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INTERNATIONAL MONETARY FUND

0404

Minutes of Executive Board Meeting 90/71

3:00 p.m., May 2, 1990

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

Executive Directors	Alternate Executive Directors
G. K. Arora	
	C. Enoch
C. S. Clark	
	Yang J., Temporary
T. C. Dawson	B. S. Newman, Temporary
	J. Prader
E. T. El Kogali	
E. A. Evans	S.-W. Kwon
	R. J. Lombardo
L. Filardo	M. A. Fernández Ordóñez
R. Filosa	
M. Finaish	A. M. Othman
M. Fogelholm	I. H. Thorláksson
	O. Kabbaj
G. Grosche	
J. E. Ismael	T. Sirivedhin
A. Kafka	L. M. Piantini
J.-P. Landau	J.-F. Cirelli
Mawakani Samba	C. V. Santos
	M. Al-Jasser
G. A. Posthumus	G. P. J. Hogeweg
K. Yamazaki	S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant
M. Primorac, Assistant
S. W. Tenney, Assistant

Also Present

Asian Department: J. E. Leimone. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; G. R. Kincaid, C. Puckahtikom, M. Shadman-Valavi, B. C. Stuart. External Relations Department: E. Ray. Legal Department: F. P. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; P. L. Francotte. Research Department: P. Isard. Secretary's Department: A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; J. E. Blalock, W. L. Coats, Jr., S. I. Fawzi, R. B. Hicks, B. E. Keuppens, C. P. McCoy, T. P. McLoughlin, O. Roncesvalles, P. S. Ross, G. S. Tavlas, G. Wittich, B. B. Zavoico. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Office of the Managing Director: R. Noë, Director, Internal Audit; A. K. Sengupta, Special Advisor to the Managing Director; E. A. Milne. Office in Europe: A. J. Beith, Director. Personal Assistants to the Mananging Director: B. P. A. Andrews, H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, M. B. Chatah, A. Gronn, Z. Iqbal, J. M. Jones, K.-H. Kleine, P. O. Montórfano, D. Powell, F. A. Quirós, A. Raza. Assistants to Executive Directors: T. S. Allouba, C. Björklund, B. A. Christiansen, S. K. Fayyad, B. R. Fuleihan, S. Gurumurthi, M. A. Hammoudi, A. Hashim, M. Hepp, J. Heywood, L. Hubloue, K. Ichikawa, M. E. F. Jones, K. Kpetigo, C. Y. Legg, S. Rouai, D. Saha, J.-P. Schoder, Shao Z., Wang J., C. J. Westerweel.

1. ENHANCED STRUCTURAL ADJUSTMENT FACILITY - RIGHTS APPROACH

The Executive Directors continued from the previous meeting their consideration of a staff statement made at that meeting containing the outline of a possible decision on a gold pledge with respect to lending under the enhanced structural adjustment facility to finance the rights approach.

The Chairman noted that no further progress had been made toward agreement on the limit of the amount of gold to be pledged in connection with the use of enhanced structural adjustment facility resources under the rights approach. Accordingly, he would suggest that the figure "3 million" remain in brackets in the report to the Interim Committee.

Mr. Posthumus indicated that he was unable to change his position as a consequence of the previous meeting's discussion.

Mr. Arora recalled that his chair had supported the proposal that was put forward by the Chairman with regard to the use of enhanced structural adjustment facility resources. On the suggestion made by Mr. Landau at the previous meeting, he felt that giving deference to the views of enhanced structural adjustment facility creditors on the disposition of enhanced structural adjustment facility resources would go against the procedures and the very character of the Board, and would not set a good precedent.

The Chairman remarked that the proposal of Mr. Landau had been simply that the Board as a whole keep in mind the concerns of the enhanced structural adjustment facility creditors when deciding what proportion of enhanced structural adjustment facility resources to pledge to the rights approach. That could be done if it would help creditors to reduce the amount of gold pledge that they considered necessary.

The Director of the Exchange and Trade Relations Department recalled the point of Mr. Yamazaki that a structural adjustment program would be an essential part of the rights approach. Indeed, the staff strongly believed that any Fund-monitored programs had to contain a strong structural adjustment element. In addition, in a three-year monitored program, it was very likely that sequencing in the payment of arrears would occur if the country also had arrears with respect to the World Bank. Thus, the Bank would also require structural adjustment. Accordingly, it would be surprising if the monitored programs did not include at least the level of structural adjustment that was required under an enhanced structural adjustment facility program and a policy framework paper.

It was a valid point that increased use of General Resources Account resources posed a financial risk, the Director said. There was also a problem of access, which was serious because of the principle of uniformity of access. In addition, questions of maturity and cost were introduced. Another potential problem was that the more one used the General Resources Account, the stronger were the arguments to build up the second special contingent account.

Regarding Mr. Landau's proposal on enhanced structural adjustment facility resources, the Director of the Exchange and Trade Relations Department said that the decision on how to split the facilities that would be used to finance the rights approach could be postponed until shortly before the rights were to be financed. However, given that the Board had stressed the need to take a medium-term view, and given the sizable differences in the cost of using the different facilities for the debtor, it might not be a sensible choice. An alternative might be to have an informal understanding as to how the rights could be financed, which could be reviewed later and would give the Fund and other important creditors a basis on which to work in the meantime. Another point was that by the time that Mr. Landau's proposal would come to be implemented, the staff would know as a maximum the amount of rights to be financed. It would also have a much better idea of the amounts in the reserve account. The only variable that would remain was the price of gold, which would be known only in the year 2004.

Mr. Grosche remarked that he was not concerned about the quality of the programs, which he did not question, but rather about the political impact of using enhanced structural adjustment facility resources indirectly to bail out the international community and the General Resources Account. The fact was that the countries in arrears had established a poor track record over the years, and there was no objective way to assess precisely the risk involved in such operations. Those countries that lent to the ESAF Trust were obviously more sensitive than others to the potential risk. If a consensus should emerge that 3 million ounces were sufficient to cover the risk, some enhanced structural adjustment facility creditors might continue to hold a different view on the risk involved. If that were the case, he would ask that at the time of the forthcoming extension of the loans to the enhanced structural adjustment facility, that factor should be taken into consideration.

Mr. Yamazaki said that he had not intended to give the impression that the countries implementing Fund-monitored programs were not making an a effort at structural adjustment. His point had been that lenders to the ESAF Trust were happy to lend for the purpose of financing enhanced structural adjustment facility programs that included such structural adjustment, but they had not intended that those resources would be used to clear arrears, although they had in fact made some concessions to that end.

