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M. Camdessus, Managing Director
P.R. Narvekar, Deputy Managing Director
A.D. Ouattara, Deputy Managing Director

Executive Directors	**Alternate Executive Directors**
A.A. Al-Tuwaijri	
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	V.J. Fernández
I.D. Clark	C. X. O'Loghlin
D.Z. Guti	
B. Esdar	W.-D. Donecker
	J. Shields
K.P. Geethakrishnan	H.B. Disanayaka
E.R. Grilli	
	L. Cheong
D. Kaeser	
A. Kafka	
W. Kiekens	
Y.-M.T. Koissy	
K. Lissakers	B.S. Newman
	H. Ono
A. Mirakhor	M. Daïri
	A.G. Zoccali
	Y.Y. Mohammed
E. Srejber	B. Andersen
	A. Vernikov, Temporary
	J.-H. Kang
J. de Beaufort Wijnholds	Y.G. Yakusha
	Han M.

R.H. Munzberg, Associate Secretary
A. Rotenberg, Assistant

Also Present

External Relations Department: S.J. Anjaria, Director; H.P. Puentes. IMF Institute: S.D. Hussein. Legal Department: J.L. Hagan, D.E. Siegel. Policy Development and Review Department: T. Leddy, Deputy Director; N.L. Happe, K. J. Langdon. Research Department: M. Mussa, Economic Counsellor and Director; P. Isard, T. Krueger. Secretary's Department: K.S. Friedman, M.J. Miller. Statistics Department: R.A. Elson, A. Muttardy. Treasurer's Department: D. Williams, Treasurer; D. Gupta, Deputy Treasurer; R.H. Floyd, H.G. Jepsen, O. Roncesvalles. Office of the Managing Director: S. Sugisaki, Special Advisor; J.A. Quick, Personal Assistant. Advisors to Executive Directors: J. Guzmán-Calafell, J. John, R. Kannan, M.-H. Mahdavian, S.N'guiamba, S. O'Connor, J.-C. Obame, Y. Patel. Assistants to Executive Directors: J.G. Borpujari, P.I. Botoucharov, M.A. Brooke, M.A. Cilento, J.A. Costa, D. Daco, A. Galicia-Escotto, H. Javaheri, F. Mercusa, I. Moon, F.A. Schilthuis, S. Simonsen, Zheng H.

1. SDR ALLOCATIONS—OPTIONS FOR ACHIEVING GREATER EQUITY IN CUMULATIVE ALLOCATIONS

The Executive Directors met, in informal session, to discuss a staff paper on options for achieving greater equity in cumulative SDR allocations (SM/96/149, 6/24/96).

The Managing Director made the following statement:

> For more than two years, it has been generally agreed that the Fund needs to correct the "inequity" that many members of the Fund have received no allocations of SDRs and that wide disparities have developed between the ratios of cumulative allocations to quotas of members that have participated in some or all allocations. Unfortunately, differences over how to correct this "inequity," including disagreements about the existence of a long-term global need to supplement reserves through a general SDR allocation, have frustrated progress toward a solution. At its April meeting, the Interim Committee requested the Board to "reach a consensus on a way for all members to receive an equitable share of cumulative SDR allocations." Mindful of that objective, I would like to make a proposal that I hope would provide the basis for a broad consensus on the resolution of the equity issue for SDR allocations.
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> I continue to believe that there is strong justification for a general allocation of SDRs under the present Articles, and that a general allocation of SDR 36 billion, such as I have previously suggested, would contribute importantly to resolving the equity issue. However, it is apparent that there is not a consensus on the finding of a long-term global need that is necessary to support a decision in favor of a general allocation. I am convinced that if we are to make progress in resolving the equity issue, we must lay aside without prejudice and for future consideration the issues relating to a general allocation, along with broader issues concerning the role of the SDR. We must now proceed to consider a resolution of the equity issue through an amendment to the Articles of Agreement which would provide for a one-time allocation of SDRs.
>
> To secure the broad support needed for an amendment of the Articles, it is clear that a resolution of the equity issue for SDR allocations must address more than the situation of new members who have not received any allocations. The concerns of older members with relatively low ratios of allocations to quotas need to be addressed. Also, members that have relatively high ratios of allocations to quotas but have low total reserves and face high costs of acquiring and holding reserves can legitimately claim that equity would be served by increasing their SDR allocations. In the end, a resolution of the equity issue should rely on an amendment that provides meaningful allocations to all members, with the largest relative allocations going to new members.
>
> I suggest that the most simple and straightforward way to achieve this is through an amendment that would allow all members a one-time opportunity to raise their cumulative allocations of SDRs to a common ratio relative to quota. Specifically, I would propose a "benchmark" ratio of 33 percent of

current quotas, which would imply a total allocation of SDR 26.6 billion. A benchmark ratio at this level seems to me to be essential to provide meaningful allocations to members that presently have relatively high ratios of allocations to quotas. An equity amendment of this simple form should be easy to explain in the ratification process.

Supporters of a general allocation of SDRs may be disappointed that my proposal for resolving the equity issue does not involve at least a small general allocation as a component of the solution. In this regard, I would emphasize that this one-time SDR allocation under an amendment would not be based on a finding of long-term global need, but these allocations would nevertheless respond to the needs that have been perceived by supporters of general allocations. Countries facing high costs of reserves and with expanding reserve needs would be able to meet part of these needs at lower and more economically appropriate costs. Countries with very low reserves would gain a modest augmentation of those reserves. The world stock of reserves would be shifted modestly in the direction of owned reserves. And, the SDR would gain some vitality as a reserve asset, which would help to preserve its role in the international monetary system.

To reach consensus on a resolution of the equity issue, all need to consider it in a spirit of compromise. In this same spirit I offer my proposal. I request that Executive Directors give it serious consideration, and that they be prepared to provide their reactions at the Board meeting in mid-July.

Extending his comments, the Chairman said that at its spring meeting, the Interim Committee had requested that the Board reach a consensus on a way for all members to receive an equitable share of cumulative SDR allocations. Therefore, he had put forward a new proposal, void of the elements that had given rise to the impasse in Madrid, in the hope of sending the debate off in a new direction that would lead to agreement before the Annual Meeting. The amendment he was proposing was simple by design, could be considered at the same time as the quota increases in countries' parliamentary agendas, would not create a precedent for future special allocations, and would in no way affect the power of the Fund to make general allocations of SDRs in the future on the basis of a long-term liquidity need. Those were the main elements of his proposal, and he looked forward to hearing Directors reactions.

