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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/69

10:00 a.m., May 3, 1985

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	L. K. Doe
	M. K. Bush
	H. G. Schneider
B. de Maulde	X. Blandin
	T. Alhaimus
	M. Z. M. Qureshi, Temporary
H. Fujino	M. Sugita
	B. Goos
	T. Sirivedhin, Temporary
	L. Leonard
A. Kafka	H. A. Arias
	J. Hospedales, Temporary
	H. Fugmann
E. I. M. Mtei	A. Abdallah
	B. Jensen
	J. E. Suraisry
P. Pérez	G. Ortiz
J. J. Polak	J. de Beaufort Wijnholds
C. R. Rye	
	O. Kabbaj
A. K. Sengupta	A. S. Jayawardena
N. Wicks	T. A. Clark
S. Zecchini	N. Coumbis
Zhang Z.	

J. W. Lang, Jr., Acting Secretary
K. S. Friedman, Assistant

Also Present

African Department: A. D. Ouattara, Director; J. Artus, C. A. François. Exchange and Trade Relations Department: C. D. Finch, Director; M. Guitián, Deputy Director; J. T. Boorman, G. G. Johnson, S. Kanesa-Thasan. External Relations Department: A. F. Mohammed, Director; N. K. Humphreys, Chief Editor; D. D. Driscoll, I. S. McDonald. IMF Institute: O. B. Makalou, L. U. Ecevit. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman. Middle Eastern Department: J. G. Borpujari. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; L. Alexander, D. Andrews, K.-Y. Chu, N. M. Kaibni, H. C. Kim, M. D. Knight, P. R. Menon, T. K. Morrison, A. Muttardy, B. E. Rourke, H. H. Zee. Secretary's Department: A. P. Bhagwat. Treasurer's Department: E. Decarli, D. V. Pritchett. Western Hemisphere Department: E. Wiesner, Director; M. Caiola, P. B. Clark. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, D. Hammann, S. M. Hassan, G. E. L. Nguyen, J.-C. Obame, P. Péterfalvy, G. W. K. Pickering, A. Steinberg, E. M. Taha, D. C. Templeman, N. Toé, A. Vasudevan, M. A. Weitz. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, I. Angeloni, M. B. Chatah, Chen J., J. de la Herrán, J. J. Dreizzen, G. Ercel, R. Fox, V. Govindarajan, N. Haque, A. R. Ismael, Z. b. Ismail, H. Kobayashi, R. Msadek, K. Murakami, A. Mustafa, E. Olsen, J. K. Orleans-Lindsay, J. Reddy, D. J. Robinson, M. Sarenac, E. L. Walker, B. D. White.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. Doe as Alternate Executive Director.

2. WORLD ECONOMIC OUTLOOK - PROPOSAL FOR PUBLICATION OF SUPPLEMENTARY NOTE 7

Mr. Wicks said that he had been surprised to learn that World Economic Outlook Supplementary Note 7 - Domestic and International Effects of the U.S. Fiscal Position (SM/85/76, 3/11/85) had not been included in the latest published version of the World Economic Outlook. It was his understanding that the Executive Board had found Supplementary Note 7 useful and that there had been no significant technical criticism of the methodology used in preparing the note. The note was valuable not because it broke new ground, but rather because it summarized much of the work on the important subject of the effects of the U.S. fiscal position. While he had expected the note to be published, he understood why the decision had been made not to publish it; after all, the document was relatively large and might have unbalanced the whole World Economic Outlook publication. Nevertheless, it would be unfortunate not to give Supplementary Note 7 wider circulation. Accordingly, it could be published as a supplementary annex to the World Economic Outlook, in Staff Papers, or in the Occasional Papers series. The note described the consequences of the U.S. deficit for the rest of the world, and indeed was of as much interest to the rest of the world as it was to the United States. It was particularly important to give the widest possible publicity to the staff's reasoning that had led to the conclusion in paragraph 5 on page 74 that activity in the other industrial countries would probably be favorably affected by a cut in the U.S. fiscal deficit. Acceptance of that view would help to gain the increase in confidence on which future economic growth depended, and, to that end, the publication of Supplementary Note 7 might well be helpful. He hoped that the note could be published in one form or another in the near future.

Mr. de Maulde stated that he supported Mr. Wicks.

Ms. Bush considered that Supplementary Note 7 was an outgrowth of the 1984 Article IV consultation with the United States and was therefore part of the Fund's surveillance. The difficulty she had in accepting publication of Supplementary Note 7 was traceable to her disappointment in the lack of support among Executive Directors for an increase in publicity on surveillance activities involving all members. The latest discussion on surveillance had confirmed her impression that there was considerable resistance to disclosing information concerning the Fund's judgments on members' policies. Her authorities were firmly committed to stronger surveillance and, to that end, greater publicity, and she hoped that other Executive Directors would eventually support that position. Meanwhile, however, it would be inappropriate to single out a particular member for increased surveillance.

Mr. Kafka recalled that previously he had said that publicity was not the proper way to increase the effectiveness of surveillance. In summing up the discussion on surveillance, the Chairman had suggested several other ways to meet that objective. As Supplementary Note 7 was a special report addressed specifically to the U.S. authorities, it should not be published. Its possible publication raised the question of the voting provisions in Article XII, Section 8; that was true whether or not the note, like the Annual Report, was carefully scrutinized by the Executive Board, or was merely published under the Fund's name but was in the final analysis nevertheless published on the authority of the Executive Board.

Mr. Sengupta stated that he agreed with Mr. Wicks and Mr. de Maulde that Supplementary Note 7 should be published. While Article IV consultation reports were prepared specifically for the Executive Board, World Economic Outlook papers were circulated for discussion around the world. Those papers affected members' policy decisions and were a part of the staff's full assessment of the international economic situation. The World Economic Outlook would be incomplete if a major element of the world economy were not fully analyzed. The staff had in fact fully analyzed the world economic situation in the latest set of World Economic Outlook papers. While there had been some differences of view on the methodology behind, and conclusions in, some of the supplementary papers--he had had some reservations about the supplementary note on trends in capital flows to developing countries--all the papers had been well prepared. Supplementary Note 7 was a study of a major segment of the world economy; it was not merely a routine country study. The staff had analyzed the structural policies of industrial countries, and in so doing it would have been odd not to pay particular attention to the fiscal policy of the United States, one of the pillars of the international financial system.

As Supplementary Note 7 was clearly a part of the set of papers that composed the latest World Economic Outlook, it seemed odd to exclude it from the published version, Mr. Sengupta said. That note was not part of the latest Article IV consultation with the United States. The World Economic Outlook was in effect a single unit, and the failure to publish Supplementary Note 7 gave the impression that the Fund was deliberately refraining from making available the entire piece. At the least, the failure to publish Supplementary Note 7 detracted from the quality of the published version of the World Economic Outlook. It would also seem odd to issue a corrected version of the World Economic Outlook in order to include Supplementary Note 7. He wondered whether that note could be made part of the next World Economic Outlook report, perhaps in the form of a supplement. Alternatively, it could be published in the Occasional Papers series, perhaps with suitable editing.

Mr. Polak commented that the decision to publish the World Economic Outlook papers, including the supplementary notes, had been taken by the Executive Board. Although that decision had not been considered at any length, the subsequent decision not to include Supplementary Note 7 should have been taken by the Executive Board rather than by staff and management. If the question of the published version had been debated in the Executive Board, he would have supported a proposal to delete Supplementary Note 7 and perhaps some other supplementary notes as well. Supplementary Note 7 was the work of a few staff members and did not properly belong in the published version of the World Economic Outlook; publishing the note would have given the impression that the Fund stood behind the document.

