DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

Mr. J. J. Polak

Room 9-320 C

#1

SM/74/267
Revision 2

December 24, 1974

To: Members of the Executive Board

From: The Secretary

Subject: Sixth General Review of Quotas - Report of the Executive Directors to the Interim Committee

Attached is a new revision of the report of the Executive Directors to the Interim Committee of the Board of Governors on the International Monetary System on the sixth general review of quotas. As agreed at yesterday's Executive Board meeting, this text will be transmitted to the Interim Committee.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Sixth General Review of Quotas

Report of the Executive Directors to the Interim Committee of the Board of Governors on the International Monetary System

December 23, 1974

I. Introduction

The Fund is required to conduct a general review of the quotas of all members at intervals of five years, but it may conduct a general review at other times. The current general review is the sixth. The main points which arise are the following:

1. the size of the overall increase of Fund quotas;
2. the distribution of quota increases among members, and
3. the mode of payment for the increased subscriptions.

II. Size of the Overall Quota Increase

All Executive Directors agree that an increase in quotas from SDR 29.2 billion is warranted at this time. One Director wishes to emphasize that the case for an increase depends importantly on decisions about the Fund's financial operations in 1975 and beyond. Since the last quota review the world economy has grown strongly. In the present and prospective situation of massive payments disequilibria the demand on the Fund's resources might be expected to rise by relatively large amounts. A substantial increase in quotas would permit selective increases which would reflect changes in members' relative positions in the world economy since the last adjustment of quotas, and would increase the amount of currencies for use by the Fund in its transactions and operations.

The Executive Directors have not agreed on the size of the overall increase. Two Directors with important voting power consider that the increase should be 25 per cent or less. A number of Directors supported an increase of around 35 per cent. Many Directors supported a 50 per cent increase, but most of them indicated a willingness to compromise on an increase of not less than 35 per cent.

It was noted in the discussions that a quota increase of less than 35 per cent would not only be proportionately smaller than the overall increases resulting from the last two quota reviews but would fall far short of the growth in world trade in any recent five-year period.

III. Distribution of Quota Increases

The size of quota increases for individual members depends not only on the size but also the distribution of the overall increase. On distribution, the Executive Directors are not agreed on the extent to which all members' quotas should be increased by a proportionate general increase to reflect the growth in world trade and payments, and the extent to which there should be selective quota increases to take account of changes in relative positions of members in the world economy.

There is, however, general agreement among the Executive Directors on the desirability of increasing greatly the quotas of the major oil exporting countries. Many Directors supported this view on the expectation that the currencies of all these members would be effectively usable in Fund transactions under the Fund's regular policies and procedures on the use of currencies. Technical questions relating to this issue will be further explored by the Executive Directors, some of whom believe that these questions should be considered in relation to all quota increases and that they should be resolved before quota increases are agreed.

Most Directors support a doubling of the share of these members, taken as a group, in Fund quotas; one Director thought that the present quotas of these members as a group could be doubled in absolute amount. Some other Executive Directors are also concerned that doubling the share of this group in Fund quotas could be an unduly large increase because of the uncertainty about the adjustments in members' positions now underway. A few Directors felt, however, that the share of these countries as a group should be more than doubled.

Differing views are held on how far a substantial increase in the share in the Fund of the group of major oil exporting countries should be reflected in changes in the positions of other groups of countries in the Fund:

> Some Directors argued that the increase in the share of the Fund quotas of the major oil-exporting countries should be compensated by proportionate reductions in the shares of all other groups of members.
>
> A large number of Executive Directors believed that the share in the Fund of the developing countries (other than the major oil exporters) should not fall, and several of them hold the view that the share of the developing countries should be increased.
>
> Several Executive Directors hold the view that the position of the intermediate group of the "other developed" countries should be protected.

The attached table is intended to illustrate the broad implications for the distribution of quotas among groups of countries under three of the foregoing alternatives; the calculations are based on overall increases of quotas of 25 per cent, 35 per cent, and 50 per cent.

A few Executive Directors argued that it is undesirable to determine quota increases on the basis of the shares of particular groups of countries.

A few Directors consider that special quota increases[1/] should be allocated to only a small number of members whose quotas are most out-of-line because their economies have grown rapidly since the last quota increase. These Directors were also concerned that the share of fast-growing countries in quotas and voting power should not decline. Some Executive Directors argued that special quota increases should also be granted so as to maintain the present positions of those countries which had previously agreed to a smaller increase in their quotas than would have been justified under generally applicable criteria. A few Directors asked that certain claims for quota increases not agreed to in the past should also be taken into consideration.

