mr. Evans that the reference to the interrelationship could be dropped.

Mr. Mirakhor commented that it would be odd to deliberately present the Interim Committee with what was thought of as a package of proposals and also state that the proposals were not interrelated. Thus, the Chairman's suggestion was helpful.

Mr. Waterman remarked that everyone hoped that a package could be agreed, but if that did not prove to be possible because of a deadlock on the SDR element, a number of Directors seemed to be willing to look at the components individually.

The Chairman remarked that the sentence in question should be placed in brackets for the time being.

Ms. Lissakers noted that the text of the Interim Committee's communiqué cited on page 1 of the draft report included a specific reference to increased access without reference to a package. The Interim Committee had taken a clear and unequivocal position on the access issue, and it had not suggested there had to be a package and that the access issue could not be dealt with except in the context of a package. It would be helpful to agree now that the text in question could read: "Given the close interrelationship among the elements recognized by many, it appears desirable to reach agreements over the whole package." The subsequent sentence in the draft could then be dropped.

The Chairman remarked that the Interim Committee made recommendations, while the Executive Board took decisions. The Board was able to change the Committee's recommendations, when that was considered useful.

Mr. Kafka commented that the value of the sentence beginning with the word "consequently" had correctly been called into question. If the previous sentence were to include the word "necessary," rather than "desirable," then the following sentence should start with the words "in other words," which would make the sentence simply an explanation of what was said in the preceding sentence, for the information of the Interim Committee.

Part I - Access to Fund Resources

Page 3

Mr. Kaeser considered that the choices of access limits in brackets on page 3 should include his proposal of 85 percent of quota.

Mr. Bergo suggested that the word "commensurate" in line 25 on page 3 should be eliminated, and to the same sentence the relevant wording from the Interim Committee communiqué should be added--namely, "current limit for arrangements commensurate with the strength of the programs."

Ms. Lissakers said that the proposed wording would give readers the wrong indication. The Board had agreed that the purpose of raising the access limits was to provide more resources than were currently available for a given program. That idea was somewhat different than the one in the wording suggested by Mr. Bergo. She was concerned that a clear agreement by the Board was on the verge of becoming unraveled.

Mr. Schoenberg stated that, generally, the amount of access should be a function of the strength of programs; higher access would generally require stronger programs.

Mr. Posthumus said that he agreed with Mr. Schoenberg. He was worried that the sentence in lines 17-23 on page 3 would send the message that there was insufficient official support and private capital, and, therefore, the Fund had to do more. He doubted whether that was the right message to send.

Mr. Smee said that he agreed with Mr. Posthumus's comments on the sentence in lines 17-23 on page 3. One of the main ideas of the paragraph was usefully summarized in lines 13-17 on the same page, which made it clear that the aim was that "the Fund would be in a position to respond in a timely manner...in support of strong policies." The sentence in question could be deleted. With respect to Ms. Lissakers's point on the final sentence on page 3, that text was meant to respond to the wish to make it clear that, by raising the access limits, average access could also increase. Accepting the proposed amendment to the text in question might be seen as taking a step backward. The present text was acceptable.

The Chairman noted that the Interim Committee had seen the need for an increase in the quality of programs and a for a mutual reinforcing increase in financing. That point was clearly reflected in the wording of the communiqué to the effect that the Fund must continue to play a central role, including, if needed, through increased access to its own resources, commensurate with the strength of programs. That concept had been agreed and should be maintained. If the idea was not clear enough in the text in question, the wording could be improved. Ministers clearly wished to have better programs and then more generous access.

Mr. Geethakrishnan considered that the text that Mr. Posthumus had noted included a useful reference to the simple fact of the difficulty that some countries faced in mobilizing adequate official financing.

Mr. Posthumus said that the Fund still had a catalytic role to play. However, if in some cases donor countries were not willing to fill financing gaps, the usual reaction should be a reduction in the financing gaps through a strengthening of the programs of the countries concerned. The wording change to which he objected would send the opposite signal.

Mr. Geethakrishnan said that he recognized the need for strong policies in the context of an increase in access, but the difficulty some countries

faced in obtaining sufficient official financing was a fact that could be usefully mentioned in the report.

Ms. Lissakers commented that the relevant portion of the communiqué--which mentioned, inter alia, an increase in access if needed--should be used, in which event the sentence that troubled Mr. Posthumus could be deleted. In addition, as the clear intention was to make more resources available to members, the words "would result in" should be used instead of "permit" in line 24.

Mr. Posthumus said that Ms. Lissakers's suggestion was helpful.

Mr. Smee said that he agreed with the use of the words "would result in." It should be clear that, if a member strengthened its adjustment program, it could expect an increase in financial assistance from the Fund.