The decision whether or not Supplementary Note 7 should be published in some form in the coming period was up to management, although the Executive Directors' views should be borne in mind, Mr. Polak said. Papers on individual countries by staff members were often published on the staff's responsibility. Those papers were sometimes derived from the staff's work on an Article IV consultation, but that fact alone should not preclude their publication. There was a substantial distinction between publication by the Fund of the Executive Board's conclusions on an Article IV consultation and publication of a staff member's conclusions based on his work on an Article IV consultation. Individual Executive Directors should not stand in the way of the publication of an occasional paper or staff paper that dealt with their respective countries because the authorities concerned did not share the staff's conclusions. It would be appropriate to publish Supplementary Note 7 in Staff Papers or in the Occasional Papers series.

Mr. Leonard remarked that he had no strong feelings about the particular form in which Supplementary Note 7 might be published. The issue of the note's publication should not be tied closely to the general issue of publicity related to surveillance. Supplementary Note 7 contained useful analysis of some of the major factors affecting present world economic conditions and should be published, provided that the problems raised by Ms. Bush could be solved.

Mr. Suraisry considered that the initial decision whether or not to publish Supplementary Note 7 should have been made by the Executive Board. In principle, the Fund should not publish any report that dealt directly with the economic policies of a member country without the consent of that country. That approach was fully consistent with the Executive Board's recent consensus on surveillance and publicity. In the light of Ms. Bush's objection, Supplementary Note 7 should not be published.

Mr. Zecchini noted that previous speakers had not questioned the merit of Supplementary Note 7. A compromise solution might be to publish the note excluding specific references to which Ms. Bush objected. In order to avoid giving the appearance that the Fund itself had endorsed the note, it could be published on the responsibility of the staff members who had written it. Furthermore, the note could be published in something other than an official Fund publication with the disclaimer that the Fund did not endorse the note.

Mr. Schneider said that he too had been somewhat surprised that Supplementary Note 7 had not been included in the published version of the World Economic Outlook. While he understood Ms. Bush's misgivings, he agreed with Mr. Polak and Mr. Leonard that the subject of the note was important both for the United States and the rest of the world, and that publication in one form or another would be desirable. His first preference was to include it in the Occasional Papers series.

Mr. Goos commented that his chair had taken the position that extensive publication could undermine the effectiveness of surveillance by placing in doubt the Fund's willingness to maintain the confidentiality of papers prepared for consultations. However, as no one had objected to the publication of all the documents considered during the previous World Economic Outlook discussions, he too had been surprised to learn that Supplementary Note 7 had been excluded from the published version of the World Economic Outlook. The objections to the publication of the note were surprising, given the strong stand of the U.S. authorities in favor of using Fund publications to strengthen surveillance. Ms. Bush understandably did not wish to see the United States singled out, but he doubted whether the exclusion of Supplementary Note 7 from the published version of the World Economic Outlook was helpful in that respect. He hoped that the U.S. authorities would agree to seeing the Fund publish Supplementary Note 7 in one form or another.

Mr. Mtei considered that Supplementary Note 7 should be published in the Occasional Papers series. It would be unfortunate for the international economic community to miss a paper on a subject of such importance and widespread interest. The responsibility of the United States vis-à-vis the world economy was greater than that of any other single member, and the repercussions of its fiscal deficits were felt by many other countries; that subject should be discussed as widely as possible.

Mr. Polak said that he felt strongly that a paper written by the staff for publication should not be edited by someone other than the author before it was published under the author's name. Such editing was inconsistent with the principles on which Staff Papers were published and should not be a part of the solution to the problem posed by the possible publication of Supplementary Note 7.

Mr. Pérez considered that Supplementary Note 7 was not a part of the Fund's surveillance. It was an essential part of the World Economic Outlook, because as Executive Directors had clearly stressed during the latest discussion on the World Economic Outlook, the U.S. fiscal deficits were at the heart of the problems facing the world economy. Therefore, Supplementary Note 7 should not be published as an additional supplement to the World Economic Outlook because that might give the impression that the note was part of the Fund's surveillance. Supplementary Note 7 should be published in Staff Papers or in the Occasional Papers series.

Mr. Fugmann said that he had been somewhat surprised that Supplementary Note 7 had not been published as expected. At the present stage, however, and in light of the larger publicity issue, it seemed best not to publish the note. He was not prepared to accept the trade-off indicated by Ms. Bush.

Ms. Bush remarked that she continued to feel that Supplementary Note 7 dealt with a sensitive policy issue and should not be published in any form. Previously published papers on individual countries were essentially background documents that had contained largely factual analysis of specific issues--for example, the calculation of a quota for a member, or the integration of domestic and financial markets in particular countries. In contrast, Supplementary Note 7 was essentially a policy document that was an outgrowth of the 1984 Article IV consultation with the United States. Neither the Executive Board nor the Interim Committee had agreed that such policy documents should be published.

Mr. Rye stated that his position was the same as Mr. Kafka's. The Fund would be embarking upon an uncertain path if it were to publish a document on the policies of a particular member over the objections of that country. It would be particularly inappropriate to publish Supplementary Note 7 as a supplement to the latest published version of the World Economic Outlook. Whether or not it should be published in Staff Papers was up to management. However, he agreed with Mr. Polak that a Staff Paper should not be edited by someone other than the author.

Mr. Polak said that he would have been willing to accept the proposal of some other Executive Directors to publish the recent background paper on the Netherlands' social security system and time-sharing arrangements. Some background papers for consultations with the United States had already been published--for instance, the study of the effect of protection in the United States on the cost of automobiles in that country. Interesting staff work in connection with consultations should not be precluded from publication. Indeed, Staff Papers had been conceived specifically to give staff members an opportunity to publish papers on important subjects on their own responsibility. Moreover, the Fund had recently published a significant Occasional Paper on the policies of Portugal. Indeed, a number of published papers on individual countries had contained analysis of policies of those countries. It would be most unfortunate if individual member countries were to veto the publication of a paper on a country's policies.

Ms. Bush considered that analytical background papers such as those on the Netherlands mentioned by Mr. Polak differed significantly from policy documents like Supplementary Note 7. Her chair had already given some preliminary indication that her authorities might be willing to see parts of the Article IV consultation background reports published in the Departmental Memoranda series--for example, the report on the U.S. steel industry, the effects of the restraints on exports of Japanese automobiles on the United States, and the comparison of the 1983 recovery with other postwar recoveries. Unlike Supplementary Note 7, those studies did not deal with sensitive policy issues. She hoped that if the U.S. authorities were to agree to the publication of the background papers she had mentioned, other countries would consent to the publication of special studies on aspects of their economy; she also hoped that staff and management would bear in mind possibilities for other special studies.

Mr. Kafka said that it would certainly be appropriate to publish background papers if the member concerned had no objections. However, the Fund should not be disappointed if a country wished to delete selected passages of a background paper in order to maintain confidentiality. He hoped that the Fund would not adopt the practice of publishing papers arising out of Article IV consultations--some of which might refer to specific policies--without the consent of the member concerned. A staff paper arising out of an Article IV consultation that was published in Staff Papers would be readily identifiable as the work of the head or members of an Article IV consultation mission; consequently, the publication would be seen as containing the views of the staff. Great caution should be taken in approaching the question of the publication of staff papers related to Article IV consultation discussions.

Mr. Zhang remarked that it was his understanding that the Fund did not publish a document about a member if the country concerned objected.

The Director of the External Relations Department said that the staff had invariably obtained a member's clearance before publishing a document dealing with the country's policies.

Mr. Wicks remarked that apparently Ms. Bush would be more willing to see Supplementary Note 7 published if she were to receive assurance that movement toward publication on a broader front would occur. She did not seem to object to the contents of Supplementary Note 7. He hoped that the U.S. authorities would consider whether the publication of Supplementary Note 7 in one form or another might not help to achieve the broader surveillance goal Ms. Bush seemed to have in mind. It was probably too late to issue Supplementary Note 7 as an extra supplement to the published version of the World Economic Outlook, but other, neutral forms of publication were available.

Mr. Zhang considered that publishing a document on a particular member over the objections of that country would set an undesirable precedent.