Mr. Landau, commenting on the remarks made by Mr. Enoch at the end of the previous meeting, indicated that he agreed with some of the remarks. It was true that his own proposals introduced some uncertainty as to how the financing of the rights approach in every specific case would be ensured. The average cost of the package was currently unknown and would be determined in terms of interest rates only in three years' time. But, in his view, that was an acceptable uncertainty. There were many more uncertainties, most important of which was how the countries would be financed during that period, as well as whether or not the countries would stay on track.

He did not agree that those uncertainties would prevent a support group from working effectively, Mr. Landau said, because the support groups would

work on financing those countries during the Fund-monitored program in order to prevent the countries from accumulating additional arrears. The issue of how the countries would be financed at the end of the Fund-monitored program was completely separate.

The Chairman remarked that one difficulty was that the support group would then be expected to participate in the financing of the final package as well as the interim financing needs of the country. Was Mr. Grosche suggesting that, at the time of the review of the enhanced structural adjustment facility loans, the creditors should be free not to renew their loans if they were to judge that the Fund's practice under the strengthened arrears strategy was not as prudent as they had expected?

Mr. Grosche noted that enhanced structural adjustment facility resources would be used for purposes for which they were not originally meant, which changed the basis on which certain creditors provided credit to the facility. The fact that there was a proposal on the table to pledge 3 million ounces of gold was a recognition of the fact that changes to the Instrument were being undertaken. He agreed that there was no objective way to assess precisely the risk that was involved. When renewing their loan commitment the creditors would have to make their own risk assessment. If they came to the conclusion that 3 million ounces would be insufficient to cover the risk, they would have to re-evaluate their ability to contribute to the Instrument in the same amounts as before.

The Chairman said that he recognized the concerns of Mr. Grosche and the fact that the creditors had the right periodically to review their commitments to the ESAF Trust when they were asked to extend those commitments, although the Fund was trying to meet creditors' concerns by putting 3 million ounces of gold on the table. He would have no difficulty in inserting in the text of the report to the Interim Committee a reference to that right to review.

Mr. Yamazaki remarked that one alternative might be to insert in the brackets, in place of the figure "3," "3 plus alpha," where alpha would represent zero to eight.

Mr. Posthumus said that he perceived the comments of the Chairman to open the door to a substantially larger gold guarantee than was currently being considered, because at the time of the necessary prolongation of the enhanced structural adjustment facility creditors' loans, some creditors could set the condition that they would renew their loans only if a given amount of gold (presumably more than 3 million ounces) was set aside as a guarantee.

The Chairman indicated that the decision on a gold pledge would include the figure of up to 3 million ounces. At the same time, the creditors would retain the right, if at a given stage they considered that they were not sufficiently protected by the 3 million ounces in view of the evolution of risks, not to extend their loan commitments if required to do so. No promise was being made to go beyond the limit of 3 million ounces.

The Executive Directors agreed to retain the brackets around the figure of 3 million ounces in the outline of the proposed decision on a gold pledge, to be presented to the Interim Committee. They then concluded their discussion of that issue for the time being.

2. NINTH GENERAL REVIEW OF QUOTAS - DRAFT REPORT TO BOARD OF GOVERNORS AND PROPOSED RESOLUTION

The Executive Directors continued from EBM/90/70 (5/2/90) their consideration of a draft report of the Executive Board and proposed Resolution to the Board of Governors on the Ninth General Review of Quotas (EBD/90/91, Rev. 2, 4/5/90).

The General Counsel suggested that the paragraphs to be inserted in the draft report could read as follows:

> The Executive Board has, in the context of the discussions on the Ninth Review of Quotas and the strengthened arrears strategy, also explored the issue of an amendment of the Articles of Agreement providing for suspension of voting and related rights. This amendment would be proposed to the Board of Governors in a draft Resolution separate from the draft Resolution on the quota increase. No agreement has yet been reached regarding such an amendment, and the Executive Board intends to further consider this matter in the light of guidance received from the Interim Committee.
>
> [The Interim Committee has agreed that the effectiveness of this amendment coincide with the effectiveness of the quota increase; the draft Resolution would contain, in paragraph 3, a proviso to the effect that no increase in quota shall become effective before the effective date of the third amendment of the Articles.]
>
> [The Interim Committee has agreed that the adoption of this amendment would not be a condition for the effectiveness of the quota increase.]

In addition, the Board could propose that a paragraph be included in the Interim Committee communiqué to read:

> [The Interim Committee invites the Executive Board to propose to the Board of Governors, by end-May 1990, the text of an amendment of the Articles providing for suspension of voting and related rights. The Interim Committee also invites the Governors, when adopting the Resolution on the quota increase, to commit themselves to make every effort to have such an amendment adopted as soon as possible.]

Mr. Evans suggested that the Board should consider the paragraph that it would propose to be included in the Interim Committee communiqué before taking up its consideration of the draft report. The draft report noted that it would further consider the proposed amendment of the Articles on the suspension of voting and related rights in the light of guidance received from the Interim Committee, and he presumed such guidance could only be conveyed in the context of the Interim Committee's communiqué.

Mr. Dawson remarked that he agreed with the observation made by Mr. Evans. However, the final sentence in the first paragraph proposed by the staff could be deleted, because the draft report would not be submitted to the Board of Governors until after the May 1990 Interim Committee meeting; therefore, a decision on the proposed amendment would be reached before the report was submitted to the Board of Governors.

In addition, as a matter of clarification as well as consistency, the first sentences of both the first paragraph to be inserted in the Board's report and the paragraph to be included in the Interim Committee communiqué should be revised to read: "...of voting and related rights of members who do not fulfill their obligations under the Articles," Mr. Dawson said.

Mr. Grosche noted that only two bracketed paragraphs were to be inserted in the draft report, instead of three, as proposed by Directors. While he could support the paragraphs presented by the staff, Ministers would be presented with only the question of whether or not the quota increase should be linked to the proposed amendment of the Articles in legal terms. If Ministers agreed to a political linkage, they would need to resort to the language of the communiqué, which was not as strong as that of the draft report and Resolution.

Mr. Posthumus asked whether the use of the word "when" in the second sentence of the proposed paragraph to be included in the Interim Committee communiqué could be seen as drawing a causal relationship between adopting the Resolution to increase quotas and adopting the proposed amendment of the Articles. He would prefer to replace that word with the phrase, "at the time of...."

Moreover, he wondered whether the paragraph that the Board had proposed to be included in the Interim Committee communiqué could be included as a third bracketed paragraph in the draft report, Mr. Posthumus concluded.