Mr. Autheman said that he, too, preferred the phrase "would result in." The Board was not recommending an increase in conditionality. Accordingly, the arithmetic consequence of increased access limits would be that the average access would increase. Using the words "would permit" would imply that there would be discretion as to whether the Fund was ready to relax conditionality.

Mr. Schoenberg said that the result of the increase in access would not be known in advance in each case; the result would depend on the strength of the member's program. The Board should be careful to avoid, in effect, issuing members a blank check to use the Fund's resources

Mr. Kafka said that he felt strongly that the sentence in question should not be amended to include the words "would result in," because a country with strong policies might not need increased actual access. It would not be helpful to establish a mechanical relationship between programs and access.

Mr. Kaeser said that he agreed with Mr. Schoenberg and Mr. Kafka. The current Interim Committee communiqué stated that "the Committee encourages the Fund to continue to play a central role in this process, including if needed through increased access to its own resources, commensurate with the strength of programs."

The Chairman said that the difficulty with a mechanical link was that it ignored the catalytic effect of a stronger program per se. One could well imagine that a strong program would trigger such enthusiasm among bilateral or private donors as to make a commensurate increase in Fund financing superfluous. That would be a virtuous consequence of the strategy that the Interim Committee had in mind--not to spend more money as such, but to promote, through a readiness to spend more, an increase in the quality of programs.

Mr. Evans suggested that the words "would be expected to lead to increased actual access" would be helpful.

Mr. Posthumus said that he preferred the word "permit." Some Directors felt that the proposed increase in actual access was not a necessity at the present stage. He could go along with it, partly because the intention of the text in question was already clearly understood.

Ms. Lissakers noted that, during the debate on the issues under discussion, it had been made clear that the need to increase access to Fund resources was traceable to three factors. The first was the larger financing needs of many countries--transition countries in particular, but also other members, some of which were eligible to use the ESAF and some of which were not--facing much more protracted and costly (in terms of disruption) adjustment than they had anticipated. Many adjustment programs would clearly take a number of years and more resources than had been anticipated when the programs were originally designed. Second, bilateral donors faced budget constraints. Third, the Fund's liquidity was at an all-time high.

In those circumstances, Ms. Lissakers continued, the Interim Committee, and a majority of Executive Directors and member countries, had come to the logical conclusion that, as there were large needs and the Fund had substantial resources available to meet them, the institution should do more to mobilize those resources for programs that stood a chance of succeeding. That was the purpose of the current exercise. Therefore, it was desirable to send a signal that the intention behind the increase in access limits was to mobilize more resources for strong programs. Hence, the words "would result in" were fully appropriate. Mr. Evans's proposal was a reasonable compromise between "permit" and "result in." It was somewhat less mechanistic, but it would send the strong message that the purpose of raising the formal limits was to mobilize more resources for strong programs.

Mr. Smee commented that the concern about "mechanical" link seemed misplaced. The aim was to signal members that there was a link between the strength of a program and increased access.

Mr. Kaeser said that it was important to bear in mind the strong capital inflows in the major developing countries. Increased access to the Fund's resources was not leading to an increase in the use of those resources; while some large developing countries needed more financing, others needed less.

The Chairman noted that capital inflows in the developing countries had been concentrated in a limited number of those countries. The strategy under discussion was meant to help mainly other developing countries.

Mr. Al-Jasser remarked that the financing requirement would vary from one transition country to another, depending on the extent of inflows and on

other factors. Hence, two countries with equally strong adjustment programs might have different needs for actual access to Fund resources. The word "permit" would not detract from the message that should be sent--that access will be determined partly by the circumstances of the country, and not in a mechanical manner.

Ms. Lissakers remarked that the debate thus far had not suggested that the formal access limits per se had been a constraint on the amount of program financing, but rather that the practice of the institution had been to mobilize smaller resources than the membership concluded the circumstances warranted. The debate had focused not on raising the access limits, but rather on raising the actual average access. In the circumstances, perhaps the text in question should include the words "would permit and would be expected to" increase actual access.

Mr. Lanciotti said that he agreed with Ms. Lissakers's points and supported Mr. Evans' proposed wording.

Mr. Bergo considered that the relevant text was acceptable as it stood; using the word "expectation" would be inappropriate. As a compromise, he could accept "would permit and when appropriate would result in increased actual access."

Mr. Autheman commented that those who were reluctant to insert the word "result" had mentioned two conditions-the strength of the program, which was already noted in the relevant sentence-and the need for increased access. Hence, the text could say "would permit and when needed would result in..."

After a further brief discussion, the Chairman stated that the text in question could read: "While the Fund's role must remain catalytic, a higher annual access limit under stand-by and extended arrangements would permit and when needed would result in increased actual access to the Fund's own resources commensurate with the strength of programs."