Mr. de Maulde said that the Fund clearly should not publish a document prepared for an Article IV consultation, particularly not without the consent of the member concerned. He had favored publishing Supplementary Note 7 because it was in effect a research paper based on the staff's examination of published material and containing staff conclusions that were not derived from discussions with the U.S. authorities. Supplementary Note 7 did not seem to be an outgrowth of the 1984 Article IV consultation with the United States.

The Chairman explained that Mr. Dallara had objected to the publication of Supplementary Note 7 in the published version of the World Economic Outlook. In the past, the Fund had never published a document on a country's policies over the objection of the country concerned. Accordingly, he had decided not to include Supplementary Note 7 in the published version of the World Economic Outlook. Supplementary Note 7 was not a technical paper dealing with a specific aspect of the U.S. economy, such as the steel industry or the social security system. Rather, it dealt with a broad matter that had serious policy implications for the United States and the rest of the world. In that connection, the note was also different from such previous publications as "Expansion of Trade in Eastern and Southern Africa," and the Occasional Paper on taxation in sub-Saharan Africa (Occasional Paper No. 8, 1981). Nor was Supplementary Note 7 similar to Occasional Paper No. 2, entitled "Economic Stabilization and Growth in Portugal," which had been published with the consent of the Portuguese authorities and dealt with a subject that had not had worldwide ramifications.

A significant substantive question had been raised--namely, whether Supplementary Note 7 was an outgrowth of the 1984 Article IV consultation with the United States and contained or reflected confidential information gathered during the consultation process or was an autonomous research study of policy matter developments that were a significant factor in the international economic and financial system, the Chairman said. That question was difficult to answer. The staff had probably accumulated considerable knowledge both in the process of conducting the Article IV consultation with the United States and through separate research.

The Deputy Director of the Research Department recalled that the staff had analyzed some of the international consequences of the U.S. fiscal position in a number of earlier World Economic Outlook papers, drawing conclusions about the relationship between that position and interest rates in the United States, exchange rate trends, and developments in balance of payments positions and domestic economic conditions both in the United States and in other countries. A number of Executive Directors had raised questions about those conclusions and had asked the staff to undertake a more extended and comprehensive analysis. The World Economic Outlook exercise was meant to analyze the interactions of policies and conditions among the economies of individual member countries; therefore, the staff had undertaken the more extended analysis of the U.S. fiscal position with a view to looking at its interaction with international foreign exchange and capital markets and thereby its impact on developments in other countries.

The staff had first analyzed the available technical literature on the impact of changes in fiscal positions on domestic and international variables to assess the likely effect of the U.S. fiscal position on developments in the United States--in effect holding external variables constant; the staff had then taken the external variables into account, the Deputy Director of the Research Department explained. That exercise had been undertaken largely independently of the 1984 Article IV consultation with the United States; the staff members who had prepared Supplementary Note 7 had not been involved in the 1984 Article IV consultation with the United States. However, staff members routinely collaborated closely with one another, and the staff members who had prepared Supplementary Note 7 had profited considerably from the material that had been prepared for the 1984 Article IV consultation. The intention had been to use Supplementary Note 7 to focus on the international consequences of the U.S. fiscal position. Accordingly, the consequences of the fiscal position within the United States had been assessed to support the analysis of the international consequences of that position. The work on the Article IV consultation had naturally tended to focus on the domestic consequences of the U.S. fiscal position, although the external consequences had also been of interest.

The Chairman commented that the publication of Supplementary Note 7 was a complex issue that merited further thought. The note had been built upon the knowledge acquired during the 1984 Article IV consultation with the United States, but to some extent it was a separate study on the effect of the U.S. fiscal position outside the United States. Supplementary Note 7 was a useful contribution to the understanding of the interaction of variables that the Executive Board had expressly asked the staff to examine. Further thought should be given to the various suggestions that had been made concerning the possible publication of Supplementary Note 7. If it were published in Staff Papers or in the Occasional Papers series, the contents should not be subject to any negotiations.

The U.S. authorities might wish to give further thought to the possible publication of Supplementary Note 7, the Chairman continued. The note was after all essentially a study of an aspect of the U.S. economy, and the Fund would not wish to publish such a study if the U.S. authorities felt strongly that publication would be inappropriate. However, the U.S. authorities might wish to bear in mind that the publication of such a study might well enhance the willingness of other member countries to maintain a more open attitude toward publishing similar studies on their economies. The majority of Executive Directors apparently were reluctant to move in that direction, but the U.S. authorities might wish to set an example. The U.S. authorities might also wish to bear in mind that while the subject of Supplementary Note 7 was an aspect of U.S. economic policy, the United States played a larger role in the world economy than any other single country and the kind of analysis in Supplementary Note 7 promoted a better understanding of important factors in the world economy.

Mr. Suraisry remarked that the present discussion had underscored the reasons why a number of Executive Directors had objected to the publication of papers related to Article IV consultations.

The Executive Directors concluded their discussion on the publication of Supplementary Note 7.

3. COMPENSATORY FINANCING OF FLUCTUATIONS IN THE COST OF CEREAL IMPORTS - REVIEW

The Executive Directors considered a staff paper on the review of the decision on compensatory financing of fluctuations in the cost of cereal imports (SM/85/98, 4/5/85).

Mr. Clark commented that during the previous four years the cereal facility had provided helpful, although scarcely used, balance of payments assistance to members facing increases in the cost of their cereal imports. He fully recognized the special importance that was attached to the facility as a means of providing such assistance, and, given the unfavorable situation of a number of members, no one would wish to increase his difficulties. There was nevertheless some doubt whether the original objectives of the facility had been met. Indeed, he wondered whether those objectives and the Fund's role in meeting them had been clearly defined. On page 6, for example, the staff had noted that "many of these countries have been able to meet a considerable part of the cereal deficits with cereal imports under food aid."

Given the uncertainties he had mentioned, he was not sure that the best course of action was simply to renew the facility for a second four-year period, Mr. Clark continued. But if the majority of Executive Directors wished to do so, he could go along with them.

He had three specific additional points, Mr. Clark said. First, purchases under the cereal decision, as under the decision on compensatory financing itself, should be requested in accordance with the spirit as well as the letter of the decision and should not be seen as a substitute for bank financing when that was available. Second, the staff had noted that the limited use of the cereal facility thus far had been due partly to the difficulty in assembling the necessary data, and Fund and World Bank technical assistance in collecting the required information might well be helpful. Third, all four purchases under the cereal facility for which ex post data were available had resulted in overcompensation; indeed, in two of those cases the overcompensation had exceeded SDR 100 million. That outcome was a cause for concern.

Annex IV of SM/85/98 dealt with the experience under the compensatory financing facility, Mr. Clark noted. On previous occasions his chair had proposed that the facility should be subject to a regular review, perhaps every 12 or 18 months. Annex IV provided helpful background information for such a review and merited a separate discussion. The staff paper for that discussion should include a compilation similar to that in Annex II of SM/85/98; accordingly, the staff should provide a list of the individual drawings under the compensatory financing facility during the previous 12 months together with any other information the staff felt might be helpful. The more general discussion on the compensatory financing facility should be held at an early date.

Ms. Bush commented that the operation of the cereal facility during the previous four years had led her to question the long-term usefulness of the facility and to doubt whether an automatic four-year extension of the facility was called for. Of the 11 purchases made by seven members under the cereal facility, two thirds had been related to export shortfalls and only one third to the increased costs of cereal imports. Moreover, purchases with respect to increased cereal import costs represented only about 5 percent of the Fund's total compensatory financing. The volume of resources used under the cereal facility to compensate for cereal excesses had been considerably less than had been projected in 1981 when the facility had been set up.