Many Executive Directors believe that special quota increases should be more widely spread among members.

A large number of Directors felt that consideration should be given to leaving available, after application of statistical criteria, a margin of the overall quota increase to permit further increases of a few quotas that might still be regarded as somewhat low.

IV. Payment of Increased Subscription

The Executive Directors have also considered the main issues connected with the payment of the gold portion of increases in quotas both under the present Articles and under amended Articles.

The possibility was discussed of adopting appropriate arrangements to mitigate the effects of the gold payment which is required under the present Articles, for a portion equal to 25 per cent of any quota increase. Many Directors believe, however, that such severe problems of principle and technique would be involved in mitigating such payments as to make it an unpromising approach.

Most Executive Directors strongly support the principle of an amendment of the Articles which would give members the option to use other media in the payment of the gold portion of increased subscriptions. Many Directors believe that members should be permitted to use SDRs in place of gold. A few Directors suggest that members should, in addition to SDRs, have the option to pay in gold but at a price related to the market. Some Directors feel that in addition to the first or second of these choices a member should have the option to pay the gold portion in currencies agreed with the Fund, including perhaps their own currency. However, some others hold the view that payments with currency should be permitted only in certain circumstances.

1/ Other than those for the major oil exporters as a group.

In view of the comparatively small holdings of SDRs of many members, and the fact that not all members are participants in the Special Drawing Account, a number of Directors suggest that, for the Sixth General Review, provision should be made for members to pay either in SDRs or in their own currencies. However, some Directors proposed that provision should be made to enable the Fund to permit the payment of any increased subscription either entirely in members' own currencies or in a proportion higher than the present 75 per cent. Some other Directors feel that such an approach would be the least desirable alternative.

Illustrative Distribution of Quotas Among Different Groups Based on Overall Increases in Fund Quotas of 25 per cent, 35 per cent, and 50 per cent

(In millions of SDRs)

	Present Quota	Potential Quota Increases					
		25 per cent		35 per cent		50 per cent	
		A 1/	B 2/	A 1/	B 2/	A 1/	BB 2/
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Industrial countries	18,365	21,394	21,822	23,140	23,597	25,776	26,260
% share in total	*62.92*	*58.63*	*59.80*	*58.72*	*59.88*	*58.87*	*59.97*
Other developed countries	2,735	3,302	3,250	3,575	3,514	3,966	3,911
% share in total	*9.37*	*9.05*	*8.91*	*9.07*	*8.91*	*9.05*	*8.93*
Major oil exporters	1,454	3,634	3,634	3,926	3,926	4,361	4,361
% share in total	*4.98*	*9.96*	*9.96*	*9.96*	*9.96*	*9.96*	*9.96*
Other developing countries	6,087	7,609	7,233	8,218	7,822	9,132	8,703
% share in total	*20.85*	*20.85*	*19.82*	*20.85*	*19.85*	*20.85*	*19.88*
Totals 3/	29,191	36,489	36,489	39,409	39,409	43,785	43,785

1/ Potential quotas under A calculated by doubling the shares of major oil exporters as a group and maintaining the shares of other developing countries as a group; the percentage increase in the quotas of the group of other developed countries was set at an intermediate position between the increases of the industrial and of the other developing countries.

2/ Potential quotas under B calculated by doubling the shares of major oil exporters and the balance distributed to countries in proportion to their present quotas.

3/ Totals include China whose quota is assumed to remain unchanged at its present level of SDR 550 million throughout the calculations; quotas of individual groups and their shares in the totals will not, therefore, add up to the totals.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

For Immediate Attention

SM/74/267
Revision 1

Mr. J. J. Polak

Room 9-320 C

#1

December 22, 1974

To: Members of the Executive Board

From: The Secretary

Subject: Sixth General Review of Quotas--Report of the Executive Directors to the Interim Committee of the Board of Governors on the International Monetary System

Attached is a revised version of the draft report on the above subject. As agreed, this revision will not be placed on the Agenda of the Executive Board unless an Executive Director so requests.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Sixth General Review of Quotas

Report of the Executive Directors to the Interim Committee
of the Board of Governors on the International Monetary System

December 21, 1974

I. Introduction

The Fund is required to conduct a general review of the quotas of all members at intervals of five years, but it may conduct a general review at other times. The current general review is the sixth. The main points which arise are the following:

1. the size of the overall increase of Fund quotas;
2. the distribution of quota increases among members; and
3. the mode of payment for the increased subscriptions.