Page 4

Mr. Posthumus considered that the sentence in lines 1-3 on page 4 was unnecessary. It did not contain useful information, and the point about a review was superfluous.

Mr. Bergo noted that the possibility of a stand-alone STF tranche was kept open in lines 19-22 on page 4 of the proposed draft report. The present draft added the word "final" in front of "discussion" in line 20, and it would be helpful to have the staff explain the significance of that addition.

The Director of the Policy Development and Review Department commented that in some cases it would be evident, after some discussion with the authorities, that a member country would not be in a position to request both an stand-by arrangement and an STF purchase. The text referred to the

point at which it would be clear that a country would be requesting a stand-alone STF purchase.

Mr. Bergo said that he hoped that the Managing Director would consult with the Board well before a stand-alone STF purchase beyond the first two purchases under the facility was the only alternative left; thereafter, the Fund's hands would be tied.

The Chairman stated that the intention was to avoid a situation in which the Fund's hands would be tied. He would consult the Board as soon as he saw that there was a realistic possibility that a country would request a stand-alone STF purchase.

Ms. Lissakers commented that, in light of the Chairman's comments, the word "could" on line 20 on page 4 should be changed to "would." However, she was troubled by the use of the word "final." The possibility of a stand-alone STF purchase should not be broached to a program country until after the Board had been consulted. The Board should not be presented with a fait accompli.

The Director of the Policy Development and Review Department commented that, operationally, the text in question meant that, before a mission was briefed to enter into negotiations on a stand-alone purchase, there would have to be consultation with and, presumably, approval by the Board.

Mr. Kaeser suggested that, instead of using the word "final," the text in question should state that the consultation with the Board would take place "in advance of any negotiation" with the authorities of the country concerned.

The Director of the Policy Development and Review Department commented that the proposed changes were somewhat problematic. A staff mission that was supposed to discuss a stand-by arrangement and an STF purchase with a country would have to discuss the purchase option during the mission--without making any commitment on the part of the Fund--if it became clear that an arrangement would not be possible. Upon returning to Interim Committee headquarters, the mission could inform the Board of the authorities' position, and a decision whether or not to proceed with the purchase option could be made.

Ms. Lissakers suggested that the text in question could use the words "at an early stage of the discussion with a member," rather than the word "final."

Mr. Posthumus commented that the innovation of involving the Board in the course of discussions between the staff and a country seemed unwise. The logical next--and unwelcome--step would be to require a report in order for the Board to be able to discuss all the consequences of the stand-alone option in a specific case.

Mr. Kiekens remarked that it would be difficult to distinguish the precise moment at which it would become clear that a stand-by arrangement would not be possible and that a stand-alone STF purchase was probably the only available option. He wondered whether, in such cases, the consultation by the Managing Director with the Board would have a binding force; he doubted that it would, in which event the Board would find that its hands had been tied and it would have no choice but to accept the option of the STF purchase. Perhaps the text in question should say that, at the beginning of the final discussions with a member, the Managing Director should obtain the agreement of the Executive Board on a possible stand-alone STF purchase, and the agreement should require a majority of 70 percent or 85 percent.

The Chairman said that he did not foresee a Managing Director going to the Board in advance of a negotiation in the way that Mr. Kiekens had described. The responsibility for negotiations with members rested with management and the staff, not the Board, and that structure of authority should not be altered. The draft text provided for consultation with the Board, which would involve a high degree of informality and would be employed only in exceptional circumstances and without affecting the distribution of responsibilities in the institution. In light of the emphasis being placed on strong programs, the stand-alone option probably would be used only rarely, and there was no need to be excessively formal in planning the arrangements to use it.

Mr. Bergo stated that his first preference was to drop the provision for a stand-alone STF tranche. If it was to be kept, the relevant text would have to be carefully considered. The present text wrongly gave the impression that the Managing Director would consult the Board only in exceptional cases. The Chairman's comments on the intention behind the text in question were helpful and appropriate.

Mr. Al-Jasser said that he, too, would prefer not to have a stand-alone STF tranche. If it were to be maintained, the drafting suggestions of Ms. Lissakers should be accepted. He was not as concerned as Mr. Posthumus about the precedent that would be set, in terms of consultation discussions with the Board, because the STF was an exceptional facility and the stand-alone tranche was an exceptional option that was likely to be employed only rarely. It was now clear that the intention was to avoid tying the hands of the Board. The message being sent was that the stand-alone tranche was a very last resort that would not be used often.

The Chairman suggested that the text in question, as amended by Mr. Lissakers, could be placed in brackets in the next version of the draft report.