The staff had noted that the use of the cereal facility had been limited because some members that might otherwise have met the conditions for use of the facility had not had a balance of payments need to do so, Ms. Bush remarked. In addition, some countries had increased their commercial cereal imports for reasons other than circumstances beyond their control, while a few members experiencing excesses in cereal import costs might not have met the test of cooperation with the Fund. Global food production in the developing countries as a group had increased more rapidly in 1981-85 than during the preceding four years, but the food problems in some developing countries, particularly those in Africa, had not been temporary in nature; they had sometimes been due to agricultural systems and pricing mechanisms that were not fully developed or market related and sometimes to catastrophic developments such as drought. In those cases, food aid had been a more appropriate response than borrowing under the cereal facility. In any event, the main purpose of Fund financing was to provide assistance to members facing overall balance of payments problems. Her chair had remained skeptical about the utility of special facilities that focused on a single aspect of balance of payments need. Moreover, it was sometimes difficult to determine whether the payments problem facing a member that wished to use the cereal facility had been due to factors beyond the control of the authorities concerned and whether the problem would prove to be temporary in nature.

Despite their reservations about the cereal facility, her authorities had supported it in 1981, Ms. Bush recalled. At that time, the facility had been viewed by some as being essentially experimental in nature. In fact, the facility had not been widely used, thereby naturally raising the question whether it was still needed. Some countries faced food shortages and famine, and the food facility would probably serve a useful purpose in the coming year or so. However, it probably would be sufficient, particularly given the somewhat limited use made thus far of the facility, to extend it for two years, with a review after one year. During the coming two years, Executive Directors would have an opportunity to consider whether or not the facility had a long-term role to play. In any event, members that used the facility in the coming period should commit themselves to working with both the Fund and the World Bank to maintain the more realistic, market-related domestic agricultural pricing policies that were crucial to a healthy agricultural economy. Such pricing would help both to avoid the emergence of cereal shortfalls that gave rise to a demand for purchases under the cereal facility and to fulfill the cooperation requirement. A reference to that important aspect of cooperation could usefully be included in the proposed decision.

Mr. Sengupta considered that given the food shortages in many countries, especially those in Africa and Asia, and the likely small increase in food aid in the coming period, the cereal facility should be continued. Its limited use thus far did not mean that the facility had been ineffective.

The facility had been designed to insulate developing countries from purely exogenous shocks to the most vital sector of their economies. The extent of use of the facility thus far was not sufficient reason for deciding to extend it for less than the proposed four-year period. Under the staff proposal, the facility would be reviewed again in two years. At that time, it would be useful to entertain suggestions of ways in which the use of the facility could be increased--for example, those of the Food Policy Research Institute and several groups in India. There were good reasons why the facility had not been used more extensively, and an increase in use could probably be achieved with only some slight modifications in the facility. The facility's usefulness had been clearly established: it helped countries subject to exogenous shocks to insulate their economies to some extent and to maintain their development efforts.

Mr. Mtei said that he could go along with the proposed decision. However, the cereal facility should be adapted to the changing needs of members so that it could provide more useful assistance to countries facing increased cereal import costs. Only a few members had benefited from the facility, and annual purchases under it had averaged less than $100 million, roughly half the initially projected figure.

The conclusion that favorable global food production and increased food aid had been significant factors in the limited use of the cereal facility was not applicable to many low-income members, particularly drought-stricken African countries, Mr. Mtei continued. He disagreed with the staff that low-income countries had not used the cereal facility because their need for assistance had been met by increased food aid flows. On page 29 the staff had noted that food imports by low-income African countries in 1984 had reached 20 million tons, while total food aid to Africa in the same period had been only 5 million tons; in other words, food aid to those countries had accounted for only 25 percent of total food imports. During the previous two years, only 2 of the 25 African countries experiencing abnormal food shortages had benefited from the cereal facility, and only 1 of those 2 countries had been compensated for the increase in the cost of cereal imports; specifically, only 0.04 percent of the potential users of the facility in Africa had actually been compensated for increases in the cost of cereal imports.

A lack of need for assistance had not been an important cause of the limited use of the cereal facility, Mr. Mtei went on. The integration of the cereal decision with the decision on compensatory financing of export shortfalls had constrained members' use of the facility. The condition that if a country opted to use the cereal decision, any further request by the member for compensatory financing during the following three years must be made under the cereal decision had discouraged members from using the cereal facility. There was no direct link between a member's policies and increases in the kind of cereal import costs compensated by the cereal facility. In most cases, increases in the cost of cereal imports resulted mainly from crop failures or higher international prices, both of which were independent of domestic policies, at least in the short run.

The staff had concluded that one of the main reasons for the limited use of the cereal facility was the fact that the food problems facing many African countries were not temporary in nature, Mr. Mtei noted. The excessive emphasis on the temporary nature of the use of Fund resources under the cereal facility was yet another example of the Fund's becoming increasingly removed from the problems and needs of a growing number of members. If the Fund became excessively conservative, it would run the risk of being seen as having no role to play in countries facing structural problems. Virtually all members, as well as international organizations and many private entities had shown increasing concern about the situation in Africa and were contributing in one way or another to helping to ease the food shortage there. The Fund should find a way to be more flexible in applying the cereal decision, and the Executive Board need not wait for the next review to consider ways of improving the cereal facility. In that context, the Fund should consider extending the repurchase period under the facility. While accepting the proposed decision, the Executive Board should ask the staff to review the conditionality under the cereal facility with a view to making the facility easier to operate. To that end, the link between the cereal facility and compensatory financing of export shortfalls should be severed. A review of the status of, and conditionality under, the cereal facility should be the subject of a separate Executive Board discussion as soon as possible, and certainly before the next proposed review, in May 1987.

Mrs. Sirivedhin commented that the simulations on drawings that could have been made in the absence of the integration of the cereal and export components of compensatory financing and the ex post calculations of shortfalls were particularly useful.

While the use of the cereal facility had initially been projected at SDR 180 million per year, the actual additional financial requirements resulting from the cereal decision had averaged less than SDR 100 million per year, Mrs. Sirivedhin continued. In the same period, purchases compensating for export shortfalls had averaged SDR 1.8 billion per year. The limited use of the cereal facility had probably been due partly to such external factors as the world economic recovery and the improved world cereal situation, as well as the increased use of food aid by many countries. At the same time, however, excesses in commercial cereal import costs for 117 member countries had averaged approximately SDR 620 million per year in 1981-83, suggesting that the limited use of the facility might be traceable to certain features of the cereal decision, including the conditions on the use of compensatory financing, the integration requirement, and the access limits. In that connection, the staff had noted that a separate cereal decision would have enabled the seven countries that had used the cereal decision to have drawn only SDR 77 million more than they had actually drawn under the existing cereal decision, which was integrated with the decision on export shortfall compensation; however, that conclusion was based on the assumption that the limit on drawings under the cereal facility was 41.5 percent of quota, just half the limit on drawings for export shortfall compensation. A larger drawing limit--which could be achieved by setting a higher access limit on whichever compensatory financing facility was drawn first and a lower limit on the other compensatory financing facility--might well have yielded a larger figure for total drawings under a separate cereal facility than had occurred under the integration of the compensatory financing mechanisms.

Commenting on the conditionality under the cereal facility, Mrs. Sirivedhin noted that upper tranche compensatory financing purchases had generally been accompanied by arrangements with the Fund. In one instance, an arrangement had not been considered necessary because the staff had concluded that, except for the temporary effects of an export shortfall, the balance of payments situation of the country in question was satisfactory.

The staff had projected slightly rising cereal prices over the coming several years and a possible small increase in the magnitude of members' excesses in import volumes for which compensation could be requested under the cereal decision, Mrs. Sirivedhin remarked. Hence, there was likely to be a need for further timely balance of payments assistance under the cereal facility. As there had been no serious difficulty in implementing the cereal decision, and although improvements in the decision would enhance its usefulness, the staff's recommendations were appropriate and the proposed decision should be approved.