Mr. Vernikov, speaking on behalf of Mr. Tulin, made the following statement:

I welcome the Managing Director's proposal on a special SDR allocation through an amendment to the Articles of Agreement. It appears to be a reasonable compromise that could lead the Executive Board out of the two-year impasse over the ways to deal with the situation of one fifth of the Fund's members, some of whom have been waiting for 15 years to be given a chance of full-fledged participation in the SDR scheme.

Judging from past experience with Amendments to the Articles, the new proposal may take two more years until all members get an equitable share of SDRs. Still, for the 38 members with "zero cumulative allocations" in the SDR Department, it is certainly better to receive these reserve assets sometime in 1998, than to continue, for another decade or so, to hope for a consensus on the existence of "a long-term global need for reserve supplementation." Therefore, today I am prepared to support any option leading to the resolution of the "equity issue."

On balance, it seems that the Managing Director's suggestion to raise the ratio of cumulative SDR allocations to quotas of all members to a common benchmark ratio, is the most transparent and consistent option, because equity in the Fund is traditionally measured in terms of members' relative quota shares. The benchmark ratio of 33 percent of current quotas will be only slightly above the highest existing ratio in the Fund, and it will ensure that no one is left out of this special allocation plan.

The Managing Director's approach would yield results broadly similar to those of the proposal made by Mr. Evans and Ms. Lissakers. Allocation of SDR 26.56 billion under the Managing Director's proposal is only SDR 4.78 billion more than envisaged by the Evans-Lissakers option with a 26 percent benchmark and 13 percent minimum special SDR allocation. Out of this additional amount, SDR 3.41 billion (71 percent) will be received by participants in the GAB and associated arrangements, by industrial countries and by other members with strong balance of payments positions whose currencies are presently included in the Fund's operational budget for transfers. All other members would receive only SDR 1.37 billion in excess of their shares under the respective Evans-Lissakers option, so the effect produced by the special SDR allocation on the international liquidity situation would be very limited. At the same time, the clearness and simplicity of the Managing Director's option increase the chances of a speedy ratification by parliaments of an amendment to the Articles.

Mr. Mirakhor made the following statement:

We welcome this opportunity to discuss informally the Managing Director's proposal. Our comments will only be preliminary, pending clarifications that will hopefully emerge from today's deliberations.

As of now, we see no sufficient justification for us to change the position that our Governors held so steadfastly in Madrid, namely, their full and unequivocal support for the Managing Director's 1994 proposal for a general allocation of SDR 36 billion. Specifically, we have difficulty understanding how and why the circumstances have changed so as to call forth a dramatic switch from the 1994 proposal and even from the Managing Director's March 1995 proposal (BUFF/95/20, 3/15/95) elaborated on April 12, 1995 (statement 95/30). We look forward to any clarification in this regard.

From our perspective, we believe that, if anything, the case for a general allocation is stronger today than two years ago or even last year. The case for a general allocation was made eloquently by the Economic Counsellor and other participants in the recent seminar; there is no need to repeat the specific justifications enumerated on that occasion. The conditions have evolved enough, however, to add more urgency to the need for an allocation under the present Articles. For one thing, as a direct lesson learned from the Mexican experience, this institution has, appropriately, placed considerable emphasis on strengthened surveillance, improved data collection, dissemination, increased transparency, capital account liberalization, and enhanced emphasis on the soundness of banking system in member countries. For its part and in the spirit of the cooperative nature of this institution, the membership has welcomed these initiatives, all of which are meant hopefully to shepherd the membership away from the use of conditional resources and toward reliance on markets. Under these circumstances, it seems that the challenges of globalization and greater openness would call for significant strengthening of member countries' own reserves.

Such strengthening would improve the conditions that may allow them enhanced access to international capital markets and to join the march of globalization. By some estimates, as many as 78 members of this institution are denied access to international capital markets, or can do so only by paying very high risk premiums. Even if one assumes rapid progress in improving the conditions that permit better access to markets, it will take considerable time before the needed liquidity is available to these members at reasonable costs. Moreover, as participants in the SDR seminar pointed out, even when this access is obtained, market failure arising from inaccurate perception of developing countries' creditworthiness, herd behavior on the part of investors and systemic effects could rapidly cut off these countries' access to financial markets. Even in the case of Mexico where substantial, timely, and commendable help was provided by the United States and Canada, the Fund played an immense crucial role. No matter what some may wish to call this role, I venture to guess that history will record it as the role of a lender of last resort, designed to contain the systemic effects of future Mexico-like crises.

We firmly believe that any proposal for an allocation that relies wholly on an amendment of the present Articles of Agreement would place in jeopardy any future general allocation by creating a dangerous precedent. Such an amendment would, for all intents and purposes, change the character of the SDR as a central international monetary asset. It would also run the enormous risk of impairing the ability of the Fund to supplement the reserves of members, should the need arise, by establishing the precedent that no allocation will be possible without an amendment.

While we all agree that the equity question should and must be addressed, we believe that the most appropriate way to do so is through a general allocation under the provisions of the present Articles of Agreement. We do not see any justification for addressing the equity question, an extra constitutional consideration, by an amendment of the Articles of Agreement, if it means risking the demise of an institutional instrument enshrined in the Articles of Agreement. How could one explain to the Governors of this institution that a concern that could be addressed easily within the present framework of the Articles of Agreement can be dealt with only through an amendment that runs the risk of destroying a "central pillar" of this institution? Absent convincing arguments addressed to these concerns, we prefer that the integrity of the general allocation, as envisioned in the present Articles of Agreement, be fully preserved.

Mr. Newman made the following statement:

We appreciate the Managing Director's efforts to resolve the impasse on the SDR equity issue. Much has happened in the more than two years that the Executive Board has considered this topic, not least of which was the recent SDR seminar, which has cast some doubt on the future role of the SDR in a significantly changed international financial environment. Nevertheless, and in light of the prospect that the SDR will remain with us for the foreseeable future, we continue to believe that it is important that all the Fund members be able to participate in the system on an equitable basis. In this context, the Managing Director's proposal is a constructive step in the right direction that we hope will produce a dialogue that settles this matter finally.

We have some comments regarding the specific proposal. First, it is not clear what is the basis for the proposed 33 percent benchmark, which would result in a somewhat excessive allocation of SDR 26 billion. There is a considerable difference between a targeted allocation of less than SDR 4 billion to deal with the special situation of members that have joined the Fund after 1969, and one that is more than six times as large, and of which countries that have participated in all previous allocations would be receiving more than two-thirds of the total.