Mr. Zoccali commented that, as he understood it, the period of months mentioned in the final line on page 4--the period within which a member could make the second STF purchase--was not the only alternative that was

still on the table. In fact, a period of 12 months should be included in the text as an alternative to a period of 18 months.

Mr. Posthumus noted that second STF purchases could be made through mid-1997, in a proposed period of 18 months. That period was so long that countries would have little time left in which to make the second and third STF purchases.

The Director of the Policy Development and Review Department responded that members would feel an incentive to place themselves in a position to make second and third STF purchases within the allotted time. Of course, members with appropriate programs in place would also have the option to move to a stand-by arrangement, in keeping with the paving nature of the STF.

Page 5

Mr. Evans remarked that the first full paragraph on page 5 noted that, inter alia, it was understood that, within the existing access limits for the ESAF, higher access could be available in support of sufficiently strong programs. It would be in keeping with the "evenhanded approach," mentioned in the text, to consider a moderate increase in the ESAF access limits. The practical effects of taking that step would be the same as the proposal in the current text, but there would be a clearer signal. He did not have a large increase in mind, but a moderate increase would be helpful, especially in light of the limited resources available.

Mr. Mirakhor suggested that the word "actual" be added before the word "access" in line 14 of the first full paragraph on page 5.

Mr. Bergo said that he was quite skeptical about the usefulness of increasing the access limits for the ESAF. The present limits were fully satisfactory. The current text, which provided for somewhat higher actual access in support of sufficiently strong policies, was adequate.

Mr. Schoenberg said that he agreed with Mr. Bergo. An increase in the ESAF access limits would inevitably have consequences for the overall amount of ESAF resources. The Board was not yet in a position to discuss that issue.

Mr. Kaeser stated that he agreed with Mr. Bergo and Mr. Schoenberg.

Mr. Posthumus commented that he, too, supported Mr. Bergo and Mr. Schoenberg.

The Chairman remarked that the addition of the word "actual" before "access" seemed to go some way toward meeting Mr. Evans's concern.

Mr. Evans commented that Directors appeared to be worried about the amount of ESAF resources available and the pressure on them. However,

providing for higher actual access would create the same pressure as a moderate increase in the access limits. He had had in mind a clearly moderate increase from 190 percent of quota to, say, 210 percent or 220 percent. In a spirit of compromise, he could accept the proposed text as amended thus far.

Mr. Santos noted that the present text in question included the words "than under current practice." However, the current policy already was to provide ESAF resources in support of sufficiently strong policies "than under current practice" could therefore be deleted.

Mr. Mirakhor supported Mr. Santos's suggestion.

Mr. Mesaki said that he had some difficulty with the text on lines 23-25 on page 5, and continuing through line 3 on page 6, on the role of creditor countries in connection with the Fund's preferred creditor status. It was appropriate to reaffirm the Fund's preferred creditor status, but his authorities had not agreed "to provide new financing and debt relief on appropriate terms to help close any financing gaps should they arise during the periods of repurchase or repayment of Fund resources." That text should be deleted.

Mr. Evans said that he shared Mr. Mesaki's concern. An estimated financing gap could be dealt with in a number of different possible ways, such as a strengthening of a member's program. If the idea was thought to be useful, the wording could be changed to "make best efforts to play an appropriate role."

The Chairman remarked that the text in question was identical to the language of the best-effort pledge that Directors had accepted at the time of the creation of the STF.

Mr. Mirakhor commented that a reference to creditors' responsibilities toward transition countries had already been removed with the agreement to delete the sentence in lines 17-23. It would not be appropriate to eliminate a second reference to the creditors. The Ministers were owed a full explanation of the rationale for the proposals under discussion.

Ms. Lissakers suggested that the relevant text could be based on the Interim Committee communiqué statement that "calls for the continued participation and support of all potential bilateral and multilateral creditors and donors in providing adequate and timely assistance in conjunction with the Fund."

The Chairman said that he was concerned that some Directors were suggesting withdrawing pledges that had been made at the time of the creation of the STF. How could the Board proceed to introduce an additional tranche of the facility if the supporting pledges were being withdrawn? It seemed best to place the text in question in brackets in the next version of

the draft report. He attached the highest importance to issue raised by that text.

Mr. Mesaki commented that he had not meant to suggest that his authorities were withdrawing their pledge. The wording of the text in question should be given further thought.

Mr. Lanciotti commented that he, too, wished to give the wording of the text in question some further thought.

The Chairman noted that the text had originally been presented in BUFF/93/19 (4/23/93) and had been thoroughly discussed in the Board.