Mr. Polak stated that the proposed decision was acceptable. The limited use of the cereal facility naturally raised the question whether that facility had met the needs for which it had been designed. Like other facilities, the cereal facility addressed balance of payments problems, although the impetus for creating the facility had not arisen merely from balance of payments considerations; the facility had been pressed upon the Fund by the FAO and the World Food Council in response to their concern about food problems in low-income countries. Accordingly, in appraising the success of the facility, the Executive Board should bear in mind the extent to which it had alleviated the food problems as well as the balance of payments difficulties that had resulted from countries' efforts to deal with the difficult food situation. The most common food-related problem in the past four years had been crop shortages, rather than high cereal import prices. The people of a country that had experienced a crop shortage could face hunger if the country could not afford to import food or the authorities were not confident that the country would qualify to use the cereal facility. In that instance, there were no "excess imports" and the country would not qualify to use the cereal facility. In such cases, the facility obviously was not helpful, a conclusion that could not be drawn merely from the statistical presentation in SM/85/98.

A member that used food aid to meet a crop shortage also had no excess imports, since the coverage of the cereal facility was limited to commercial food imports, Mr. Polak continued. A country would be able to deal with its food problem on much more favorable terms if it received food aid than if it drew on Fund resources under the food facility. The discussion on food aid in SM/85/98 was limited; it did not describe the extent to which food aid had met food shortfall needs in members that might have drawn on the cereal facility. The fact that the value of food aid had exceeded cereal facility drawings by a factor of nearly 20 should be a crucial factor in the appraisal of the cereal facility.

If a member country dealt with a crop shortage by increasing commercial food imports, it could solve its food problem, but in doing so it would create a balance of payments problem for which it would qualify for compensation under the cereal facility, Mr. Polak commented. The Fund usually dealt with a country's balance of payments problems on an overall basis and had decided to depart from that general practice by compensating for fluctuations in exports and commercial food imports. A member could choose to use the compensatory financing facility when it had an export shortfall and even if it might also have excess cereal imports. However, a member could not use the cereal facility alone; it was required to take into account any excess exports it might have. Moreover, once a member had used the cereal facility, any further request by that country for compensatory financing during the following three years must be made under the cereal decision. The staff had suggested that that three-year rule might have discouraged countries from using the cereal facility. An argument could be made for eliminating the three-year rule while retaining the practice of taking excess exports into account in determining the permissible access to the cereal facility.

He wondered whether a low-income country could realistically be expected to offset a crop failure with commercial food imports, Mr. Polak remarked. He also wondered whether such countries would find it possible to use the provision under the cereal facility permitting compensation based on estimates of a food import excess. The staff could usefully comment on the extent to which the countries concerned could expect to use food aid to compensate for crop failures. On what terms was such aid usually provided? He wondered whether the Fund should encourage members to seek food aid, thereby leaving recourse to the cereal facility--with the consequent increase in members' indebtedness to the Fund--as a second-best choice. Over the previous several years, the Fund had become active in catalyzing balance of payments support, and it should probably extend that effort to the suppliers of food aid, particularly to sub-Saharan African countries. Finally, he wondered what significance the staff attached to the fact that three of the eight drawings under the cereal facility and two thirds of the drawings under the facility were accounted for by countries with relatively high incomes, namely--Korea, Morocco, and Jordan. He hoped that the various questions he had raised would be examined by the staff in coming months.

Mr. Alhaimus said that he fully agreed with the staff recommendations and accepted the proposed decision. Although drawings under the cereal decision had been relatively modest and had fallen short of initial expectations, the cereal facility had provided useful assistance to members whose balance of payments were vulnerable to fluctuations in the cost of cereal imports.

The staff had provided useful analysis of the experience with the cereal decision since its adoption in 1981, Mr. Alhaimus went on. The staff had examined the reasons for the relatively large gap between actual purchases under the facility and the potential use calculated by the staff. While he broadly agreed with the staff's explanation, he wondered whether steps could be taken to remove some of the obstacles to the use of the facility, provided of course that such steps would be consistent with the purpose of the decision and with Fund policies in general. For example, the staff had noted the difficulty in compiling the necessary data in many countries and the lack of familiarity by some potential users with the provisions of the decision in its early years of operation. He recognized the problems involved in compiling the needed data, but there might be room for increased efforts by the members concerned and the Fund to improve the collection and timeliness of cereal data. The problem of the lack of familiarity of member countries with the provisions of the cereal decision could be addressed through the regular contacts of Executive Directors' offices and the staff with member countries.

The staff had also noted that drawings under the cereal facility had been inhibited by the requirement that once a member had drawn under the cereal decision, all subsequent compensatory financing purchases had to be made under the same decision for the following three years, Mr. Alhaimus remarked. While the Executive Board in adopting the cereal decision in 1981 might have seen some merit in linking the cereal and export shortfall facilities, the reasons for continuing that practice were not fully clear to him, and it would be useful to hear the staff's view on the matter. In any event, the whole question of linking the cereal and export components of compensatory financing should be reconsidered in the future.

A third inhibiting factor mentioned by the staff was the fact that some members had increased their commercial cereal imports for reasons other than circumstances beyond their control, for example, in order to raise per capita food consumption, Mr. Alhaimus noted. While in a narrow sense such an action could be considered deliberate and therefore not beyond the control of the authorities, he was not comfortable with the implications of that notion in certain circumstances. If a country where per capita food consumption was below subsistence decided to increase its cereal imports, it would be ineligible to use the cereal facility according to the narrow concept described by the staff because the country could have chosen to maintain food consumption below subsistence. That approach was not much different from telling a member that had experienced a drop in cereal production as a result of a drought and had increased its cereal imports that it would be ineligible to use the cereal facility because it could choose to accept lower per capita food consumption. Of course, that description should not and did not apply to the actual situation, but a further comment on the matter by the staff would be helpful.

It was difficult to make judgments on the ex post calculations of purchases under the cereal decision on the basis of the available data, which was limited to just four cases, Mr. Alhaimus commented. However, even on the basis of that limited experience, and although Table 6 indicated that in all four cases the ex post compensable amount had been smaller than the actual purchase, the same table showed that in three of the four cases the ex post compensable amounts of the cereal component had been larger than the purchases actually made. In any event, as the staff had indicated, there were many factors that made a more accurate projection of cereal imports extremely difficult; he was confident that the staff would continue to explore ways of improving those projections. It would of course be possible to reduce the divergence between export projections and actual purchases if the cereal import excess were defined differently, in a way that would reduce the weight of the projected figures. However, such a change would have to be considered on its own merits and would have to take into account many considerations in addition to projection errors.

Mr. Goos said that he could go along with the proposed renewal of the cereal decision for a second four-year period. However, he continued to have serious reservations about the cereal facility for several reasons. First, it was weakening the conditionality of the Fund's balance of payments support. Second, the facility was designed to respond to problems caused by particular external developments, rather than to a member country's overall balance of payments position. Third, the need for food assistance should be met entirely by aid; use of the cereal facility should not be seen as a substitute for food aid. Fourth, the implementation of the cereal facility had created a precedent that might encourage further attempts to provide Fund assistance for other commodities that were thought to be vital. Fifth, the cereal facility contributed to the further fragmentation of Fund assistance. Given those reservations, he was prepared to support the continuation of the cereal facility only for humanitarian reasons.

The cereal facility should be included in any future reconsideration of the access limits under the special facilities, whether or not actual recourse to the facility was less than the staff had projected, Mr. Goos considered. The extensive presentation in the staff paper on the consequences of separating the cereal facility from the compensatory financing facility was inappropriate. After all, when the cereal facility had been established, a majority of Executive Directors had decided that the cereal facility should not be a separate facility. Moreover, there was no reason to consider creating a separate facility in the coming period.

Mr. Fujino commented that, although the experience with the cereal facility was limited, the facility had apparently served the purpose for which it had been created. The use of the facility had been moderate because of the favorable global food production over the previous several years. In addition, the food shortages in some low-income countries had been offset to a considerable extent by food aid. The persistent serious food problems in those countries had not been temporary in nature and therefore could not have been dealt with through the cereal facility. Although that facility might well continue to have a limited effect in the coming period, it should be renewed for another four years, and the cereal decision should be reviewed in two years.