Second, it will be important to ensure that any equity amendment is narrowly focused in order to minimize potential confusion with other SDR provisions, particularly the criteria for a general allocation. Thus, any amendment of the Articles should avoid creating a presumption that equalizing the ratio of cumulative allocations to quotas would serve as the basis for future special allocations. Moreover—and this may be a problem unique to my authorities—continued reference to the potential equivalence of the equity proposal to a general allocation is misleading—given the absence of any reference to a global needs test—and could create undesirable legislative complications.

Third, we note that the distribution of an equity allocation along the lines proposed by the Managing Director would differ considerably from the Evans/Lissakers proposal. That proposal would concentrate more of the allocation on the new members and the poorest countries, which have the most limited access to other sources of finance, and which might, therefore, be perceived as being in most need of SDRs to supplement existing reserves. In these circumstances, we believe that the Evans/Lissakers approach remains a preferable option that we hope will continue to be considered.

In conclusion, we consider the Managing Director's proposal to be a useful starting point and we are prepared to consider how it might serve as the basis for an agreement on this contentious issue. However, the Executive

Board has a full plate of important policy issues to deal with in the period leading up to the Annual Meetings, and we need to ensure that scarce Board time devoted to this topic enhances the prospect of reaching agreement.

Mr. Ono made the following statement:

The Managing Director's proposal is appropriate in light of the existing consensus that achieving equity in SDR allocations is necessary. The proposal would also create more equity among the G-7 countries. This said, my impression is that an allocation of SDR 26.6 billion is a bit too large. In that context, it may be possible to reach consensus by reducing somewhat the benchmark proposed by the Managing Director.

There appears to be concern on the part of some countries that a one-time allocation as proposed by the Managing Director might close the door to a future general allocation based on long-term global need. I do not share such concern. I have no doubt that a general allocation will be considered as long as there is a recognized long-term global need. So the Managing Director's proposal is worth considering, and I hope that we can deepen constructive discussion based on this proposal.

Mr. Kafka made the following statement:

We fully agree with Mr. Mirakhor's statement. The Managing Director's proposal to equalize net cumulative SDR allocations in proportion to quotas across the membership by an amendment is ingenious. It combines equity, which we all support, with a very modest overall increase in net cumulative allocations. However, there are many of us who feel that relying solely on a special allocation may discourage the future use of the normal mechanism for general allocation inscribed in our Articles. That deeply concerns us since the international monetary system may in the future face liquidity crises where the use of the traditional general allocation mechanism would be extremely useful, if not essential, and we could not justify jeopardizing that possibility.

A special allocation by amendment need not necessarily make it harder to rely on general allocations it the future, but chances are that it would. This danger could easily be avoided if the proposed allocation by amendment were combined with a modest general allocation. Since the Managing Director's proposal implies a modest increase in total allocation, a slight reduction in that increase could make way for a general allocation without fear of creating excessive liquidity. The view that there is presently no long-term need to supplement existing reserve assets is certainly not convincing. I need only remind my colleagues of the excellent paper which was recently presented to us by the Director of the Research Department. In conclusion, I want to be very clear that I do not necessarily insist on a special allocation; but if there is to be one, then there must also be a general allocation.

Mr. Kaeser made the following statement:

I welcome this opportunity to discuss the Managing Director's latest proposal to overcome the Board deadlock on the SDR issue. I also welcome Mr. Shaalan's request to have this discussion in an informal meeting, because I think that we need a little more time to accept a compromise.

As this chair was ready to support a general allocation in the range of SDR 36 billion, we can accept the Managing Director's proposal, which would lead to the creation of SDR 26.6 billion. The Managing Director's proposal has the great merit to combine a solution to the equity question and a silent general allocation based not on the ominous condition of "global need," but on the sheer common sense that you have to give a meaningful allocation to everybody in order to get general support for the compromise, which requires an amendment of the Articles. According to the compromise solution proposed by the Managing Director, this silent general allocation would not rely on the present Articles, but it does absolutely not preclude a general allocation on the basis of the present Articles, should such an allocation appear necessary in an emergency situation.

At this point this chair takes the liberty to appeal to the representatives of the developing countries. Their ministers and governors demonstrated in Madrid in an impressive way their cohesion. We are not ready to forget this episode. It is perhaps not necessary to demonstrate it again. The Fund is a cooperative institution. This means that after a frank and sometimes hard exchange of views, we should be able to agree on a workable solution. The seminar on the SDR showed on the one hand that this monetary instrument should be kept alive, but on the other hand that it would not become the principal reserve asset of the system.

The Board is working hard to find ways and means to secure the financing of ESAF and of HIPC initiative, two issues which are obviously in the interest of the developing countries. When we produce, as I am sure we will, an acceptable solution to these two issues, I sincerely hope that the developing countries will show more readiness to accept a compromise on the SDR. I do not suggest to build a package or to establish a link. I simply think that this would be a new demonstration of cooperative spirit. Anyhow, as a general allocation based on the "global need" appears not to be possible under normal circumstances in the next five to ten years, I think that the compromise proposed by the Managing Director would also be in the best interest of the developing countries.

But I also appeal to colleagues who wish to fully water down the Managing Director proposal to refrain from doing so.

Mr. Zoccali made the following statement:

As other speakers, we appreciate the Managing Directors imaginative new effort to break the impasse governing SDR allocations during the last four basic periods. The preliminary views of this Chair generally coincide with the considerations and conclusion contained in Mr. Mirakhor's thoughtful gray, predicated mainly on our desire to preserve the integrity of the SDR.

The useful background paper rightfully notes that the concept of equity in the distribution of cumulative SDR allocations is difficult to define, particularly in light of the systematic absence since the early 80's of the majority needed to activate any general allocation. The result has been an increase in the disparities not only in the ratio of cumulative allocations to quotas, most apparent with respect to members which joined the Fund since 1981, but as importantly with respect to the role of the SDR envisaged under the existing Articles.

In the meantime, the SDR managed to remain attractive as an international reserve asset "to hold" due to its design and competitive remuneration, and also to the fact that decisions on allocations and cancellations have been governed exclusively by monetary considerations, i.e. the determination of long-term global need for reserve supplementation. We remain, therefore, somewhat skeptical of "restarting" the SDR system after a long hiatus by in effect abandoning this last important characteristic. Not least because an equity allocation is certain to raise questions of consistency not only between the envisaged and actual role of the SDR but more importantly its prospects. In this regard, it would not be irrelevant to keep in mind the additional criteria governing the first general allocation in Article XVIII, Section 1(b) which included: "the attainment of a better balance of payments equilibrium and the likelihood of a better working of the adjustment process in the future."