The General Counsel said that the use of the word "when" did not indicate that by adopting the Resolution to increase quotas, Governors would also commit themselves with respect to the adoption of the proposed amendment. On the contrary, the intention was that Governors should make a political commitment toward the adoption of the proposed amendment at the same time that they adopted the Resolution on the Ninth Review. Therefore, he could accept Mr. Posthumus's proposal.

The Secretary noted that the proposed paragraph to be included in the Interim Committee communiqué could be inserted as a third bracketed paragraph

in the text of the draft report, although the verb tenses would need to be changed. Thus, the paragraph would read:

> The Interim Committee has invited the Executive Board to propose to the Board of Governors, by end-May 1990, the text of an amendment of the Articles providing for suspension of voting and related rights. The Interim Committee also invites the Governors, at the time of adopting the Resolution on the quota increase, to commit themselves to make every effort to have such an amendment adopted as soon as possible.

Mr. Evans said that he could accept the revision of the paragraph that was to be included in the Interim Committee communiqué. In addition, he agreed that that paragraph should be inserted in brackets in the draft report. Indeed, any agreement reached during the forthcoming Interim Committee meetings would be reflected in the Board's report to the Board of Governors at later stage in the Ninth Review, and it would be awkward for the Board to report one agreement to the Board of Governors and for the Interim Committee to publicly announce a different agreement.

Mr. Dawson commented that Mr. Evans was correct to point out the need for consistency in the draft report and the Interim Committee communiqué. It might be effective to present identical paragraphs in brackets in both of those documents. The bracketed paragraphs contained in the draft report could be revised following the Interim Committee meeting to reflect the agreement reached among Ministers.

In any event, the paragraph proposed for inclusion in the Interim Committee communiqué was not acceptable to his chair, because if the U.S. proposal for a legal linkage between the increase and the proposed amendment of the Articles was agreed, the wording of that paragraph would not endorse such a linkage, Mr. Dawson concluded.

Mr. Posthumus recalled that the proposed paragraph for the Interim Committee communiqué was constructed as an alternative to the U.S. proposal for a legal linkage between the quota increase and the proposed amendment of the Articles in the event that sufficient support for the legal linkage could not be gathered.

Mr. Landau said that, in the light of the comments put forward by Mr. Dawson and Mr. Posthumus, it would be effective to present identical language in both the draft report and the proposed insertion for the Interim Committee communiqué.

Mr. Ismael noted that the phrase "the draft Resolution would contain" in the first bracketed paragraph, describing the U.S. proposal, should be replaced with "the draft Resolution contains," given the stage that the Resolution of the Ninth Review would be submitted to Governors for voting.

Mr. Dawson remarked that, according to the usual practices of the Fund, it was the Executive Board that would submit the draft Resolution to the Board of Governors for voting. Therefore, the beginning of the first bracketed paragraph should be revised to read: "The Executive Board, taking into account the recommendations of the Interim Committee, proposes...."

The General Counsel noted that Mr. Dawson was correct to point out that, as a matter of procedure, the Executive Board was responsible for submitting the draft Resolution to the Board of Governors. In line with the revision of the first bracketed paragraph proposed by Mr. Dawson, the second and third bracketed paragraphs should be revised to read:

> [The Executive Board, taking into account the recommendations of the Interim Committee, proposes that this amendment not be a condition for the effectiveness of the quota increase.]
>
> [The Executive Board, taking into account the recommendations of the Interim Committee, will propose to the Board of Governors, by end-May 1990, the text of an amendment of the Articles providing for suspension of voting and related rights. The Interim Committee invites the Governors, at the time of adopting the Resolution on the quota increase, to commit themselves to make every effort to have such an amendment adopted as soon as possible.]

Mr. Grosche suggested that, in order to give the commitment of Governors toward the proposed amendment of the Articles more meaning, the form of that commitment should be spelled out in the context of the draft Resolution.

The Chairman said that it should be sufficient to describe the commitment Governors were asked to make toward the adoption of the amendment of the Articles in the context of the draft report.

Mrs. Filardo recalled that the linkage Mr. Grosche had proposed was political. If the commitment of Governors toward the amendment of the Articles was included in the Resolution concluding the Ninth Review, it would become a legal obligation.

Mr. Dawson noted that, since the draft Resolution would be attached to the Board's report, there was no need to include the political linkage advocated by Mr. Grosche in the Resolution. While it was clear that an agreement on the U.S. proposal for a legal linkage between the quota increase and the proposed amendment of the Articles would require a revision of the draft Resolution, the political linkage proposed by Mr. Grosche would not be legally binding.

Mr. Posthumus said that he agreed with the observation made by Mr. Dawson. Indeed, the intention of the political linkage was that it was not legally binding, and, thus, that it would not appear in the Resolution. Indeed, it should be the Interim Committee, which was a strictly political

body, that would ask the Governors to commit themselves to the adoption of the proposed amendment.

The General Counsel said that it was possible to include a statement of intention in the draft Resolution, under which Governors would commit themselves to the early adoption of the proposed amendment of the Articles. However, the inclusion of such a statement could be misleading. While the political commitment called for by Mr. Grosche was not intended to be legally binding, a Resolution of the Board of Governors was a legal document. Therefore, an additional statement would need to be inserted in the draft resolution to explain that the commitment asked of Governors was strictly political. Otherwise, it would be best to describe the commitment of Governors in the draft report.

Mr. Enoch noted the Executive Board hoped to receive guidance from Ministers during the forthcoming Interim Committee meeting on whether there should be an amendment of the Articles providing for the suspension of voting and related rights; whether the adoption of that amendment should be linked to the Resolution on the Ninth Review; and, if there was to be a linkage, what form it should take. The Executive Board would approve the draft report following the May 1990 Interim Committee meeting in the light of the guidance it received from Ministers. Therefore, the final sentence of the first paragraph should be deleted, because an agreement on the proposed amendment would be reached before the draft report was submitted to the Board of Governors. In addition, the second sentence of the first paragraph should be placed in brackets, as Directors had not yet agreed to recommend the proposed amendment of the Articles to the Board of Governors.

Also with respect to the timing of the Resolution on the Ninth Review, the second sentence in the third bracketed paragraph should be revised to read: "The Executive Board invites the Governors...."

Mr. Posthumus noted that, owing to the political nature of the commitment Governors were asked to make, it would be appropriate for the Interim Committee--which was a political body--to request that commitment, not the Executive Board.

The Chairman commented that Mr. Posthumus was correct to point out that such a political commitment should be requested by the Interim Committee, as its meetings provided Ministers with a forum in which to express their political intentions.