Mr. Suraisry said that he broadly agreed with the staff's main conclusions. Although the scale of operations under the cereal decision had been moderate, the cereal facility had clearly benefited a number of cereal importers; therefore, the 1981 cereal decision had served the purpose for which it had been adopted. Moreover, the operation of the cereal facility had been smooth, and the facility remained potentially valuable for a larger number of members. The modest use of the facility thus far did not undermine the need for, and the importance of, the facility, which should be continued for another four years.

The modest use of the food facility thus far had been due partly to the heavy reliance of African countries facing acute food shortages on food aid, Mr. Suraisry remarked. He hoped that, if the drought in Africa were to continue and food aid were to fall short of requirements, the countries concerned would be able to benefit from the food facility in a timely manner.

The limited use of the food facility was due partly to the difficulty some member countries had in compiling the necessary data, Mr. Suraisry noted. That problem was unfortunate, particularly given the need of the countries concerned for financial assistance. The Fund should work closely with those member countries to improve their data base so that the food facility could fulfill its potential and benefit a large number of member countries. He agreed with Mr. Polak that the requirement to make all compensatory financing purchases under the cereal decision for three consecutive years after an initial purchase under that decision had also contributed to the moderate use of the cereal facility and should be eliminated. Mr. Polak had raised a number of additional important issues that should be dealt with during the next review of the cereal decision.

Mr. Hospedales said that he welcomed the proposal to renew the cereal facility for another four years and to review the facility by May 1987. The adoption of the cereal decision had been a prompt response to the problems facing member countries and was another sign of the Fund's recognition of the need to provide quick-disbursing and low conditionality assistance to members, particularly low-income countries, requiring financing for balance of payments deficits that had arisen because of circumstances beyond their control. The food security of members had been threatened by the tightening of cereal markets and the increases in cereal import prices. At the time of the introduction of the cereal facility in 1981, the situation in a number of developing countries, particularly those in Asia and sub-Saharan Africa, had been especially difficult, and it had remained so in subsequent years. The staff had underscored the modest use of the food facility as measured by the number of countries that had made drawings and the amount of resources drawn under the facility both in absolute terms and in comparison with the original staff projections. The staff had noted the various reasons why members had not made greater use of the facility, and during the next review the staff should consider ways and means of making the facility more effective. The facility clearly could continue to be of significant value to many members by giving them some breathing space in difficult circumstances.

Mr. Fugmann stated that he supported the proposed decision. During the discussion of the proposal to introduce a food facility his chair had been critical of the principle of providing assistance to members facing problems with a particular component of the external current account. His chair, supported by some other Executive Directors, had suggested that the Fund should ask other international agencies to study possible means of providing food import financing outside the Fund. His authorities continued to attach importance to using the Fund's limited financial resources primarily for general balance of payments support. While the limited use of the cereal decision had not placed a major strain on the Fund's resources, the question naturally arose whether it was worth keeping a facility that was used only moderately. Most members seeking help obtaining a sufficient supply of cereals--for example, African countries--had a greater need for food aid than for Fund assistance; in those cases, the cereal facility could play only a marginal role. Accordingly, the lack of any discussion in the staff paper on possible alternatives to maintaining the food facility was somewhat surprising. Despite their criticisms, his authorities were prepared to support the proposal to continue the food facility for another four years. However, the extension should be seen as a temporary measure, pending a satisfactory long-term solution. Accordingly, the staff paper for the next review of the cereal facility should include alternative measures or arrangements to the facility.

Mr. Coumbis commented that the use of the food facility had obviously been limited: only 11 purchases by four members had been made. Still, the facility had provided timely financial support to some developing countries facing balance of payments problems due to crop shortages. In addition, there had been no major difficulties in implementing the cereal decision. Moreover, world cereal production might not be as substantial in coming years as in the previous four years, thereby causing cereal prices to rise and members to make greater use of the cereal facility, which should be continued another four years. More experience was needed to identify fully the role it would be able to play in providing financial assistance to members. The cereal decision should be reviewed within two years.

Mr. Schneider said that he agreed with the staff that there had been no serious difficulties in implementing the cereal decision, which should therefore remain in force for another four years and be reviewed in two years. The experience with the cereal facility was limited. Since its adoption in 1981, only seven member countries had made 11 purchases totaling SDR 962 million. A much larger number of member countries had originally been expected to use the facility. A major reason for the limited purchases was the unexpectedly favorable global cereal situation during the previous four years. However, several countries, especially those in sub-Saharan Africa, had suffered severe food shortages that had attracted worldwide attention. The serious nature of the problems facing those low-income food-deficit countries could not be addressed through the cereal decision, which was not designed to deal with long-term problems. The important requirements of those countries had to be met through food aid. Increased food aid to those countries would certainly be a better solution than increased imports financed by commercial borrowing at high cost, even if that option were available to all the low-income food-deficit countries. The World Bank should examine the food problems caused not only by adverse weather conditions but also by adverse changes in the structure of agriculture in the countries concerned. Improvements in that structure would help to eliminate the root causes of the food problems and, in a number of cases, could help the countries concerned to re-establish self-sufficiency in food supply.

He agreed with the staff that the concept of "beyond the control of the authorities" was easier to apply under the cereal decision than under the decision on compensation for export shortfalls, Mr. Schneider remarked. However, the actual data showed that two of the four purchases under the cereal facility had provided substantial overcompensation. Since the experience with the food facility and the relevant actual data were therefore limited, and since assurances had been given regarding the application of the repurchase provision under Article XII in the event of overcompensation under the cereal decision, he had no difficulty in approving the continuation of the existing early drawing procedures. The proposed decision was acceptable.

Mr. Kabbaj stated that he accepted the proposed decision. The cereal facility had been intended to make an important contribution to food security and had indeed proved very useful to those members, including two in his constituency, that had used it to mitigate the impact of temporary food shortages and increased cereal import costs on their balance of payments.

However, while the cereal facility had been broadly helpful to the seven member countries that had used it, the facility's overall success among its potential users had been moderate, Mr. Kabbaj said; the financing under the facility had averaged less than SDR 100 million per year. The actual recourse to the cereal facility had clearly been limited compared to the amount of compensation of export shortfalls, the staff estimates of the facility's use when the cereal decision was adopted, and the significant increase in cereal import costs incurred by a large number of potential users of the cereal facility.

The limited use of such an important financing facility had been due both to the actual circumstances in each of the potential users of the facility and to the fact that some of the provisions of the cereal decision had acted as a significant deterrent to the use of the facility, Mr. Kabbaj commented. Failure to satisfy one or more of the ordinary requirements of compensatory financing--including balance of payments need, the existence of payment difficulties caused by factors beyond the control of the authorities, and cooperation with the Fund--had obviously contributed to the limited use of the cereal facility. The exclusion of cereal imports acquired on concessionary terms from compensation under the cereal decision had also substantially reduced the scope of drawings, as it had prevented many countries, particularly those in Africa facing acute food shortages and famine, from gaining access to the facility.

The integration of the cereal facility with the compensatory financing facility, the requirement to make any compensatory financing purchase under the cereal decision for the three years following the initial use of the cereal facility, and the adjustment required by users of the cereal facility had been even more important causes of the facility's limited use, Mr. Kabbaj continued. The staff's evaluation suggested that separation of the cereal facility would have increased its use by only a small amount. However, that assessment did not take into account the demand for assistance that would have been generated by a separate mechanism and therefore did not enable Executive Directors to gain a full appreciation of how the integration of the cereal facility with the compensatory financing facility had limited the effectiveness of the cereal facility. Similarly, since there had been no assurance that members would obtain larger purchases by opting to include cereals in the compensatory financing calculations, some members had felt discouraged from choosing that option.