The makings of a consensus, in our view, should thus minimize the risk of impairing the Fund's ability to provide adequate conditional resources, by tying-up the normally protracted parliamentary process for a future quota increase with additional complications that could be associated with an equity amendment. Similarly, the consensus should avoid compromising the already limited but potentially significant role of the SDR for dealing with future systemic crisis. The higher volatility and suddenness of shifts in the willingness of private financial markets to satisfy the increasing demand for international reserves, evidenced since Madrid, heighten not only the need for a general allocation of SDR's but also for an eclectic lender of last resort in the international monetary system.

In sum, while the modest increase in total allocation implied in the new proposal for a special allocation of SDR's poses no significant inflationary impact, as reasoned by Mr. Tulin and Mr. Kafka, the danger of unfulfilled expectations of an equity correction based exclusively on an amendment of the Articles remains, together with the concern of compromising the integrity of the SDR. Consequently, we would welcome further efforts pivoting around its combination with a modest general allocation; given the impact of the relatively high costs of acquiring and holding reserves for many members and the importance of keeping the SDR as a potential source of international liquidity consistent with its monetary character, for example, in situations when a lender of last resort would be desirable.

Mrs. Cheong made the following statement:

This Chair welcomes the opportunity for an informal discussion on the Managing Director's latest proposal to break the impasse on SDR allocations. I agree that we need to move ahead on the SDR equity issue. In fact, it was the failure to agree on any allocation of SDRs since 1981, that has led to the problem of uneven distribution of SDRs. If there had been regular SDR allocations, as provided for under the Fund's Articles, the equity issue would not have arisen. In this regard, this Chair continues to believe that a general allocation would be the most appropriate vehicle to address the equity issue.

While we welcome any effort to resolve the SDR deadlock, like Mr. Mirakhor (Mr. Kafka and other Directors), we are concerned that this proposal raises many important questions—questions that could have serious implications for future SDR allocations. Although it is true that half-a-loaf of bread is better than none, I should caution that it is important that we think through the full consequences of what is being proposed, to ensure that the "bread" is not half-baked. In particular, I share Mr. Mirakhor's concerns about the dangers of setting a bad precedent, and would be interested in hearing legal opinion on the implications of such a move on the prospects for future general allocations of SDRs.

I note that the Managing Director continues to believe there is a strong justification for a general allocation under the present Articles and I would like to think that he has not abandoned the option of a general allocation because there is no consensus on a global need. I also would like to think that this latest proposal is prompted by a wish for some consensus but indications are that the new proposal for a special allocation will not likely succeed in garnering the necessary support without a general allocation. In this regard, I share Mr. Zoccali's views on the need for the proposal to incorporate an element of a general allocation.

Finally, I do not think it wise nor a good strategy to link a decision on an SDR allocation with the Eleventh Quota Increase. My authorities are not adverse to going to parliament twice and look forward to do so for the quota increase soon.

Mr. Koissy made the following statement:

First, I would like to join previous speakers in acknowledging the Managing Director's efforts once again to secure a consensus on this delicate and unresolved issue relating to the SDR allocations. Given the complexity of the issue, this informal session could help to clarify some questions that most of us still have in mind. In this connection, I look forward to the answers to the questions raised by previous speakers.

My views on the issue are similar to those of Mr. Mirakhor. Like him, I believe that the factors that determined the international economic and financial developments two years ago when we reviewed this issue in Madrid have not changed, and in a certain respect have intensified, adding more urgency to the need for a general allocation. Therefore, we would like to reiterate our position that an up-front general allocation of SDRs in the magnitude proposed as a compromise in Madrid, combined with a special allocation, remains the best option, which will at the same time preserve the SDR as a principal instrument in the international monetary system and resolve the equity problem.

As several Directors have pointed out, addressing the equity issue only through an amendment of the Articles runs the risk of doing serious damage to the SDR, and I do not think that we should take such risk. Despite the claims that there is no global liquidity shortage, we must remember that that statement is true only when we look at the overall picture. For at least half of the membership, there is a serious shortage of liquidity, as their access to international financial markets is seriously limited, especially at a time when they are undertaking comprehensive reforms.

Therefore, we continue to base our recommendation on the fact that the acute reserve needs in the transition economies and in the lower-income countries, as well as the budgetary constraints in industrial countries, provide a unique opportunity to reach a consensus on a general allocation of SDRs.

Mr. Esdar made the following statement:

We welcome your proposal which constitutes a step in the right direction and should help to reach a solution of the so-called equity issue. Insofar we are somewhat disappointed by Mr. Mirakhor's statement. Mr. Mirakhor in his statement asked which circumstances have changed since Madrid. The answer is twofold: some circumstances have changed and some remain unchanged. Unchanged for example, at least in my view, is the fact that a global need for a supplementation of reserves has not been demonstrated. However, there has been some change insofar as this view has been confirmed by many speakers at the SDR seminar, even by speakers of development countries.

First, therefore, it is appropriate that the proposal does not allude to the "global need" criterium of the Articles of Agreement.

Second, the Managing Director's proposal requires an amendment of the Articles of Agreement. This is necessary to ensure that both the current articles and their requirements regarding SDR allocations stay intact and that a narrowly focused one time special allocation of SDR's can take place to facilitate a solution of the so-called equity question. "Narrowly focused" implies that the great number of member countries who joined the Fund after the last SDR allocation will be able to fully participate in the SDR system. However, we would reject the findings in the paper, that the fact that different members are confronted with different costs of acquiring reserves or having only certain levels of reserves would constitute an equity issue.

Therefore, the proposed amendment of the articles should clearly avoid to introduce any such other equity notions. In addition, it should be clear and accordingly reflected in the amendment that such an equity allocation would be "one time and special."

We have to ensure that this equity allocation in no way can in the future be interpreted as having set a precedent for future SDR allocations. New developing disparities of ratios of cumulative allocations to quotas which will arise over time as a consequence of selective quota increases are by no means a justification for future equity adjustments. We could clearly not support an amendment which could be interpreted as a basis for such requests.

I would expect that these considerations will be reflected adequately in the informal conclusions of this meeting.

Third, we are glad to note that the new proposal is a big step closer to the maximum amount of 16 billion SDRs that this Chair felt able to support in previous Board discussions. Even though progress has clearly been made on this issue, the gap between what many members have regarded as being sufficient and even generous, namely 16 billion SDRs and the Managing Director's new proposal of 27 billion SDRs, is still very large, and even much larger compared to the 4 million SDR required to meet the requests of the new members. While I would not preclude any future movement on this question, for the time being we still regard the amount of 16 billion as being fully sufficient to address the so-called equity issue.