II. Size of the Overall Quota Increase

All Executive Directors agree that an increase in quotas from SDR 29.2 billion is warranted at this time. Since the last quota review the world economy has grown strongly. In the present and prospective situation of massive payments disequilibria the demand on the Fund's resources might be expected to rise by relatively large amounts. A substantial increase in quotas would permit selective increases which would reflect changes in members' relative positions in the world economy since the last adjustment of quotas, and would increase the amount of currencies for use by the Fund in its transactions and operations.

The Executive Directors have not agreed on the size of the overall increase. Two Directors with important voting power consider that the increase should be 25 per cent or less. A number of Directors supported an increase of 35 per cent. Many Directors supported a 50 per cent increase, but most of them indicated a willingness to compromise on an increase of not less than 35 per cent.

It was noted in the discussions that a quota increase of less than 35 per cent would not only be proportionately smaller than the overall increases resulting from the last two quota reviews but would fall far short of the growth in world trade in any recent five-year period.

III. Distribution of Quota Increases

The size of quota increases for individual members depends not only on the size but also the distribution of the overall increase. On distribution, the Executive Directors are not agreed on the extent to which all members' quotas should be increased by a proportionate general increase to reflect the growth in world trade and payments, and the extent to which there should be selective quota increases to take account of changes in relative positions of members in the world economy.

There is, however, general agreement among the Executive Directors on the desirability of increasing greatly the quotas of the major oil exporting countries. Many Directors supported this view on the expectation that the currencies of all these members would be effectively usable in Fund transactions under the Fund's regular policies and procedures on the use of currencies. Technical questions relating to this issue will be further explored by the Executive Directors, some of whom believe that these questions should be considered in relation to all quota increases and that they should be resolved before quota increases are agreed.

Most Directors support a doubling of the share of these members, taken as a group, in Fund quotas; one Director thought that the present quotas of these members as a group could be doubled in absolute amount. Some other Executive Directors are also concerned that doubling the share of this group in Fund quotas could be an unduly large increase because of the uncertainty about the adjustments in members' positions now underway. A few Directors felt, however, that the share of these countries as a group should be more than doubled.

Differing views are held on how far a substantial increase in the share in the Fund of the group of major oil exporting countries should be reflected in changes in the positions of other groups of countries in the Fund:

> Some Directors argued that the increase in the share of the Fund quotas of the major oil-exporting countries should be compensated by proportionate reductions in the shares of all other groups of members.
>
> A large number of Executive Directors believed that the share in the Fund of the developing countries (other than the major oil exporters) should not fall. One Executive Director holds the view that the share of the developing countries should be increased.
>
> Several Executive Directors hold the view that the position of the intermediate group of the "other developed" countries should be protected.

The attached table is intended to illustrate the broad implications for the distribution of quotas among groups of countries under three of the foregoing alternatives; the calculations are based on overall increases of quotas of 25 per cent, 35 per cent, and 50 per cent.

One Executive Director argued that it is undesirable to determine quota increases on the basis of the shares of particular groups of countries.

A few Directors consider that special quota increases1/ should be allocated to only a small number of members whose quotas are most out-of-line because their economies have grown rapidly since the last quota increase. These Directors were also concerned that the share of fast-growing countries in quotas and voting power should not decline. Some Executive Directors argued that special quota increases should also be granted so as to maintain the present positions of those countries which had previously agreed to a smaller increase in their quotas than would have been justified under generally applicable criteria. A few Directors asked that certain claims for quota increases not agreed to in the past should also be taken into consideration.

Many Executive Directors believe that special quota increases should be more widely spread among members.

A large number of Directors felt that consideration should be given to leaving available, after application of statistical criteria, a margin of the overall quota increase to permit further increases of a few quotas that might still be regarded as somewhat low.

IV. Payment of Increased Subscription

The Executive Directors have also considered the main issues connected with the payment of the gold portion of increases in quotas both under the present Articles and under amended Articles.

The possibility was discussed of adopting appropriate arrangements to mitigate the effects of the gold payment which is required under the present Articles, for a portion equal to 25 per cent of any quota increase. Many Directors believe, however, that such severe problems of principle and technique would be involved in mitigating such payments as to make it an unpromising approach.

Most Executive Directors strongly support the principle of an amendment of the Articles which would give members the option to use other media in the payment of the gold portion of increased subscriptions. Many Directors believe that members should be permitted to use SDRs in place of gold. A few Directors suggest that members should, in addition to SDRs, have the option to pay in gold but at a price related to the market. Some Directors feel that in addition to the first or second of these choices a member should have the option to pay the gold portion in currencies agreed with the Fund, including perhaps their own currency. However, some others hold the view that payments with currency should be permitted only in certain circumstances.