Mr. Enoch stated that, in light of the timing of the draft report and the observations made by the Chairman and Mr. Posthumus, perhaps the beginning of the second sentence of the third bracketed paragraph should be revised to read: "The Executive Board recalls that the Interim Committee has invited...."

Mr. Evans stated that he could go along with the consensus among Directors to include three bracketed paragraphs in the draft report to reflect the main positions that had been expressed by Directors on the relationship

between the quota increase and the proposed amendment of the Articles. However, the first bracketed paragraph, which described the U.S. proposal for a legal linkage, had received the support of only a few Directors--including himself. Similarly, the second bracketed paragraph, which reflected the position advocated by Mr. Kafka and a number of other Directors, had not received sufficient support for the Board to recommend it to the Governors. Therefore, in order to simplify the forthcoming Interim Committee discussion, it would be realistic to delete both of those bracketed paragraphs, and adopt the third bracketed paragraph as a compromise position of the Board.

Mr. Newman remarked that, while he appreciated Mr. Evans's attempt to arrive at a compromise agreement among Directors, his chair would not be able to agree to any alternative that did not include a legal linkage between the Resolution on the Ninth Review and the proposed amendment of the Articles. His authorities intended to take up the issues related to the strengthened collaborative approach to overdue financial obligations to the Fund, the proposed amendment on suspension of voting and related rights, and the relationship between those issues and the Ninth Review during the forthcoming Interim Committee meeting. Therefore, he would not be able to deviate from the initial preference of his authorities until after the May 1990 Interim Committee meeting.

Following a further brief discussion, the Chairman noted that the staff would prepare a revised text of the three paragraphs under consideration to be presented to the Board.

After a brief recess, the Executive Directors resumed their discussion.

The General Counsel suggested that the paragraphs to be inserted in the draft report could read as follows:

> The Executive Board has, in the context of the discussions on the Ninth Review of Quotas and the strengthened arrears strategy, also explored the issue of an amendment of the Articles of Agreement providing for suspension of voting and related rights of members that do not fulfill their obligations under the Articles. [Such an amendment [is being] [will be] proposed to the Board of Governors in a draft Resolution separate from the draft Resolution on the quota increase.] [No agreement has yet been reached regarding such an amendment.]
>
> [The Executive Board, taking into account the recommendations of the Interim Committee, proposed that no increase in quota shall become effective before the effective date of the third amendment of the Articles.]
>
> [The Executive Board, taking into account the recommendations of the Interim Committee, proposes that the adoption of this amendment not be a condition for the effectiveness of the quota increase.]

[The Executive Board, taking into account the recommendations of the Interim Committee will propose to the Board of Governors, by end-May 1990, the text of an amendment of the Articles providing for suspension of voting and related rights. The Executive Board recalls that the Interim Committee has also invited the Governors, at the time of adopting the Resolution on the quota increase, to commit themselves to make every effort to have such an amendment adopted as soon as possible.]

Mr. Enoch asked whether it was necessary to refer to end-May 1990 in the third bracketed paragraph.

The Chairman responded that the date of end-May 1990 had been retained in the third bracketed paragraph to ensure that Governors would have before them a text of the proposed amendment of the Articles at the time they were asked to commit themselves to its adoption. The inclusion of that date at the present stage would serve to make the request for a commitment from Governors more credible.

Mr. Grosche noted that the third bracketed paragraph could be shortened by deleting the first sentence. The reference to end-May 1990, the only substantive point contained in that sentence, could be inserted in the first bracketed sentence in paragraph 1, and the bracketed phrase "is being" in that paragraph could be deleted. Thus, the first bracketed sentence in paragraph 1 would read: "[Such an amendment will be proposed to the Board of Governors by end-May 1990 in a draft Resolution separate from the draft Resolution on the quota increase.] In addition, the word "also" could be deleted from the second sentence in the third bracketed paragraph, thereby, revising that paragraph to read: "[The Executive Board recalls that the Interim Committee has invited the Governors, at the time of adopting the Resolution on the quota increase, to commit themselves to make every effort to have such an amendment adopted as soon as possible.]"

Mr. Dawson stated that he could agree to delete the first sentence in the third bracketed paragraph. However, he could not support Mr. Grosche's suggestion to insert the date "end-May 1990" in paragraph 1, because the insertion of that phrase would only correspond to the bracketed phrase "[will be]." If the legal linkage advocated by his authorities was agreed, the phrase "[is being]" would have to be retained in paragraph 1, owing to the fact that the text of the proposed amendment would be submitted to the Governors at the same time as the draft Resolution on the Ninth Review.

Mr. Grosche commented that the reference to end-May 1990 could be deleted, because the deadline for the submission of the proposed amendment to Governors was implicit in the request--contained in the third bracketed paragraph--that Governors commit themselves to the adoption of the proposed amendment at the time they voted on the Resolution to increase quotas.

The General Counsel noted, in the light of the comments made by Mr. Dawson and Mr. Grosche, that it would be appropriate to delete the

bracketed phrase "[will be]" in paragraph 1, in order to clarify the references made to "such an amendment" in the following bracketed paragraphs.

Mr. Ismael asked whether the words "commit themselves" could be deleted from the third bracketed paragraph. Membership in the Interim Committee for some multicountry constituencies, such as his own, was rotational, and it would be difficult for any one Minister to make such a commitment on behalf of the others.

The Chairman noted, in the light of the observation made by Mr. Ismael, that it would be appropriate to revise the third bracketed paragraph to read: "[The Executive Board recalls that the Interim Committee has invited the Governors, at the time of adopting the Resolution on the quota increase, to make every effort to have such an amendment adopted as soon as possible.]"

Since neither of the first two bracketed paragraphs had gathered sufficient support in the Board and they were clearly contradictory, the Chairman said that he wondered whether Directors could agree to delete both of those paragraphs and accept the third bracketed paragraph as a compromise.

Mr. Evans stated that, although his preference was for the first bracketed paragraph, he could agree to accept a strengthened version of the third bracketed paragraph put forward by Mr. Grosche. However, from the previous discussion, he had received the impression that the U.S. chair would oppose any suggestion to delete the first bracketed paragraph.

Mr. Dawson remarked that Mr. Evans was correct to point out that his chair was not able to accept any alternative position to that described in the first bracketed paragraph. Nevertheless, he could agree to remove the brackets from the third bracketed paragraph, since he did not consider the request for Governors to commit themselves to the adoption of the proposed amendment of the Articles to be an option.

Mr. Fogelholm commented that Directors should adopt the text of the paragraphs to be inserted in the draft report as revised during the current discussion. It was clear that Mr. Dawson would insist on retaining the first bracketed paragraph, and Mr. Kafka would insist on retaining the second bracketed paragraph. While no Director was fully satisfied with the third bracketed paragraph, it might serve as a useful compromise at a later stage in the Ninth Review.