Finally, I support Mr. Newman's suggestion that the so-called Evans/Lissakers proposal remain an option under discussion.

Mr. Wijnholds made the following statement:

As the seminar on the Future role of the SDR and the subsequent Board meeting made clear, there is at present little support for the provision in the Articles of Agreement that the SDR should become the principle reserve asset. Moreover, under present circumstances my authorities and I do not see a long term global need to supplement existing reserve assets. The existing inequity in ratios of cumulative SDR allocations is, however, a situation that should be corrected.

The correction of the present inequities, i.e. for those countries which did not participate in all SDR allocations, should be the exclusive guiding principle for a new and one-time SDR-allocation and for the necessary amendment of the Articles of Agreement. The proposal to raise each member's ratio of cumulative SDR allocations to quotas to 33 percent overshoots this objective, as it would provide for a de facto general allocation of SDRs of at least 7.2 percent of quota. Moreover, it involves an amount of new SDR allocations that can be regarded as too high.

In the past we have supported an allocation along the lines of the US/UK-proposal. The new proposal does not alter this position. I could, on the other hand, also support an amendment of the Articles of Agreement that provides for a one-time selective allocation that would raise each member's ratio of cumulative allocations to quotas up to a certain percentage, with a maximum of 25.8. This benchmark corresponds to a maximum amount of SDR 16 billion, which we consider acceptable for an equity allocation.

As this allocation is to be selective and one-time, it should not be regarded as a precedent for future allocations or set 'equity-benchmarks'. The formulation of any amendment should take this into account.

Mr. Kiekens made the following statement:

Mr. Chairman, the spirit of compromise which you called for certainly prevails in my group of countries. Your proposal for restoring equity to the distribution of cumulative SDR allocations is timely, given the Board's mandate from the Interim Committee to reach a consensus on a way for all members to receive an equitable share in the cumulative SDR allocations.

My group of countries continues to favor enabling all members of the Fund to participate fully in the SDR Department. We are willing to see this goal achieved by amending the Articles of Agreement to permit a one-time allocation of SDRs. I join you, Mr. Chairman, in explicitly stressing that such an action should not in any way operate to prejudice possible future general allocations of SDRs, or the broader role of the SDR. We are also willing to see such a special allocation go further than simply redress the inequalities created by the fact that new members have had no opportunities to receive an SDR allocation.

Over a long time, and for various reasons, the ratios of SDRs to quota have evolved differently from member to member. It is reasonable to claim that greater equity would be obtained if each member were now given the opportunity to increase its cumulative allocation of SDRs to a common ratio relative to quota. Such an outcome could be achieved with a benchmark of 25.8 percent, which would result in an allocation of 16 billion.

Mr. Chairman, your proposed 33 percent benchmark is intended to also satisfy members who have high ratios of allocations to quotas but low total reserves and high costs of holding reserves. The international financial community should indeed constantly strive to help the poor countries to build up necessary reserves at an acceptable cost, both by assisting them to improve their economic policies and by providing them with financial support. However, I fear we are not yet able to argue convincingly that an allocation in excess of the benchmark of 25 percent is required on equity grounds to remedy the problems of a specific group of countries.

This being said, I do not exclude our support for a larger allocation of SDRs if that is the broad consensus. However, I would like to see a more convincing explanation of how such an amount would be justified on equity grounds. The proposed equity amendment must be approved by all parliaments of the world, and the Fund's standing and credibility continues to depend on the consistency of its arguments in support of any such proposal.

Apart from the special circumstances of the new members, the present divergence in the ratios of SDR allocations to quotas arose largely from the fact that nonequiproportional increases in quota were not accompanied by new SDR allocations. Arguing that the differences in present ratios resulting from the prevailing rules are not equitable and, therefore, need to be corrected by a special amendment is not convincing unless we also change the prevailing rules to permanently maintain equality in these ratios in the event of subsequent changes in the members' quotas. There are obvious links between some aspects of your proposed equity allocation and the next quota increase.

Besides, the issue of building the reserves of poor countries can also be addressed in the framework of Fund-supported programs, and this might in some cases be even more effective. A review of the Fund's financial support instruments under either the GRA or the ESAF is another avenue worth exploring in this connection.

The need to obtain parliamentary approval for all major policy issues presently under consideration—the equity allocation, the quota increase, ESAF financing, and the doubling of the amount of the Fund's borrowing arrangements—should provide strong incentive to make progress on all accounts in order to avoid parliamentary fatigue. The countries of my group are determined to strongly support the financial strength of the Fund, provided the Fund's essential values of multilateralism and cooperation are promoted. For the sake of such a package, they will certainly give proof of their willingness to compromise.

Mr. Grilli made the following statement:

We appreciate your effort, Mr. Chairman. Your proposal has the merit of simplicity; it is conceptually straightforward, as it implies the same ratio of SDRs to quota across the whole membership. It has the drawback that the size of the allocation that it implies goes perhaps beyond what we still think is a reasonable and acceptable amount, but we remain open to the discussion and to arguments.

There are, in fact, three components of equity that your proposal pursues. The first is the equity of the member countries that have not yet received any allocation. We share this objective. These countries should receive an allocation which is in line with that of the older members. The second component of equity that you are attempting to redress is the situation of countries that have low ratios of SDRs to quotas. We can go along with that objective, although we notice that, among that group of countries, there are those that could have increased their ratio of SDR to quota at a certain point, but chose not to.

The third component has to do with the countries that have high ratios of allocations to quotas but low total reserves. We have reservations about this equity goal simply because we think that equity must relate to the parameters of the club, and the parameters of the club are quotas and SDR allocations. The level of reserves, of course, is not related to quotas, but is the result of past behavior and policy decisions.

Having said this, we think that your proposal should be very seriously considered by all members. We clearly need to make an effort to resolve this issue. This effort has to involve give and take by all sides. And I think that if one looks at your proposal in that spirit of give and take, we can find perhaps a compromise at the end of the road. Perhaps the preliminary reactions today were necessarily weighted by positions held in the past. I sincerely hope so, because to get stuck in a general versus a special allocation debate again will not lead us anywhere.

In the end, we would prefer an allocation which is smaller in size than the one yielded by your proposal. We notice that there are allocations with benchmarks of about 25 percent that are more in line with what we think would be appropriate, but I think that, on the magnitude, we should remain open and see what develops. I sincerely hope that we can reach a consensus before the Annual Meetings.