1/ Other than those for the major oil exporters as a group.

In view of the comparatively small holdings of SDRs of many members, and the fact that not all members are participants in the Special Drawing Account, a number of Directors suggest that, for the Sixth General Review, provision should be made for members to pay either in SDRs or in their own currencies. However, some Directors proposed that provision should be made to enable the Fund to permit the payment of any increased subscription either entirely in members' own currencies or in a proportion higher than the present 75 per cent. Some other Directors feel that such an approach would be the least desirable alternative.

Illustrative Distribution of Quotas Among Different Groups Based on Overall Increases in Fund Quotas of 25 per cent, 35 per cent, and 50 per cent

(In millions of SDRs)

	Present Quota	Potential Quota Increases					
		25 per cent		35 per cent		50 per cent	
		A1/	B2/	A1/	B2/	A1/	BB2/
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Industrial countries	18,365	21,394	21,822	23,140	23,597	25,776	26,260
% share in total	*62.92*	*58.63*	*59.80*	*58.72*	*59.88*	*58.87*	*59.97*
Other developed countries	2,735	3,302	3,250	3,575	3,514	3,966	3,911
% share in total	*9.37*	*9.05*	*8.91*	*9.07*	*8.91*	*9.05*	*8.93*
Major oil exporters	1,454	3,634	3,634	3,926	3,926	4,361	4,361
% share in total	*4.98*	*9.96*	*9.96*	*9.96*	*9.96*	*9.96*	*9.96*
Other developing countries	6,087	7,609	7,233	8,218	7,822	9,132	8,703
% share in total	*20.85*	*20.85*	*19.82*	*20.85*	*19.85*	*20.85*	*19.88*
Totals3/	29,191	36,489	36,489	39,409	39,409	43,785	43,785

1/ Potential quotas under A calculated by doubling the shares of major oil exporters as a group and maintaining the shares of other developing countries as a group; the percentage increase in the quotas of the group of other developed countries was set at an intermediate position between the increases of the industrial and of the other developing countries.

2/ Potential quotas under B calculated by doubling the shares of major oil exporters and the balance distributed to countries in proportion to their present quotas.

3/ Totals include China whose quota is assumed to remain unchanged at its present level of SDR 550 million throughout the calculations; quotas of individual groups and their shares in the totals will not, therefore, add up to the totals.

MR POLAK

Mr. Fleming to see

December 13, 1974

MEMORANDUM FOR FILES

Subject: Payment of Quota Increases

At his request, I spent about 1½ hours with Mr. Cross (and Mr. Harley) yesterday discussing issues and techniques for the payment of the gold portion of the quota increases. Mr. Cross mentioned more than once that he felt very strongly that members, particularly the oil exporters, should not receive quota increases unless they agreed to the use of their currencies and that if they did not agree, neither then should the Fund borrow from them. I mentioned that the list of usable currencies had, of course, been extended, that there had been discussions with oil exporting countries and other countries with strong external positions and that this matter was again currently receiving attention from Management and staff.

Mr. Cross seemed to favor payment of the full increase by members in their own currencies but subject to their agreeing to the sale by the Fund of 25 per cent of the increase. I indicated that this could give rise to a number of problems, none of which were insuperable but which, nevertheless, could entail certain difficulties. Even if the currencies were used on a priority basis in drawings, it might take a considerable time to reduce all holdings by 25 per cent of the increase in quota and there were, of course, a number of countries whose balance of payments and reserve positions were weak and some form of mitigation would, presumably, be desirable. In addition, there was the question of establishing conversion procedures and of ensuring satisfactory arrangements with many members who have had no experience with such transactions.

Mr. Cross said that he felt these problems could be worked out and that this proposal really meant no difference as regards the impact on the members' reserves. He did not seem attracted to the idea of a limited Subscription Account and was preoccupied with the implications of various techniques for the United States. The meeting concluded without my obtaining a definite idea as to what line Mr. Cross is likely to take in future quota discussions other than to be insistent about the use of other members' currencies.

R. J. Familton

cc: The Managing Director (on return)
The Acting Managing Director
Mr. Gold
Mr. Polak
Mr. Sturc

DRAFT

Sixth General Review of Quotas: Report of the Executive Directors to the Interim Committee of the Board of Governors on the International Monetary System

I. Introduction

The Fund is required to conduct a general review of the quotas of all members at intervals of five years, but it may conduct a general review at other times. The current general review is the sixth. The Committee may wish to address itself to the following:

1. the size of the overall increase of Fund quotas;
2. the distribution of quota increases among members; and
3. the mode of payment for the increased subscriptions.