The Chairman said that he agreed with Mr. Fogelholm that it would be appropriate to retain all three bracketed paragraphs at the present stage. The staff would revise those paragraphs to reflect the comments made by Directors during the current discussion and insert them in an appropriate place in the draft report, which would be circulated to Directors (EBD/90/91, Rev. 3; 5/3/90). The revised draft report would be presented to the Interim Committee as background information for its May 1990 meeting.

The Executive Directors then concluded their consideration of a draft report of the Executive Board and proposed Resolution to the Board of Governors on the Ninth General Review of Quotas.

3. EXTENDED BURDEN SHARING

The Executive Directors continued from EBM/90/69 (4/30/90) their consideration of possible options for extended burden sharing (EBS/90/81, Sup. 2; 5/1/90).

The Treasurer noted that the latest table, in EBS/90/81, Supplement 2, contained figures requested by Executive Directors at EBM/90/69. The table was based on a target amount of SDR 1 billion, which would be achieved over a period of five years; accordingly, SDR 200 million would have to be generated each year through adjustments to the rate of charge and the rate of remuneration. The new table, like the previous one, was based on the present balances that were subject to charge, the present reserve tranche positions of members, and the assumption that half of the charges falling due for members with arrears would be paid during the five-year period.

It was useful to note that if the SDR interest rate were 10 percent or 11 percent, and the remuneration coefficient were fixed at 80 percent, the amount generated over the five-year period would be more than SDR 1 billion. At interest rates of 10 percent and 11 percent, in order to limit the contribution from the creditors to SDR 1 billion, the remuneration coefficient would not have to drop all the way to 80 percent; it would need to fall to only 81 percent with an interest rate of 11 percent, and 82.3 percent with an interest rate of 10 percent.

Responding to a question, the Treasurer noted that the present SDR rate was 9.03 percent, and the basic rate of charge was 96.3 percent of that amount, or 8.32 percent. The burden-sharing adjustment to the rate of charge for 100 percent deferred charges was 78 basis points, and the adjustment to the rate of charge for the SCA-1 was 22 basis points. The two adjustments together come to exactly 1 percent, which gave an effective rate of charge of 9.32 percent.

Mr. Enoch noted that the table was based on the assumption that half of charges falling due would actually be paid in the period covered by the table. That assumption seemed inconsistent with the strengthened arrears strategy, under which countries that did not pay charges would be subject to remedial measures. If countries failed to pay any charges, they could be subject to compulsory withdrawal, which would affect the calculations in the table.

Mr. Arora made the following statement:

> We recognize the fact that now we have reached a very important stage in this debate on extended burden sharing. And we should like to bring this debate to a successful end. During

Monday's debate we had evidence of a spirit of cooperation and understanding from industrial countries, for which I must thank them, in the sense that they did understand the burden that is being carried today by developing countries and the very heavy load of interest charges that they have to pay.

We still feel that some of the issues raised during the debate have not been satisfactorily addressed so far. There was the question raised by Mrs. Filardo's chair, by Mr. Fernández Ordóñez, about the very basis of the burden-sharing agreement, which is still to be discussed. There was also a question, raised by Mr. Finaish, about the need for the provisioning for SCA-2. The basic issue is that we are lending to countries that have completed a successful Fund-monitored progam, during the course of which they have proved their determination to pursue sound macroeconomic policies and structural adjustment programs, and are therefore in a position to receive Fund financing.

So the question was, why should we then make a provision for that? We are already making a provision for deferred charges, as we committed ourselves to do by a recent Board decision. That is why Mr. Enoch's point about deducting half of 78 basis points could be assumed for later on; for the current year, we will continue to pay 78 basis points, plus 24 basis points for the SCA-1. By committing ourselves to the idea or concept that we shall collect SDR 1 billion or SDR 1.5 billion, or whatever, we are expressing a doubt from the very beginning that even countries which have completed a Fund-monitored program are unfit to be lent to, because we are going to make 100 percent provisioning for them. We are really coming to a point where the Fund, then, is losing more and more of its attributes as a central element of the international monetary system; and is becoming what Mr. Fernández Ordóñez called another financial intermediary. Even if the Fund becomes another financial intermediary, some principles still have to be followed regarding provisioning. Do we consider that any prudent financial intermediary would arrange 100 percent provisioning for lending that it is going to make two or three years from now, and then have another six years or so during which the money will have to be paid up?

Therefore, we do not think that the way in which the burden-sharing agreement is sought to be proposed is fair to the Fund itself. I must say that, in this context, when the ESAF guarantee was being discussed, it was said very strongly that the real guarantee is not the 3 million ounces. The real guarantee is the existence of a qualitative program, which these countries are going to be implementing. This argument is good enough for ESAF. I do not see why this argument is not good enough for other Fund resources.

There is also the argument that we must have all this money collected in a very short period, otherwise there will be a

mismatch. There is no question of a mismatch, because the Fund has resources to lend to these countries, whether through a combination with ESAF, or, in an extreme case, forgetting the burden which will be placed on the borrowing countries, of general resources alone in amounts of SDR 2.2 billion, or SDR 2.3 billion. So the question is not about the resources. Even if we decide that we shall contribute to a pool and that we shall collect this money, there is no need to have this money right at the point of time when the money is being lent. The money is being lent over three years. The repayment will become due over the next seven to eight years. Therefore, we do not see that the argument for mismatch has great validity. So I would say that Mr. Finaish's question has not been answered. Mr. Kafka commented that we could forget the rationale for burden sharing but at least have a fix on the quantity of money that we have to collect. Even that question is not being answered, because of various uncertainties, and quite rightly so. There are uncertainties, as was pointed out today, in the discussion on the ESAF. We do not know how much the ESAF will lend and, therefore, what kind of guarantee we should give is open to question.

But we do not wish to prolong this debate. We want to be cooperative. We want to help the Fund to solve this question for the resolution of the quota problem.