Mr. Han made the following statement:

I welcome today's informal discussion on the SDR allocation. As an important international reserve asset created by the Fund, the SDR has in the past played an undeniable role in facilitating the international monetary system. Although the debate on the need for an SDR allocation has fallen on a lengthy impasse, commendable efforts have also been made to move the debate forward. These include the Fund sponsored SDR Seminar held in March and the recent G-7 Lyon Summit, which also called for the early settlement of this issue.

It is regrettable to see that the SDR seminar in March, which sharpened the debate about an SDR allocation and generated rich thoughts, has not been fully regarded as a basis on which the Fund to make important decisions as whether and how to allocate the SDR. The present concentration on the equity issue only reflects one stream of positions, while other streams in favor of a general allocation, which were widely echoed not only by the developing countries but also by the Fund staff and some distinguished scholars, have been completely forgotten. In retrospect, too much expectation was put on the SDR seminar to advance a final Fund decision on the SDR issue. However, the bias of this Seminar was disappointing. In this connection, I share Mr. Mirakhor's doubts about the rapid switch of the Managing Director's position, and furthermore, we also feel it will be difficult to persuade our authorities to change the position which we held in Madrid.

The SDR, as it was created by our founding father of the Bretton Woods system, was meant to promote equity for the entire membership. Its allocation mechanism, as governed by the present Articles, has been working well to preserve the credibility of the monetary nature of the SDR. If the

SDR creation system can undergo random changes, stability of the SDR as an important monetary asset will be questioned, and the Fund's key instrument to promote international financial stability will be undermined. Therefore, this chair's position on SDR allocation remains unchanged and we continue to believe that the general allocation is the most appropriate way to address the equity issue. (At the very least, any proposals for an SDR allocation should not rule out future allocations in accordance with the global need for international reserves.) Moreover, given the difficulty to amend the Articles, a general allocation is the least difficult way to solve this problem.

Mr. Kang made the following statement:

This chair welcomes the opportunity to discuss the Managing Director's proposal. This chair does not accept that there is a global need for reserve supplementation and we hope we can move beyond that argument. We have accepted in the past that there may be equity arguments in favor of a selective allocation, but those arguments are not— in our view—strong.

We acknowledge that the Managing Director's proposal is a significant compromise and we would not stand in the way of strong consensus in favor of it.

This constituency has concerns regarding the size of the allocation proposed. In this regard, it is worth highlighting that the size of the proposed allocation is larger than the cumulative allocation of SDRs to date. As this chair has indicated in the past, something closer to half of what the Managing Director is proposing would be more acceptable.

We remain open-minded and whether such an allocation is achieved by adopting a benchmark approach (as proposed by the Managing Director) or through something along the lines of that proposed by Mr. Evans and Ms. Lissakers, is an issue and we are prepared to be flexible about it.

Mr. Clark made the following statement:

In the spirit of compromise and responding to your good wishes, and with no offense to my seatmate, I will not mention Mr. Fernandez Capital in my remarks. I think your proposal suggests a number of elements on which an early consensus can be reached.

The staff has provided us with a useful background note to compliment the Managing Director's constructive statement. Your proposal has a number of elements on which, I believe, we should be able to agree.

First, I think most could agree that, after the conference last Spring on the SDR—and the subsequent Board discussion—on formal affirmation of 'global liquidity need' will not be forthcoming in 1996 (perhaps as Mr. Kaeser suggests not in 5–10 years). If this is accepted, I think we could agree that if the debate on an SDR allocation is to progress, it should focus on the equity issue. Also, we could agree that, by definition, any equity-based scheme should ensure clearly that distribution takes precedent over magnitude, in any new allocation without necessarily imposing equality of distribution. Indeed, in the past, some members have chosen to forego their share of new allocations. Finally, we could probably agree that this equity allocation would be a one-time adjustment and would not set any legal precedent for similar allocations in the future we would have to agree that there should be no basis for SDRs to be allocated, either marginally or cumulatively, as a fixed percentage of quota for any member. The relationship between SDR allocations and quota distributions among members should be flexible to accommodate quota changes in both absolute and relative terms.

If we have agreement on all these points, there remain some issues which are more controversial and require close consideration in future discussions. First is the allocation formula. The Managing Director's formula has the advantage of simplicity but may not be able to address the equity issue effectively without a large allocation. The Evans-Lissakers formula, which has more flexibility, has the advantage of holding down the required size of the new allocation, as indicated by Chart 3 and Table 2 in the staff analysis, while still addressing the equity problem.

Second, is the size of the allocation. The magnitude of the allocation proposed in the Managing Director's statement— even using the simple benchmark formula—appears very high. Even the United Kingdom, which already has the highest ratio of SDRs to quota, would receive an increase of almost 30 percent in its SDR holdings with a benchmark of 33 percent. The cumulative allocations to Canada and the United States would almost double and Germany's would more than double. At a point where we in this Board are emphasizing the need to provide assistance to even the poorest countries on a conditional basis, such a large allocation of unconditional liquidity hardly seems appropriate.

Finally, there is the relationship between the SDR equity allocation and other Fund financing issues that will require legislative action in our home countries. I think many of us, perhaps with less efficient Parliaments than that of Ms. Cheong would prefer to bring forward a package of legislative changes dealing with the Fund at the same time. And these should obviously be coordinated. Issues such as quota increases can play a critical role in defining the magnitude of the increase since it acts as the base for equity-based allocation formulae. Even ESAF financing could be affected in a variety of ways. The interactions among these issues will have to be closely considered before deciding on the size and distribution of a new equity-based SDR allocation.

To sum up I welcome the renewal of the discussion on an equity-based SDR allocation and salute your initiative but I believe that we must proceed carefully, especially with respect to the size of a new allocation and a distribution formula. I look forward to the discussions on these issues.

Mrs. Cheong clarified that in her statement she had been speaking for all 12 members of her constituency, and not only for Malaysia. She had indicated that her authorities were prepared to go to parliament more than once, if that was what was necessary to move the priority items forward.