Mr. Autheman commented that the text in question was both too weak--in referring to "make their best efforts"--and too strong. The draft report could include the following alternative text: "In this connection, they have reaffirmed the willingness of their authorities to provide, as in previous cases, the appropriate assurances of new financing and debt relief, in conjunction with decisions regarding access or STF, to help close financing gaps that may arise."

After a further brief discussion, the Chairman suggested that the sentence in question be placed in brackets in the next version of the draft report.

Page 6

Mr. Posthumus considered that the text would be clearer if the part on the liquidity of the Fund was fully separate from the part on the availability of ESAF resources. The liquidity of the Fund was of importance to all members, while the availability of ESAF resources was of particular interest to a more limited group. The reference to renewal of the ESAF need not be mentioned at the present stage.

The Chairman said that, for the sake of reaching a consensus, he was willing to drop, at the present stage, the reference to the renewal of the ESAF.

Ms. Lissakers commented that she preferred to drop the reference to the renewal of the ESAF. The text in lines 5-11 on page 6 could be simplified to read, starting after the semi-colon on line 5: "They intend to monitor closely the adequacy of the Fund quota and ESAF resources and to accelerate consideration of a more effective and equitable mechanism for financing the cost of operating the Fund."

Mr. Schoenberg remarked that there was little connection between the size of access to Fund resources and the issue of how to distribute the costs of operating the Fund. The latter issue should be examined, but not in the context of the draft report under discussion.

The Chairman commented that it might be worthwhile to try to include, in a separate paragraph on page 6, a reference to a more effective and equitable mechanism for financing the cost of the Fund, together with the amended text suggested by Ms. Lissakers.

Mr. Schoenberg commented that he did not see the issue of the mechanism for financing the cost of operating the Fund as being part of the package mentioned on page 1.

Mr. Evans commented that he, too, did not see the mechanism for financing the Fund as being part of the package. The statement of intention to accelerate the consideration of the cost of operating the Fund was of course welcome, but the matter could be take up at a later stage.

The Chairman said that it would be useful to have the Interim Committee give the Board a mandate to accelerate the consideration of the financing mechanism.

Mr. Posthumus stated that he agreed with Ms. Lissakers. The package consisted of specific agreements and messages. The proposed sentence asked the Board only "to accelerate the consideration of more effective and equitable," not to complete its work on the matter. The text could usefully note that, if the acceleration were to lead to a concrete solution, an amendment of the Articles would be needed.

Mr. Zoccali said that he, too, agreed with Ms. Lissakers's proposal. He hoped that a final decision on an equitable financing mechanism could be part of the agreed package. It was important to address the asymmetry in the present system and, in the process, to avoid either weakening the Fund's cooperative character or forgetting that its activities produced systemic benefits.

Mr. Bergo said that Ms. Lissakers's suggested wording was acceptable.

Ms. Lissakers commented that, in order to reach a consensus, it might be helpful to drop the words "and equitable" from her proposed amendment.

The Chairman considered that the ideas of effectiveness and equity belonged together in the context of the financing mechanism that was being sought.

Mr. Evans noted that the question of linkages arose in line 13 on page 6. As some Directors did not see any automatic or necessary link, the text in line 13 could be deleted.

Mr. Smee said that he agreed with Mr. Evans's point about the linkage. It might be best to agree to place the sentence in lines 13-16 on page 6 in brackets, pending the outcome of the discussion, mentioned on page 2, of the possibility of reaching agreement on a package.

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

Part II: Allocation of SDRs

Introduction (pages 6-9)

Mr. Smee suggested that, as the possible "special allocation" was mentioned for the first time in Part II in line 23 on page 6, it should be complemented by the words "which would be authorized under an amendment to the Articles." However, the description of the G-11 proposal of an "initial" allocation might not be sufficiently clear. After all, that allocation would be made under the present Articles and would require a finding of a global liquidity need. The "initial" allocation would therefore be a general allocation and, for the sake of clarity, should be so identified in the report.

Mr. Kafka noted that the term "general" was not used in the relevant Articles that dealt with allocations. It might be best to have the relevant part of the draft report say "by means of an initial allocation under the current Articles and a subsequent allocation which will be authorized under an amendment."

Mr. Evans said that he agreed with Mr. Smee. It was important to provide a text that carefully distinguished between the kinds of allocations that were being proposed.

Mr. Geethakrishnan commented that the concept of "equity" in connection with allocations was not mentioned in the Articles.

Mr. Smee suggested that it would be clearest to describe the G-11 proposal as including "a new allocation under the current Articles and a special allocation which would be authorized under an amendment of the Articles." That would help to distinguish that proposal from the Managing Director's proposal.

Mr. Posthumus noted that the current draft stated that the Evans/Lissakers proposal was "aimed at" ensuring equitable participation of all members in the SDR system. Perhaps those words could be deleted.