Therefore, we would propose that, as regards the amount, we should accumulate the lower end of the range proposed by the Managing Director, namely, $0.75 billion. Keeping in view the fact that today the rate of charge is already 9.25 percent, which is very high indeed, we would suggest that, under any system of burden sharing that we can work out, the debtors would not pay more than 25 basis points over and above what they are paying. This is not linked to the SDR rate. When the SDR rate falls to, say, 8 percent, or 7 percent, we would continue to pay not more than 25 basis points. And this agreement would be renewable every year, like the present burden-sharing arrangement, so that we can adjust the size of the kitty. If we wish to increase the amount, we can do so; if we want to lower the amount, we can also do that. We can see what the circumstances are. The decision will depend on two variables, namely, the amount to be collected, and the cap on additional adjustment, because the remuneration coefficient then could be 82 or 83--it does not matter. It could be 80 or 81, depending on the number of years during which we will be collecting this amount. But since the rate of charge is fixed and the amount is fixed, the other two fall out of these two basic variables. Hence, we have a situation in which we could collect SDR 750 million, over a period of four and a half years or five years, and the rate of remuneration could be something like 82 percent, 82.5 percent, or 83 percent. That is not a major concern for us, because it could fall to 80 percent in certain circumstances if we were collecting more than SDR 750 million.

But we propose SDR 750 million. We do not agree that it is required; it would be prudent not to collect more than SDR 750 million. We could go along on this basis, even though it is not fair to all countries--it would still impose a further heavy burden on the developing countries. We are willing to do this in the context of helping the Fund to enhance the cooperative strategy.

Mr. Kafka said that he supported Mr. Arora's proposal, ad referendum of his constituency. As he understood it, under that proposal, the additional burden imposed on debtor countries would lapse within one year; accordingly, after one year, a new decision on extended burden sharing would have to be taken.

The Chairman commented that he took Mr. Arora to mean that the agreement on extended burden sharing would have to be reviewed within one year.

The Treasurer, responding to a question, explained that if the amount to be accumulated over a period of five years was SDR 750 million, the SDR interest rate was 9 percent, and the contribution ratio was 3:1, the adjustment to the rate of charge would amount to 27 basis points--very close to the proposal by Mr. Arora--and the remuneration coefficient would be 85.5 percent. Under the proposal of Mr. Arora, the adjustment to the rate of charge would be 25 basis points, and the remuneration coefficient would drop to 85.4 percent in 1990. The total amount generated annually would be SDR 150 million--SDR 35 million of that would be contributed by the debtors and SDR 115 million by the creditors, a ratio of 3.3:1.

Mr. Ismael recalled that at the previous discussion on extended burden sharing he had said that he saw no urgent need to provide additional backing to the rights approach at the present stage. His position was based on the fact that Fund charges were already at historically high levels, Fund precautionary balances were relatively strong, and any discussion on an extension of burden sharing should take place together with the review of the present burden-sharing method.

He understood the argument that some additions to precautionary balances might be desirable in order to make the rights approach more attractive to donor countries, Mr. Ismael continued. Consequently, he was willing to accept a form of extended burden sharing--it should approximate quota-based burden sharing more closely than the proposals that had been discussed thus far. As he understood it, the contribution ratio that closely approximated quota-based burden sharing was 2.3:1. To keep Fund charges from becoming an excessive burden on borrowers, increases in charges should be limited to 25 basis points, while the remuneration rate was reduced to 80 percent. In that way, the annual amount generated would be SDR 110 million. Considering the relatively strong level of precautionary balances at present, namely, SDR 1.6 billion, which had been collected under the present burden-sharing method as a result of deferred charges, that additional generated amount should be sufficient; there was no need to strive for more. The formula should be reviewed annually.

Mrs. Filardo commented that she was not in a position at the present stage to take a view on the question of extended burden sharing.

Mr. Lombardo stated that his position remained unchanged. He continued to have doubts about the legality, the timing, and the amount of the proposed extended burden sharing. At present, he could not go along with Mr. Arora's proposal.

Ms. Yang recalled that, in view of the historically high level of charges borne by borrowers, her chair had expressed on previous occasions her authorities' reservations about the proposed extension of burden sharing. In a spirit of compromise, she could go along with Mr. Arora's proposal.

Mr. Al-Jasser remarked that, as he understood Mr. Arora's proposal, the burden sharing would lapse after one year; hence, the whole issue of the strengthened arrears strategy would be reopened in a year--a short period for the whole strategy to take effect. At the end of the year, no one would know what would happen to the burden-sharing agreement.

Mr. Arora responded that the Fund would commit itself to accumulating SDR 750 million. The idea of the annual review that he had mentioned was in line with the annual review under the present burden-sharing arrangement; the idea was to take into account all the factors that would come into play during the course of the year, and then decide whether or not to continue on the same basis. The SDR 750 million would be a minimum commitment, which meant that the commitment would have to be maintained over some time. However, the burden-sharing arrangement would lapse and be reviewed each year, so that recent developments could be taken into account.

Mr. Al-Jasser said that the uncertainty that would be generated by the proposed extended burden-sharing arrangements was a cause for concern. Under the proposal, support groups and individual countries would be asked to commit themselves for a long period, but the Fund would not be able to say for certain how the resources involved would be generated from one year to the next.

The Chairman commented that presumably those who supported Mr. Arora's proposal at the present stage would be willing to see the extended burden sharing continued after the initial review of the decision on extended burden sharing. It seemed useful to consider the idea of an annual review of burden sharing, especially if that would encourage some Executive Directors to support extended burden sharing at the present stage.

Mrs. Filardo commented that, as she understood it, Mr. Kafka had proposed that the decision on extended burden sharing should lapse after one year, while Mr. Arora had proposed that the decision should be revised, as necessary, after a year. The Chairman had suggested that a revision would be considered each year, and that, given the circumstances at the time, the extended burden sharing could be increased or decreased.

Mr. Prader said that Mr. Arora's proposal had several merits and was a breakthrough from the earlier, intransigent position of debtor countries. At the same time, however, its weak points were obvious--the uncertainty that Mr. Al-Jasser had mentioned, and of course the contribution ratio involved, which was a major issue for his authorities. At an earlier stage, his chair had expressed a preference for asymmetric burden sharing, with a contribution ratio of at most 2:1. The proposed contribution ratio of 3:1 would therefore be difficult to accept.

The Chairman remarked that one of the advantages of Mr. Arora's proposal was that it would maintain for creditors a remuneration rate of 85 percent of the SDR interest rate.

Mr. Prader responded that, in his view, the main factor to take into account in considering proposals for extended burden sharing was the contribution ratio. The rate of remuneration was a dependent variable of the contribution ratio. In the latest stage of the Board's discussion on extended burden sharing, the emphasis had shifted toward the rate of remuneration and away from the underlying assumptions that had prevailed during the discussion on asymmetric extended burden sharing. In any event, it still seemed best to set a target of SDR 1 billion and to base other factors, such as the rate of remuneration, on that target. As Mr. Grosche had suggested, the Fund might well need an additional margin of maneuver for the rate of remuneration if interest rates were to fall during the five-year period in which resources were to be accumulated.