Mr. Autheman made the following statement:

> I think that this proposal is appropriate, as Mr. Ono said, and timely. It is important, in order to break the Madrid deadlock, to follow a fresh approach. Therefore, whatever the merits both of a general allocation according to the Articles and of the Evans/Lissakers proposal, they suffer from the fact that they have been exposed to a big, conflictual situation. Therefore, the search for the compromise needs to be built on a new proposal.
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> I welcome the rule proposed in your buff. Raising all members' SDRs to a common benchmark is a very simple principle which is quite easy to explain to parliament. However, I think that the proposal—any new proposal—should be kept simple, and if I agree that we could have some flexibility on the exact size—an issue which needs to be addressed in the end—I think we should remain very firm on the criteria used for the definition of equity. And if one considers that there are two equity considerations, one of which is the need to increase the holding of SDRs for members who have never participated or who have a low ratio, I find it difficult to mix that with the opposite definition of equity, which is to provide meaningful allocations to members that presently have relatively high ratios of allocations to quota. This looks very much like turning again to a dissimilated way to secure a general allocation. Therefore, I am close to the views expressed by Mr. Wijnholds and others that we would need very strong justification under this approach to consider a ratio above 25.8 or 26 percent, to give a round figure.
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> Finally, I am comforted by the convergence of views between the extremes, if I may qualify the views of Mr. Esdar and Mr. Mirakhor that way. If I understand Mr. Esdar well, he could accept an amendment under the condition that it should not be a precedent. And if I understand Mr. Mirakhor well, he could not accept an amendment because this would create a precedent. So I think that they share a common fear, and we should be able to help them find a common ground.

Mr. Al-Tuwaijri said that he appreciated the Chairman's effort to find a reasonable solution to the equity problem in SDR allocations. However, his chair continued to favor an allocation based on the current Articles of Agreement. Such an allocation would also address the equity problem. Also, he shared the concerns raised by Messrs. Mirakhor, Kafka, and others regarding the implications of an amendment for the prospect of general allocations of SDR in the future.

Mr. Geethakrishnan made the following statement:

> We all know that several members feel there is no long-term global liquidity need. It is a fact of life, and I suppose we will have to accept it. You acknowledge that in your proposal and yet you generously propose that the entire membership should get a minimum allocation of SDRs, that effectively amounts to a general allocation of SDR 7.2 billion through the back door. Our

first concern, is that, by accepting the amendment route, we would in effect be bidding good-bye to any future general allocation.

The second problem is with the word "equity." At the very start, the German chair had suggested allocating between SDR 2 billion and SDR 4 billion to the new members. I considered that to be a good suggestion, because it solved the problem of new members without any reference to questions of equity. Bringing equity into the picture muddies the water. Under the Managing Director's proposal, just as the ratios of SDRs to quota would be equalized at 33 percent, parliaments would be approving the next quota review, thereby throwing off the equality of the ratios. Hence, when we speak of a 33 percent benchmark, we are really talking in terms of today's reference. Down the road, when the Fund gets new members, how will we guarantee them an "equitable" allocation, and which period's benchmark will we use? Why introduce the concept of equity in the first place?

Mr. Grilli suggests we should approach the matter with a measure of give and take to reach a solution. I agree with Mr. Grilli, and I endorse his suggestion. However, while I can see the "give" in the proposal, I do not see the "take." I would like to see a proposal where there is "give" as well as "take" for all members.

Therefore, Mr. Chairman, I have a problem accepting your proposal. I fully endorse what Mr. Mirakhor has said in his statement. However, at the risk of being misunderstood by Mr. Mirakhor, I can still support your proposal subject to one modification: that when we amend the Articles to introduce the special allocation, we also delete the reference to "long-term global need" and substitute instead the "medium-term liquidity need of the majority of the members." I mean this seriously, because the "long-term global need" condition is going to forever be an albatross around the neck of this organization. Even with most of the membership experiencing a liquidity need, there will always be some countries that have no such need (e.g., the United State, the United Kingdom, and others). If you do that, Mr. Chairman, I would be willing to break ranks with Mr. Mirakhor and support your proposal.

Mr. Shields made the following statement:

I had been thinking in terms of a compromise, along the lines that Mr. Autheman was suggesting, and I thought I was noticing positions around the table coming closer together. But I am little more pessimistic now, having heard Mr. Geethakrishnan.

From Mr. Mirakhor's statement and the comments of other speakers, I gather that the main concern with a special allocation, along the lines of the Managing Director's proposal, is that the amendment would somehow eliminate the possibility of there ever being a general allocation in the future. That seems to me to be the strongest objection. On the other side, Mr. Esdar and others worry that the idea of a special allocation would somehow become enshrined, and there would be an expectation that ratios of SDRs to quota should continue to be equalized over time. So, if we could come up with a proposal that made it clear that an amendment implied neither of those things, we could then address the central issue, namely to achieve greater equity in SDR allocations.

I accept what Mr. Geethakrishnan has said about the problems of defining equity. However, I think the issue at hand is not how to achieve perfect equity, but how to eliminate the gross inequity that has resulted from historic chance—the point at which members actually joined the Fund—and to do so in a way that would not be too costly. I can see how, once we begin to give some members something, we would naturally want to give everybody a little bit extra. I like the Managing Director's proposal, and appreciate that it represents a substantial movement on his part. He proposes to solve the equity issue at a cost less than had been discussed in the past. However, the amount suggested by the Managing Director still seems too large, as other speakers have noted.

Alternatively, we might reconsider the Evans/Lissakers proposal, which also attempts to make sure that there is something in it for everybody, and without imposing too great a cost. I am sure this chair and many others would be open to considering variants of these proposals. If we can agree to that, and clarify the legal issues to allay members' fears about the long-term consequences, we should be able to reach a consensus.

Mr. Andersen made the following statement:

There is broad agreement amongst the membership on the need for making progress on proposals that would permit all Member countries to participate on an equitable basis in the SDR system, an agreement that has been reflected in a request by the Interim Committee for us to reach a consensus on the issue as underscored by you at the outset of this informal meeting. We therefore welcome today's discussion and appreciate your efforts to break the Madrid impasse through the imaginative statement, and finds that it contains a number of interesting thoughts. The proposal should make it possible for, amongst others, the newest members of this constituency to participate in the SDR Department. While a resolution of the equity issue for SDR allocations in a broader sense may address a number of issues, we feel that the primary equity issue to be resolved is that some countries have not participated in previous allocations, whereas we find it to be questionable to resolve the issue arising from that some countries should receive SDRs as a means to lower the cost for strengthening their foreign exchange reserves.