His chair had often noted that the increasingly stricter test of cooperation had reduced the effectiveness of compensatory financing in general and the cereal decision in particular, Mr. Kabbaj went on. The compensatory financing facility dealt with circumstances and problems that were unlike those handled under the cereal decision. However, as a result of the integration of the two the need for balance of payments adjustment had been emphasized even when a cereal import excess had been due to exogenous factors. The limited use of the facility was also traceable to the complexity of the cereal decision, which largely explained the insufficient familiarity of member countries with many of its provisions.

The experience with the cereal decision and the analysis of the prospects for the global cereal situation amply justified the renewal of the decision, but members' limited recourse to it thus far also suggested that significant improvements in its effectiveness and usefulness seemed called for, Mr. Kabbaj said. It would therefore be appropriate to use some future opportunity to reassess some of the provisions that discouraged larger recourse to the facility and the extent to which the provisions might be adapted to potential users' needs without excessively affecting the Fund's liquidity. In that context, eliminating the three-year rule and separating the cereal facility from the compensatory financing facility would go a long way toward increasing the cereal facility's scope. It might also be desirable to review the appropriateness of excluding all cereal imports obtained on concessionary terms from the calculation of the cereal import excess, particularly in cases in which the concessionary element was judged to be modest. Those modifications would open the cereal facility to use by more low- and medium-income countries. Furthermore, in view of those countries' generally modest quotas and their balance of payments financing need, such an opening should not necessarily result in an excessive increase in the overall use of the cereal facility. He supported the staff's recommendations in the hope that the Executive Board would have an opportunity to reassess the cereal decision's main provisions and possible ways of adapting them to the needs of potential users of the cereal facility.

Mr. Zhang stated that the proposed decision was acceptable.

Mr. Leonard remarked that the limited use of the cereal facility was unsurprising, partly because of the facility's design. Nevertheless, the facility had provided valuable assistance to a few members that had had to cope with temporary excesses in cereal import costs. Hence, he accepted the staff's recommendation that the cereal decision should be renewed for a second four-year period. Any shorter period might be seen as being unduly restrictive at the present juncture. The use of the cereal facility was likely to remain modest in the future, and the additional financing requirement resulting from its continuation could be expected to be correspondingly small. As a result, the extension of the facility by four years would not be extravagant. Moreover, the proposed review after two years would allow the Executive Board to react in a timely way to any significant changes in the financing requirements that might arise.

His Canadian authorities had some reservations about the compensatory financing facility, Mr. Leonard said. In their view, the special facilities could give rise to problems concerning the equal treatment of members. They also shared the reservations of other Executive Directors about any approach that made the provision of balance of payments assistance conditional on unfavorable developments in a particular item of the external accounts. They were worried that such a narrow focusing of attention on particular areas--developments which might be offset by developments in other items--could lead to poorly based policy positions. A decision whether or not to provide Fund financial assistance should be based on a country's overall balance of payments position, the policies designed to eliminate any weakness in the position, and the prospects for the balance of payments as a whole.

His authorities were worried about the current food shortage in many countries, particularly certain African countries, Mr. Leonard commented. They recognized that the shortages were tragic in themselves and that they had been exacerbated by the fact that many of the countries concerned also had chronically weak balance of payments positions and very low levels of per capita income. At the same time, his authorities felt that it was important to recognize that the Fund's role in assisting those countries, although important, was limited; the Fund was not well placed to provide food assistance to such countries, and it did not provide the kind of long-term help that would enable members to tackle the root causes of their food-related problems. Furthermore, while the Fund's resources could be made available at charges that were below market rates, they were not as concessional as some other sources of assistance. Other institutions, particularly national and multilateral agencies, were better placed to take the lead in combating long-term food problems. Over the previous several months, the Chairman had outlined the main elements of a strategy for Fund assistance to African member countries, and he fully supported the Chairman's approach.

Mr. Blandin recalled that his authorities had strongly supported the cereal decision in 1981. They also fully accepted the proposed decision. He agreed with the staff that, on the whole, the cereal decision had served the purpose for which it was intended and should be renewed for a further four years.

Developing countries facing adjustment problems, and especially the low-income countries, should be able to continue to benefit from partial compensation for excess cereal imports, Mr. Blandin went on. Such compensation was often an important condition for achieving orderly adjustment. Finally, he agreed with previous speakers who said that it would be desirable and timely to review the eligibility criteria for the cereal facility in order to better adapt them to the members' needs; in that connection, Mr. Polak had made useful proposals.

Mr. Alfidja commented that the staff paper clearly showed that the cereal facility was an important source of balance of payments assistance for members that had experienced temporary increases in the cost of cereal imports due to factors largely beyond their control. The cereal decision had enabled countries to make timely drawings to compensate for shortfalls in domestic food supplies, and he agreed with the staff that the cereal facility had achieved the purpose for which it had been established, even though the scale of operation had been fairly modest.

The small scale of operation of the cereal facility compared with the potential use raised the question whether a separate facility, rather than one integrated with the compensatory financing facility, should not have been established, Mr. Alfidja continued. The staff might well need more actual data on the operation of the facility in order to draw firm conclusions. The staff might wish to make such an appraisal during the next review of the cereal decision.

The staff had concluded that the food shortages in sub-Saharan Africa were not temporary in nature and therefore could not be compensated for by drawings under the cereal facility, Mr. Alfidja commented. The sources and wide-ranging effects of the food problems facing African countries were complex, and he had serious reservations about the staff's conclusion. Some African countries had used the facility but had subsequently refrained from doing so as their food supply situation had improved. A further comment on the so-called temporary nature of the food-related problems facing sub-Saharan African countries would be helpful.

Mr. Pérez considered that the cereal facility would continue to have a role to play in the coming period. It had clearly helped member countries to solve temporary balance of payments problems owing to difficult food situations, and he agreed with the staff that the cereal decision should be continued for another four years. However, the information provided by the staff suggested that the cereal facility had fallen short of expectations; only 11 countries had used the facility, and 9 of them had used it in conjunction with a stand-by arrangement. Furthermore, while the amount of resources used under the facility had been significant, it was substantially below the original projections. The limited use of the facility placed in doubt the operational aspects of the facility, not the usefulness of the cereal decision. Technical and statistical problems had inhibited potential users of the facility, and at the next review the staff should recommend ways to improve the efficiency of the facility.

Mr. Jensen said that the proposed decision was acceptable. Previous speakers had clearly described the principal merits of the cereal facility. The limited use of the facility had probably been due to the integration of the cereal and export compensatory financing decisions and the requirement to base the assistance under the cereal facility on the net amount of a country's cereal import excess and export excess. A country's increase in exports was often offset at least partially by an increase in the imports of raw materials, oil, and equipment needed to achieve growth in export earnings; hence, it could not always be assumed that the additional resources from an increase in exports would be available to finance additional cereal imports.

The facility's conditionality and cooperation requirement also had discouraged members from making greater use of it, Mr. Jensen commented. Most members facing a temporary increase in the cost of cereal imports due to a drought or increase in food import prices--factors that were beyond the control of the authorities concerned--had no option other than the cereal facility. Proposals to improve the functioning of the facility and to facilitate the access to it by members with urgent food requirements should be considered in the future; particular attention should be paid to the integration of the cereal and export compensatory financing decisions and the conditionality under the cereal facility.

Mr. Rye remarked that a major user of the cereal facility was in his constituency and the authorities of that country felt that the facility had been useful. The authorities of other members in his constituency harbored some doubts about the value of the facility in its present form. Total drawings under the facility had been modest, and most if not all of the countries that had used the facility might have been able to meet their financing needs by using the Fund's ordinary facilities; accordingly, the cereal facility might well have unnecessarily fragmented the provision of Fund assistance.