After a further brief discussion, the Executive Board agreed that the text in question should read: "...to ensure the equitable participation of all members in the SDR system through a special allocation authorized under an amendment of he Articles; the other by a group of 11 Executive Directors which aims to bring about a full correction in terms of equity for all members...by means of an initial allocation under the current Articles and a subsequent special allocation which would be authorized under an amendment of the Articles."

Mr. Schoenberg considered that the Board had not reached a consensus on subparagraphs (b) and (c) on pages 7-8 of the draft report. The text should be deleted or amended to show that a consensus was still lacking.

Mr. Evans suggested that the wording of subparagraphs (b) and (c) could be combined and simplified and the word "enhanced," to describe the SDR's role, should be dropped. The revised text could read: "The viability of the SDR as a reserve asset and its role in the international monetary system should be maintained." Mentioning the objective prescribed in the Articles did not add much to the report.

Mr. Kaeser considered that the word "inequities" in subparagraph (c) was too strong and should be replaced. With respect to subparagraph (e) on page 9, the following sentence could be added: "In the discussion of this proposal, Executive Directors stressed that if the condition for a general allocation of SDRs appeared to be impossible to meet under normal circumstances, any amendment of the Articles concerning this instrument, the SDR, should be based on a review of the role of the SDR in the international monetary system."

Ms. Lissakers said that she agreed with Mr. Evans's proposed amendment of subparagraphs (a) and (b). The introductory sentence in lines 13-14 on page 7 also should be amended, as some Directors had not "stressed" all the points made in subparagraphs (a-f). For instance, she and some others had not stressed the point in subparagraph (b).

Mr. Schoenberg said that he agreed with Ms. Lissakers. The text in lines 13-14 on page 7 should not give the impression that the Board had reached a consensus on basing an allocation on the goal of making the SDR the principal reserve asset in the system, rather than on equity grounds. The text in subparagraph (c) should focus on the main motive for an equity allocation, namely, to put the 37 countries that had joined the Fund since the last allocation on an equal footing with the other members.

Mr. Kiekens commented that there seemed to be broad agreement on all the topics in subparagraphs (a-f) except the future role of the SDR. Mr. Schoenberg and others felt that if the Board agreed on a general allocation based on a finding of global need now, there might be expectations in the market that the Fund would continue to use the SDR in that way in the future, which was something those Directors could not accept. Other Directors were worried that if the Fund made an allocation based solely on equity grounds, then there would probably be no case for SDR allocations in the near future. Hence, the basic issue being debated was the future role of the SDR. The Board could not hope to resolve that difficult issue now. However, one of the main conditions for accepting an overall agreement at the present stage--whatever that agreement might be--was that there should be a mandate that the Board should examine how the role of the SDR could be enhanced in the future. The final agreement might well involve an amendment of the Articles, and an allocation might be based on something other than a global liquidity need. For instance, one idea was

to examine in the future the additional liquidity created under an SDR allocation to enable the Fund to finance, for instance, the short-term liquidity system. It was therefore important to revise the text of subparagraph (b) in a manner that would be acceptable to all Directors.

Mr. Smee said that he agreed with Mr. Evans's proposed drafting for subparagraphs (a) and (b). Subparagraph (c) could be revised to read: "The inequities that have arisen in the SDR system, particularly from the substantial increase in new members since the last allocation of SDRs in 1981, should be reduced, also taking into account the wide disparities that now exist in the ratios of net cumulative allocations to quotas among existing participants." That text would show that there were two inequities, one arising from the admission of new members, and the other being the inequity among existing participants in the SDR system, notwithstanding the recent substantial increase in new members. The Ministers should be aware that inequity existed for two reasons, and not only because of the increase in membership.

Mr. Mirakhor noted that at least 18 Directors had stressed the role of the SDR in the international monetary system. The use of the word "stressed" in line 13 on page 7 was therefore appropriate.

Mr. Autheman remarked that the difficult word in subparagraph (b) was "enhanced." It would be inappropriate to stress some Articles at the expense of others. There had been widespread agreement to stress the fact that an allocation should be based on the recognition of a long-term global need, and he would be reluctant to delete any reference to the objective prescribed in the Articles of making the SDR the principal reserve asset in the system. That goal had not yet been achieved, but, in the broad sweep of time, the period between the previous allocation and the present was not a long one; the goal might yet be achieved in the long run.

Mr. Mesaki said that subparagraphs (a) and (b) could be combined, but in so doing the gist of (b) should be retained.