Mr. Clark said that he wondered whether, with a target of SDR 750 million over a specific period, the Board would decide at the time of an annual review of extended burden sharing whether or not that target and the cap of 25 basis points were appropriate for the coming year as well. Could the Board agree to change either of those two elements while assuming that there would be no automatic lapsing of the decision on extended burden sharing? Or would the entire decision lapse after each year, thereby bringing the Board back in effect to square one in its consideration of extended burden sharing?

Mr. Evans said that he welcomed the movement toward an agreement that had been made by Mr. Arora and those who supported Mr. Arora's proposal. As he understood it, there would be a cap of 25 basis points linked with a remuneration rate of 85.4 percent of the SDR interest rate, which would imply a 3:1 contribution ratio and would yield SDR 150 million per year and SDR 750 million over five years; and it was assumed that half the charges falling due in that period would be deferred. He wondered what amount would be accumulated each year if, as had happened in recent years, all charges falling due were deferred. Would there have to be a change in the remuneration rate and the contribution ratio?

The Treasurer responded that if all charges had to be deferred and the adjustment for the rate of charge was 25 basis points, then the resulting remuneration coefficient would be 81.2 percent and the contribution ratio would be the same--3.3:1--with SDR 35 million coming from debtors and SDR 115 million from creditors.

Responding to another question, the Treasurer added that, at present, debtors--members that were paying charges--and creditors--consisting of members that were receiving remuneration--had shares in total quotas of 25 percent and 75 percent, respectively. Those shares took into account only members that were either paying charges or receiving remuneration.

Mr. Prader commented that central banks might not consider that the distribution of quota shares was a good reason for accepting a contribution ratio of 3:1.

The Chairman remarked that the distribution of quota shares certainly would not be the main criterion for accepting a distribution ratio of 3:1. But the Board was moving toward a political consensus, and, in that connection, it might be useful to be aware of the correspondence between a contribution ratio of 3:1 and the relationship in the Fund between the positions of creditors and debtors.

Mr. Filosa commented that, as he understood it, the contribution ratio would be unchanged if it were assumed that all--rather than half--of the charges falling due would be deferred. As a result, the demand for Fund resources in the first year of extended burden sharing would be smaller than would otherwise be the case, and on the occasion of the first review, in order to maintain the objective of accumulating SDR 750 million over five years, there would be an adjustment in the decision on extended burden sharing.

The Treasurer said that the contribution ratio resulting from Mr. Arora's proposal was 3.3:1, with an adjustment in the rate of charge of 25 basis points and an annual accumulation of SDR 150 million. Hence, the contribution ratio for the addition to the SCA-2 would be constant. There would be a change in the overall contribution ratio, taking into account the burden sharing for the deferred charges and the SCA-1, because at present burden sharing was based on a contribution ratio of 1:1. That overall contribution ratio changed with the addition of the SCA-2, which had a contribution ratio greater than 1:1--namely, 3.3:1.

Mr. Evans noted that the Treasurer had introduced the concept of the overall contribution ratio, which would of course be less than 3:1 under Mr. Arora's proposal. In operational terms the Board would need to know which parameters it was setting for the first year of the extended burden sharing, until the initial review. In that connection, a cap of 25 basis points and a revenue target of SDR 150 million should be sufficient, but out of that would fall a remuneration coefficient that would depend upon the extent of deferred charges. In purely operational terms, that coefficient would have to be adjusted after a year within the range of about 81-85 percent that the staff had mentioned.

Mr. Dawson remarked that, while Mr. Arora had suggested a target amount of SDR 750 million over five years, the Chairman had recommended aiming for a larger amount--at least SDR 1 billion. In his view, even that larger amount would not be adequate. After all, just one arrears country--which was not

eligible to use the enhanced structural adjustment facility--had arrears of SDR 626 million. Hence, a target of only SDR 750 million would establish a system that would be underfunded or place an undesirably heavy burden on the enhanced structural adjustment facility. Some Directors had argued that there was already a sizable volume of resources in the SCA-1, but it was important to remember that those resources had already been deemed to be necessary before the Board had even contemplated the existence of a rights program. Therefore, while that money, like any money, was fungible, it should not be viewed as a pot that could be dipped into under normal circumstances unless perhaps there were a very slight mismatch in terms of the funding of SCA-2.

Mr. Kafka remarked that, in addition to the resources that Mr. Dawson has mentioned, the Fund had accumulated a large reserve in the General Resources Account that was not assigned to SCA-1 and which could be available for the rights program. In considering proposals on extended burden sharing, there were two uncertainties to keep in mind: additional countries could become eligible to use the enhanced structural adjustment facility if they maintained appropriate policies; and other funds might be found to use in paying off arrears. The Board was admittedly establishing a program for a period of several years, in which there would be several uncertainties, and while some Directors had been reluctant to commit the Fund to large payments before knowing whether or not they were really necessary, others were understandably reluctant to commit themselves to smaller payments before they knew whether or not they would be sufficient. Still, SDR 750 million represented a good compromise.

The Chairman commented that it would be useful at the present stage to have a clearer idea of the legal feasibility of an annual review of the extended burden sharing proposed by Mr. Arora.

The General Counsel remarked that, as he understood it, Mr. Arora's proposal did not contain a review clause. Rather, the proposed additional burden-sharing mechanism would be an annual one, which would lapse at the end of the current financial year and the renewal of which would be subject to negotiation in the Executive Board. Under that approach, a majority of 70 percent of the total voting power would be needed to reintroduce the extended burden sharing. An alternative approach would be to have a permanent system with annual reviews; under that system, the extended burden sharing would automatically continue unless there were a 70 percent majority in favor of changing the system.

Mr. Ismael said that he did not agree with Mr. Dawson that underfunding would occur if the target amount was SDR 750 million. After all, when overdue repurchases were in effect refinanced, no money left the Fund. In fact, when the enhanced structural adjustment facility was used to refinance General Resources Account purchases, money flowed from the facility into the General Resources Account.

Mr. Enoch stated that, while he, too, welcomed Mr. Arora's willingness to consider initiatives on extended burden sharing, he had several problems

with Mr. Arora's proposal. First, he himself had assumed that the Board had been moving toward a compromise based on an accumulation of SDR 1 billion over a period of five years. He had initially stated a strong preference for an amount significantly in excess of SDR 1 billion, and he was prepared to accept SDR 1 billion as a compromise; he would not wish to see an even smaller amount established as the target. Second, the idea that the financing would be agreed for just one year and would require a 70 percent majority to be renewed--in the absence of which the SCA-2 would cease to accumulate any funds--was a cause for major concern. Third, on the basis of plausible assumptions, the debtor countries would pay less than they were paying at present, which would be inconsistent with the burden sharing that should take place under the intensified collaborative approach. He agreed with Mr. Prader that the actual contribution ratio under Mr. Arora's proposal would be well outside the range toward which the Board had been moving earlier in its debate on extended burden sharing. As Mr. Prader had stressed, the contribution ratio was the main operational variable. He would not wish to see that ratio increased beyond the ratios of 1:1 or 2:1 that had been mentioned thus far as a possible basis of agreement; after all, even a ratio of 1:1 involved a concession from creditors which they had not been willing to make until a few months previously.