Nine of the 11 drawings under the cereal facility had been made in the upper tranche of the facility and had coincided with the implementation of a Fund-supported program, a pattern that was entirely appropriate, Mr. Rye continued. The immediate cause of a cereal shortfall was often beyond the control of a member country, but such shortfalls could be exacerbated by the inadequacy of a country's underlying policies. Regardless of the cause of such shortfalls, the associated balance of payments financing problem must be dealt with and, in that connection, Fund conditionality should be helpful. The cereal facility was not designed or intended to cope with long-term food deficits, which could be handled only through structural adjustment programs designed to improve the management of resources available for domestic food production and to strengthen the overall economy; meanwhile, substantial food and financial aid were of course vital, but the cereal facility was not an appropriate part of that assistance.

Actual data on merchandise exports and commercial cereal imports were available for 4 of the 11 purchases made under the cereal decision, Mr. Rye noted. In all 4 cases there had been either no compensable amount, or the compensable amount had been substantially less than the approved purchase, an outcome that suggested that the method of calculating the cereal shortfall might be inadequate. Of course, it was always difficult to forecast exports and imports. Given the small number of purchases and limited actual data on merchandise exports and commercial cereal imports for the countries concerned, the question of the adequacy of the method of calculating the compensable net shortfall should perhaps be examined during the next review of the cereal decision rather than at the present review.

If the compensatory financing facility in general, which was dealt with in Annex IV, was to be the subject of a separate paper, it would be important to bear in mind that the rate of overdue repurchases under that facility was nearly three times the rate under other facilities, Mr. Rye said. He hesitated to draw a firm conclusion from that trend, but it did suggest that some further analysis of the experience with arrears would be warranted.

The outcome of the proposed review of the cereal decision in two years might well be constrained or even prejudged by the fact that the decision had already been approved for a full four-year period, Mr. Rye remarked. However, in view of the strong majority in favor of the proposed decision, including a review in two years, he was willing to go along with it.

The Director of the Research Department noted that on pages 7 and 8 the staff had concluded that "an important factor explaining the limited use of the decision by these countries, in addition to the reasons outlined above, lies in the nature of the problems faced. The persistence of adverse production conditions in a number of these countries resulting in serious food shortages meant that the food problems were not temporary and hence could not be addressed by the cereal decision." The word "temporary" in that statement was used in the same sense that was implied in its use in the cereal decision and in the decision on compensatory financing of export shortfalls. Accordingly, if the relevant problems facing a member country were not thought to be temporary, the staff would have no choice but to conclude that the country did not qualify for access to the cereal facility. The staff had not meant to discourage any member facing unusual food shortages from presenting its case for assistance under the cereal facility. Each case would have to be judged on its own merits.

The decision to integrate the cereal facility with the compensatory financing facility was based on the fact that a country's need to finance an excess in its cereal import cost was reduced to the extent that it enjoyed an excess in export earnings, the Director said. It was true that, as one Executive Director had noted, excess export earnings might be related directly to imports of such items as raw materials. However, experience suggested that such links were not so pervasive as to undermine the relevance of the principle of integration that the Executive Board had adopted.

The requirement that having opted for the cereal decision, a member's subsequent compensatory financing requests for three years must be made under the provisions of that decision had been adopted as part of the experimental approach to the cereal facility at the time of the adoption of the cereal decision, the Director of the Research Department recalled. The Executive Board could of course decide to discontinue that feature of the experiment.

The staff representative from the Research Department said that the available data indicated that the cereal imports of African countries had increased substantially over the previous four years. Although food aid to those countries had also increased, it had not covered a significant portion of total food imports. In 1979-84, commercial food imports by African countries had increased by 6 million tons, while food aid had increased by 2 million tons. A further increase in food aid was expected in 1985.

Many African countries had experienced food production shortfalls over successive years since the adoption of the cereal decision in 1981, the staff representative from the Research Department noted. If such a member had approached the Fund at the end of the first year it had experienced a food production shortfall, the staff would probably have made the standard assumption that output would recover in coming years provided that weather conditions returned to normal. Accordingly, in purely technical terms, the country would have qualified for a drawing under the cereal facility. A country that approached the Fund in the second consecutive year probably would still have qualified for such a drawing. However, as a member experienced additional consecutive years of food production deficits requiring unusually high levels of commercial food imports, the difference between the normal import trend and the level of imports required during a particular year would narrow and eventually disappear.

The discussion in the staff paper on the nature of the food shortages facing many sub-Saharan African countries was in effect an ex post assessment; had more requests for purchases under the cereal facility actually been made, the number of approved purchases would probably have exceeded the 11 actual cases.

Ms. Bush commented that in considering future requests to use the cereal facility Executive Directors should keep in mind the importance both to the member concerned and to the Fund of maintaining domestic policies--particularly appropriate pricing policies--aimed at enhancing food production; cooperation among the authorities, the Fund, and the World Bank in framing such policies was needed. She agreed with Mr. Clark that a general review of the compensatory financing facility should be held.

The Chairman said that the need for policies emphasizing the necessity of adequate price incentives to producers was a basic element of the approach of staff and management to Fund-supported programs for countries facing food shortages. The Fund was working closely with the World Bank in helping members to create incentives in the form of adequate prices, and the achievements in that area thus far had been notable.

Ms. Bush remarked that it would be useful to have the staff prepare a paper on policy changes in members due to efforts involving the Fund and the World Bank to encourage members to provide adequate production incentives through producer prices. She welcomed the Chairman's statement on the attention paid to the need for adequate producer prices and the notable achievements that had been made in that area thus far as a result of cooperation among members, the Fund, and the World Bank. Since that statement would appear in the record of the present discussion, a similar statement need not be added to the proposed decision. As some previous speakers had mentioned, although the cereal facility had not been widely used, it was appropriate to continue the facility for humanitarian reasons.

The Chairman noted that Executive Directors had requested a broader study of the compensatory financing facility. The various proposals concerning the cereal decision could be examined in the period prior to the next review of that decision.

Mr. Clark said that the various proposals concerning the cereal decision should be further discussed by the Executive Board fairly soon, and certainly before the next scheduled review, which would not take place for two years. He hoped that the Executive Board could hold the review of the compensatory financing facility before the 1985 Annual Meeting.

Mr. Sengupta considered that it would be particularly important during the next review of the cereal decision to reconsider the requirement that a member that opted to use the cereal decision must subsequently continue to receive compensatory financing under that decision for three years.

The Chairman said that he agreed with Mr. Sengupta. The three-year requirement was one of the experimental elements of the cereal facility. Further thought should be given to the timing of the proposed review, and Mr. Clark's remarks in that regard would be taken into account. The three-year requirement and other aspects of the cereal facility would be reviewed, and a larger review of the compensatory financing facility also should be undertaken.

The staff representative from the Research Department remarked that the staff's calculations showed that the three-year rule had made virtually no difference in the level of drawings under the cereal facility because the members concerned had already exhausted their access to the export component of the Fund's compensatory financing.

The Executive Board then took the following decision:

Decision No. 6680-(81/81), adopted May 13, 1981, as amended by Decision No. 7602-(84/3), adopted January 6, 1984, shall be further amended as follows:

1. In paragraph 1, the words "For an initial period of four years..." shall be replaced by the words "For a period of eight years...."

2. Paragraph 17 shall read: "The Executive Board will review this Decision not later than May 13, 1987."

Decision No. 7967-(85/69), adopted
May 3, 1985

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/68 (5/1/85) and EBM/85/69 (5/3/85).

4. MALI - 1985 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1985 Article IV consultation with Mali to not later than May 3, 1985.

Decision No. 7968-(85/69), adopted
May 1, 1985

5. SENEGAL - TECHNICAL ASSISTANCE

In response to a request from the Senegalese authorities for technical assistance in the customs and tax fields, the Executive Board approves the proposal set forth in EBD/85/110 (4/29/85).

Adopted May 2, 1985

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/85/113 (5/1/85) and by Assistants to Executive Directors as set forth in EBAP/85/112 (4/30/85) and EBAP/85/76, Supplement 1 (4/30/85) is approved.

APPROVED: February 14, 1986

JOSEPH W. LANG, JR.
Acting Secretary