Ms. Lissakers suggested that the combined text could read: "the viability of the SDR as a reserve asset should be maintained, keeping in mind the objective prescribed in the Articles to make the SDR the principal reserve asset in the system." As Mr. Kiekens had noted, the debate on the text in question went to the heart of the disagreement among the Executive Directors, as those who had argued for an amendment of the Articles to allow the participation of all members in the SDR system in order to maintain the role of the SDR had not stressed and used it as a rationale for the points made in subparagraph (b). That text was difficult to accept as presented, as it suggested that there was a consensus on the objective for the SDR when that clearly was not the case. Maintaining the role of the SDR was not the same as enhancing the role of the SDR.

Mr. Bergo suggested that the revised text could read: "the viability of the SDR as a reserve asset and its role in the international monetary

system should be maintained, keeping in mind the objective prescribed in the Articles to make the SDR the principal reserve asset in the system."

After a further brief discussion, the Board accepted the amendment proposed by Mr. Bergo.

Mr. Evans commented that he had difficulty in accepting the idea, expressed in subparagraph (d), that the disparities in the SDR system could be reduced through what was called a general allocation. It was possible to have a general allocation that would not actually reduce the disparities.

Ms. Lissakers said that she agreed with Mr. Evans.

Mr. Geethakrishnan commented that, in purely arithmetic terms, a general allocation could decrease the disparity.

The Director of the Research Department noted that, in the early discussions of the issue of inequity, it had been pointed out that a principal inequity was that new members had had no opportunity to participate in allocations. A general allocation would respond to some extent to that inequity. The text in question did indeed suggest that an allocation based on an amendment of the Articles could do more in terms of the issue of equity than the general allocation alone. Hence, the correct message was conveyed if one took all the pieces of the text in Part II together. "Inequities" was a somewhat different concept from "disparities." The absolute disparity, as Mr. Evans had suggested, would clearly not be reduced by a general allocation, but the relative disparity and the key issue--that some countries simply did not have any opportunity at all to participate in an allocation--would be changed by a general allocation.

Mr. Evans remarked that the terms "disparities" and "inequities" could be looked at in different ways. Perhaps the key element was that, certainly for the allocation of a given number of SDRs, a special allocation would do more to correct inequities than a general allocation. On the assumption that the Articles would be amended, it seemed clear that, for a given number of SDRs, the inequities would be reduced to a greater extent by a special allocation, which would be directed at the source of the problem.

Mr. Mirakhor noted that, taken in its entirety, the text in question conveyed the idea that a partial or special allocation would have a greater effect on the inequities than a general allocation.

The Chairman noted that, of course, a special allocation involved the difficult requirement of ratification by members' parliaments, which would certainly take considerable time.

Mr. Smee remarked that, in fact, all the proposals on the table would involve ratification by parliaments--one would rely entirely on such ratification, and the others would rely partly on it. There seemed to be no need to single out one of the proposals as requiring ratification.

The Chairman commented that it was helpful to note the extent to which the various proposals would rely on the risky procedure of ratification.

Ms. Lissakers commented that she had proposed an SDR allocation through an amendment of the Articles in the belief that the U.S. Congress and other parliaments would in fact approve an amendment. The report should not cast any doubt on the viability and credibility of a recommendation that involved an amendment.

Mr. Mirakhor said that he was not fully confident that parliamentary approval of an amendment was a certainty.

Mr. Bergo considered that it was important to warn Ministers that there was a risk that ratification might not prove to be possible. It would be helpful to note in the text that an amendment for a special allocation would have to be ratified by parliaments.

The Chairman commented that, in considering the report to the Interim Committee, Directors understandably did not wish to set precedents in the direction of either greater laxity in allocating SDRs, or the attachment of even more strings to allocations. That point should be made in the report, together with the idea that the Interim Committee would be provided, at a later stage, with new material about the role of the SDR in the globalized world economy.

Mr. Kaeser remarked that, if there were to be agreement among the Directors that an allocation under the current Articles would not be possible in normal circumstances, it would be clear that the current SDR system could no longer be maintained.

Mr. Kafka considered that subparagraph (f) was misleading and should be eliminated. The text wrongly gave the impression that a consensus had emerged on all the various issues except the existence of a global need.

Mr. Posthumus said that he agreed with Mr. Kafka.

After a further brief discussion, the Executive Directors agreed that the text in lines 13-14 on page 7 should read: "In the discussion of these proposals by Executive Directors, there was very broad support for the following considerations."

Proposals for allocation (pages 9-15)

A. The Managing Director's proposal (pages 9-12)

Ms. Lissakers noted that the Managing Director had proposed a two-part allocation, rather than a single allocation. For the sake of parallelism with the descriptions of the other proposals, that fact should be stated clearly in line 22 on page 9.

Mr. Autheman commented that the point made in subparagraph (e) on page 13--concerning the amount of SDRs allocated to lower-income countries under a selective versus a general allocation--was applicable to all three proposals and not just the Evans/Lissakers proposal.