Mr. Arora noted that it had been suggested that accumulating SDR 750 million would not adequately fund the rights program. In fact, the SCA-2 was not really a funding source; it was instead backing for the lending to support the enhanced structural adjustment facility. The question that should be addressed was the adequate amount for that particular purpose. In that connection, there was no need to provide for full backing of the lending involved. Given the great uncertainties involved in the proposed extended burden sharing, SDR 750 million should be seen as being at the lower range of the acceptable amounts. If circumstances so required, the target could conceivably be adjusted to SDR 1 billion at the time of the annual review of the extended burden sharing. There was already an annual review of regular burden sharing, and there was no indication that the provision for that review had introduced any uncertainty into the system for regular burden sharing. The limit of 25 basis points had been proposed because the rate of charge was already very high, and the rate under the extended burden sharing would place a substantial burden on a number of member countries. In his view, an amount of SDR 750 million would clearly be prudent for the first year of the extended burden sharing. The amount would be open to discussion, if necessary, at the first review.

Mr. Newman said that he wondered whether Mr. Arora would be willing to consider having regular burden sharing lapse automatically after a year if the Board agreed to permit extended burden sharing to do so at the same time.

Mr. Arora responded that the continued existence of SCA-1 was not in question.

Mr. Enoch noted that with SCA-1 the Fund's position was protected, because there was a default option, under which the debtors would make all the payments required. With SCA-2, the Fund's position was not protected; if

a 70 percent majority in favor of continuing extended burden sharing could not be achieved, then it was the Fund that would suffer, because it would no longer be in a prudential position to be able to cover what a number of Directors believed that it needed to cover. An annual review of SCA-2 without any default option, under which the amount would be financed in some way, would represent a break from established practice.

The Chairman said that he greatly appreciated Mr. Arora's constructive proposals, which represented a considerable effort by Mr. Arora and Directors who supported his proposals to reach an agreement on extended burden sharing. He himself felt that the amount to be accumulated over five years should exceed SDR 750 million. He hoped that Directors could accept a target of SDR 1 billion over five years, and an adjustment in the rate of charge of 35 basis points, rather than the 25 basis points that Mr. Arora had mentioned. That approach would involve a remuneration coefficient of about 83 percent, rather than the 85 percent that some speakers had mentioned. The contribution ratio under his compromise proposal would be 3:1, which seemed to be a fair reflection of the distribution of quotas between creditors and debtors. In addition, it would be understood that the extended burden-sharing scheme would continue after the initial year, unless the circumstances warranted a change at the time of an annual review. He hoped that, if the deferred charges could be reduced by half, the effect on debtors of the 35 basis point adjustment in the rate of charge could be offset by the reduction in deferred charges.

Responding to a question by Mr. Kafka, the Chairman said that there was a need to introduce a system that could be adapted in order to avoid placing an unduly large burden on the membership. The spirit of the compromise that he had described was that, after the first year of the extended burden sharing, the Board would review the system and could amend it with the necessary 70 percent majority, assuming of course that the need for such a system were to remain. That arrangement would give Directors an opportunity to adjust the rate of charge, if that were warranted by the circumstances.

Mr. Arora remarked that, as he understood it, the increase of 35 basis points would be fixed for only one year. At the end of the first year, the rate of charge could be discussed again and could be adjusted with a 70 percent majority.

Responding to a further question by Mr. Kafka, the Chairman said that he presumed that, after one year, the 35 basis point adjustment and the target of SDR 1 billion would remain intact unless there was a 70 percent majority to change them. For example, if the Board felt that SDR 1 billion was unnecessarily large, that amount, and the rate of charge as well, could be reduced by a 70 percent majority. If there were not a 70 percent majority in favor of such adjustments, the factors in question would remain unchanged; the extended burden sharing would not automatically lapse.

Mr. Kafka noted that the proposal that the Chairman had described was different from the one which he himself had had in mind during the discussion at the previous meeting.

The Chairman remarked that his proposal was meant to constitute a compromise that reflected the various views that had been expressed during the discussion. His compromise proposal reflected to a considerable extent the proposal of Mr. Arora.

Mr. Posthumus said that he wondered whether, under the Chairman's proposal, the contribution ratio would be fixed, rather than be subject to a cap as Mr. Arora had originally proposed.

The Chairman replied that the contribution ratio would remain fixed unless the Board, by a 70 percent majority, decided to change it after one year, or unless the SDR interest rate fell below 7 percent--which might well take more than one year to occur.

Mr. Dawson commented that, as he understood it, when a member country encashed its rights, there would be a bridge loan to pay off the country's deferred charges and principal, so that the current deferred charges as well as whatever might accumulate in the near future would then be refunded to the debtors and the creditors that had made contributions. Hence, in considering extended burden sharing, one had to recognize that, assuming a country implemented its rights program, the present contributors would receive, on a one-to-one basis, their contributions back, just as they did at present when a country started paying charges.

The Director of the Exchange and Trade Relations Department said that Mr. Dawson's understanding was correct. At an earlier stage in the debate, the Executive Directors had discussed the suggestion that the debtors and creditors would be invited in effect to redeposit, on a voluntary basis, into an administered account the whole or part of the amounts returned to them.

Mr. Arora said that he would wish to consult his authorities about the Chairman's compromise proposal.

Mr. Finaish stated that his position on extended burden sharing had not changed.

Mr. Kafka commented that it was important to stress that the Chairman's compromise proposal differed from Mr. Arora's proposal. He was not in a position to accept, even ad referendum to his authorities, the Chairman's compromise.

The Chairman said that he hoped that Executive Directors would consider his compromise proposal in the period up to the coming meeting of the Interim Committee.

The Executive Directors agreed to continue their discussion on extended burden sharing on May 3, 1990.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/90/70 (5/2/90) and EBM/90/71 (5/2/90).

4. MALAYSIA - TECHNICAL ASSISTANCE

In response to a request from the Malaysian authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/90/131 (4/27/90).

Adopted May 2, 1990

APPROVED: February 26, 1991

LEO VAN HOUTVEN
Secretary