We agree with you that to reach a consensus on a resolution of the equity issue, we all need to consider it in a spirit of compromise. During the numerous discussions on SDR allocations during 1994 this chair on several occasions alluded to the wide ranging views within this constituency regarding SDR issues, together with a preference for addressing the problem of perceived inequities through a general allocation of SDRs of a moderate size, with some variation regarding what was considered moderate. We certainly are prepared to consider other avenues, including your newest proposal if a consensus likely could be developing, but the latter is a rather important precondition for us due to the wide ranging views just alluded to. I am afraid that the discussion so far has not given rice to much hope in that respect, but I hope that I am too pessimistic.

Mr. Mohammed said that he appreciated the Chairman's continued effort to achieve equity on the SDR allocation issue. However, his chair shared the concerns expressed by Messrs. Kafka and Mirakhor and others, namely, that a special allocation would set a precedent that could undermine the basis of the SDR system. Like Mr. Kafka, he believed that combining a general and special allocation might eliminate that risk.

Mr. Fernández said that he had not received instructions from his authorities to change his chair's position, and that his Spanish authorities were interested in hearing the reactions of other chairs to the Managing Director's proposal. He found the proposal to be a good basis for restarting the dialogue, both in terms of equity concerns and cost. Therefore, he was a bit disappointed by the preliminary reactions of several of his colleagues, but he hoped that an agreement could be reached before the Annual Meetings.

Mrs. Guti said that she welcomed the efforts to find consensus on the issue of SDR allocation. Her chair continued to believe that a general allocation was the best way to achieve greater equity, and she shared the views already expressed by Mr. Mirakhor and other Directors.

The Economic Counsellor and Director of the Research Department said that, after prolonged division in the Board on the SDR issue, it was not surprising that there were still two sides to the debate. Mr. Mirakhor and others had expressed concern about why the Managing Director had suddenly changed his proposal. As indicated in the Managing Director's statement, the staff continued to believe that there was a strong justification for a general allocation under the present Articles of Agreement, and that a general allocation of SDR 36 billion would contribute importantly to resolving the equity issue. That was a fact. However, as Mr. Esdar and others had reaffirmed, countries representing about one third of the voting power of the organization did not see a long-term need to supplement reserves, as they would interpret the meaning of that provision under Article XVIII of the Articles of Agreement. That, too, was a fact. The problem, then, was how to respond to the Interim Committee's request for a consensus on resolving the equity issue. The Managing Director's new proposal had been intended as a starting point of a discussion on how to resolve that dilemma.

The second major concern raised in Mr. Mirakhor's statement and shared by many speakers was whether solving the equity issue solely on the basis of an amendment of the Articles—that is, without a component of a general allocation—would set a precedent that would in effect undermine the use of the general allocation mechanism, the Director continued. That was a relevant concern, but one that needed also to be considered as a practical matter. Had agreement on the need for a general allocation been within reach, then, yes, an amendment which provided a significant increase in SDRs could have undermined the prospects of a general allocation. But, despite the staff's analysis to the contrary, a global liquidity need had not been found to exist—in the sense that 85 percent or more of the voting membership of the Fund perceived such a need under the Articles. Hence, as a practical matter, a special allocation of cumulative SDRs did not stand to jeopardize the chances of a general allocation in the current circumstances.

The question, then, the Director continued, was whether the SDR should be allowed to continue to shrink relative to total nongold global reserves—having declined from 8½ percent after the first series of allocations to 2 percent currently—or whether the volume of SDRs outstanding should be doubled along the lines of the Managing Director's proposal. That was the critical issue as a practical matter. The legal implications of an amendment, and whether the interpretation of Article XVIII might be affected, was a separate question that the Legal Department was in a better position to answer.

The staff representative from the Legal Department said that the authority to provide for a special allocation would in no way affect, impair, or otherwise change the Fund's current authority to allocate SDRs on the basis of long-term global need under the Articles of Agreement. The legal analysis was documented in SM/94/216. Any draft amendment would make clear that the special allocation would be a limited, one-time allocation for existing and future new participants, and would not provide for future harmonization of members' ratios of cumulative SDR to quota.

The Economic Counsellor and Director of the Research Department said that, aside from legal considerations, there was still the question of whether a special allocation would effectively weaken the basis for the Board to make a general allocation in the future. An amendment that provided for a special allocation of, say, SDR 20 billion or 26 billion to the membership would as a factual matter raise international liquidity by that amount. Implicit in such an amendment would be the understanding that the allocation in no way posed an inflationary threat. Moreover, even though a long-term liquidity need would not have been found to exist in the meaning of Article XVIII, it could plausibly be argued that the special allocation had only partially satisfied the long-term liquidity need of many of the Fund's members. Thus, the approval of an amendment would not preclude grounds for a general allocation in the future.

That the membership would seek to justify an amendment to their parliaments on fairly broad-ranging grounds was to be expected, the Director continued. However, for a consensus to emerge, some members would need to accept that the option of a general allocation in the present circumstances was no longer on the table, and others would have to make some accommodation for different understandings of what would justify an "equity amendment." A compromise would also have to be reached on the total amount of SDRs to be allocated. The Managing Director's proposal assumed that the amount would have to be higher than the SDR 16 billion proposed by the leading industrial countries and lower than the SDR 36 billion hoped for by developing and other countries. The proposal also recognized that, to achieve a consensus and secure approval by the parliaments of the membership, there would have to be something in it for everyone. A common benchmark ratio of 33 percent of SDRs to quota—or SDR 26.6 billion in total—had been proposed to allow poor countries with low reserves and limited market access to also receive a meaningful allocation under the benchmark approach. The Evans/Lissakers proposal might alternatively be reconsidered, as some speakers had suggested. That proposal had the advantage of allocating—with a smaller total SDR allocation—a little more to those countries with relatively high ratios of SDRs to quota but low levels of reserves, and a little less to the new members that presently had zero. Barring agreement along any of those lines, the only other choice would be to continue without an allocation of SDRs for the following five years. Those were the options available to the Board and the authorities.

The Chairman observed that the Director of the Research Department had delineated clearly where scope for reaching a compromise existed. A general allocation under Article XVIII was not an option. In reporting that finding to the Board of Governors, as he was required to do under Section 4 of Article XVIII, he hoped to also be in a position to announce a consensus of the Board on how to achieve greater equity in cumulative SDR allocations. He invited Directors to continue the informal discussion at a luncheon on July 24, to rethink their positions, and to consider on what basis they could reach agreement. Acknowledging that many Directors were concerned that an equity amendment not affect the established mechanism for deciding on general allocations under Article XVIII, he proposed that, at the time agreement was reached, any assurances of a nonlegal nature that might be needed to allay fears could be aired in Governors' speeches and in the formal record of the organization's meetings.

REINHARD H. MUNZBERG
Secretary