After a further brief discussion, the Chairman suggested that the text describing the proposals could include an introduction describing the main common features.

Ms. Lissakers commented that it would be important to note the distinction between the Evans/Lissakers proposal and the other proposals and earlier proposals, in order to provide the Interim Committee with full information. One possibility was to eliminate subparagraph (e) on page 13.

The Chairman commented that the text could usefully include a description of the distributional effects of each of the three proposals.

Mr. Mirakhor agreed that it would be useful to show the distributional impact of each of the proposals, although in so doing there should not be a large amount of date that would clutter the report.

Mr. Evans remarked that the information in the last several lines of the table in the attachment to the current draft report should be sufficient for the next version of the report. With that information included, the text in subparagraph (e) on page 13 could be eliminated.

It was important to maintain a balance in the presentation of the various proposals, Mr. Evans continued. The current text on page 10 contained a fairly detailed attempted justification for the existence of a global liquidity need. The relevant part of the description of the Evans/Lissakers proposal mentioned that it "would not be based on a finding of a global need." The text should note that a number of Directors representing a certain portion of the total voting power did not accept the case for a global need.

Mr. Schoenberg considered that the text should also include an explanation of the position of Directors who had not put forward a particular proposal but who did not agree with the three proposals on the table.

Ms. Lissakers noted that the Managing Director's original proposal was described fairly fully in the draft. As that proposal had been revised, the text describing the original proposal could be shortened.

The Chairman responded that the text in question should be shortened, although he continued to believe that a good case could still be made for his original proposal.

Mr. Santos noted that most of the G-9 Directors continued to believe that a long-term global need for an allocation existed. That point was not

made in the present description of the G-9 proposal and could be usefully included in the revised text.

Mr. Autheman suggested that the section on the various proposals could begin with a balanced presentation of the Board's discussion on the global need; the text could then describe the individual proposals.

The Chairman said that he agreed with Mr. Autheman.

Mr. Santos commented that that approach would meet his concern.

Mr. Evans remarked that the new additional text would be useful, but it should be kept fairly brief.

B. Proposal by the Executive Directors for the United States and the United Kingdom

Mr. Autheman suggested that the introduction to the Evans/Lissakers proposal could include a description of his position, namely, that while preferring the method proposed by the Managing Director, he could support, under certain conditions, an amendment of the Articles, providing for a one-time allocation open to all members, which would reduce the disparity in the ratios of cumulative allocations of SDRs to quotas while increasing that ratio for all members. The amendment should make an explicit reference to the agreement to ensure that all members would take part in the SDR system so as to maintain the role of the SDR in world reserves. The size of the allocation should be SDR 22 billion, using a benchmark ratio of 26 percent or 28 percent and a minimum allocation of 12 percent or 13 percent.

Mr. Evans commented that it was of course helpful to consider ways of moving toward an agreement, but it would be unusual for a report to mention the position of just one Director.

The Chairman said that it would be helpful to include Mr. Autheman's idea in brackets in the next version, to see whether it would attract support from other Directors.

Ms. Lissakers commented that, while Mr. Autheman's suggestion could usefully be included, she wished it to be clearly understood that she was not prepared to support an allocation of SDR 22 million.

Mr. Bergo said that he welcomed Mr. Autheman's proposal, which held the possibility of constituting a compromise. Without committing himself to specific figures, he could support the proposal's inclusion in the report.

Mr. Kiekens said that he wondered whether it was appropriate to include, in what was after all a report of the entire Board, proposals by just one or two Directors. It might be appropriate to include a single Director's proposal if the rest of the Directors felt that that proposal was part of the useful information for the Interim Committee. If such support

was not evident, the Director's Minister should raise the matter in the Interim Committee.

Mr. Kaeser considered that Mr. Autheman's proposal should be included in the next version of the report.

Ms. Lissakers said that Mr. Kiekens's point was well taken. It might not be necessary to identify all three proposals by referring to the Directors who had put them forward.

Mr. Autheman said that his suggestion need not be identified with his chair. He wished to be sure that the text indicated, first, that some Directors considered that a general compromise could be built on the basis of the Evans/Lissakers proposal and, second, the elements that should be discussed in order to build such a compromise.

The Executive Directors agreed to continue their discussion on September 21, 1994 on the basis of a further revision of the report to the Interim Committee.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/94/86 (9/16/94) and EBM/94/87 (9/19/94).

2. EXECUTIVE BOARD TRAVEL

Travel by an Assistant to Executive Director as set forth in EBAM/94/155 (9/14/94) is approved.

APPROVAL: November 20, 1996

LEO VAN HOUTVEN
Secretary