II. Size of the Overall Quota Increase

All Executive Directors agree that a substantial increase in quotas from SDR 29.2 billion is warranted at this time. Since the last quota review the world economy has grown strongly. In the present and prospective situation of massive payments disequilibria the demand on the Fund's resources might be expected to rise by relatively large amounts. A substantial increase in quotas would permit selective increases which would reflect changes in members' relative positions in the world economy since the last adjustment of quotas, and would increase the amount of currencies for use by the Fund in its transactions and operations.

The Executive Directors have not agreed on the size of the overall increase. The greater number of them believe that an increase of at least 35 per cent would be justified, though some would support an overall increase

of up to 50 per cent and a few a higher overall increase. A small number of Directors, but with important voting power, consider that the increase should be about 25 per cent or less.

It was noted in the discussions that a quota increase of less than 35 per cent would not only be proportionately smaller than the amounts agreed in previous reviews but would fall far short of the growth in world trade in any recent five-year period. Moreover, during the last five years the prices of internationally traded goods have risen by over 60 per cent, so that an overall quota increase substantially less than this amount would be smaller, after taking into account the increase in prices, than was agreed in the 1970 review.

III. Distribution of Quota Increases

The size of quota increases for individual members depends not only on the size but also the distribution of the overall increase. On distribution, the Executive Directors are not agreed on the extent to which all members' quotas should be increased by a proportionate general increase to reflect the growth in world trade and payments, and the extent to which there should be selective quota increases to take account of changes in relative positions of members in the world economy. Most Directors have supported the view that an amount in the neighborhood of two-thirds of the overall quota increase should be devoted to an equal proportional general increase for all members.

There is general agreement among Executive Directors on the need to increase greatly the quotas of the major oil exporting countries, provided that the Fund were able to use their currencies in its transactions. Most

Directors support a doubling of the share of these members, taken as a group, in Fund quotas. In support of this view is the doubling of the share of this group of countries in world reserves between end-1972 and mid-1974 and in world exports between 1972 and the first half of 1974, and the fact that their present quotas are small in relation to their balance of payments surpluses and external reserve positions. Some Executive Directors are concerned that doubling the share of this group in Fund quotas could be an unduly large increase because of the uncertainty about the adjustments in members' positions now underway; one Director felt that the share of these countries as a group should be more than doubled.

Differing views are held on how far a substantial increase in the share in the Fund of the group of major oil exporting countries should be reflected in changes in the positions of other groups of countries in the Fund:

Some Directors argued that the increase in the share of Fund quotas of the major oil exporting countries should be compensated by proportionate reductions in the shares of all other groups of members.

A somewhat larger number of Executive Directors believed that the share in the Fund of the developing countries (other than the major oil exporters) should not fall. This view is taken because many countries in this group have only restricted access to other sources of balance of payments financing, have comparatively low reserves and that a reduction in their share in Fund quotas would also reduce their share in future allocations of SDRs and their share in voting power in the Fund.

Several Executive Directors hold the view that the position of the group of the "other developed" countries should be protected, especially as some countries in this group have economic characteristics more nearly akin to the developing countries than to the industrial countries.

The Executive Directors also recognize that many of the industrial countries had grown very rapidly since the last quota review and that these countries provide the bulk of the Fund's liquidity.

A few Executive Directors have argued that it is undesirable to determine quota increases on the basis of the shares of particular groups of countries. A few Directors also believe that special quota increases should be allocated to only a small number of members whose quotas are most out-of-line because their economies had grown very fast since the last quota increase. These Directors were also concerned that the share of fast growing countries in quotas and voting power should not decline. One Executive Director argued that special quota increases should also be granted to those countries which had previously foregone quota increases, so as to maintain unchanged their present positions in the Fund.

Many Executive Directors believe that special quota increases should be more widely spread among members and that the share of the developing countries in the Fund should be maintained. It was acknowledged that this last approach could result in a considerable reduction of the shares in the Fund of the industrial countries, as a group and individually, and also of the shares of a few other members that had grown relatively fast.

Some Directors felt that consideration should be given to leaving available, after application of statistical criteria, a margin of the overall quota increase which would be used to permit further increases of a few quotas that might still be regarded as somewhat low.

The attached table summarizes the implications for the distribution of quotas by groups of countries of a number of calculations most recently presented to the Executive Directors by the staff; the calculations are based on an overall increase of quotas of 35 per cent.

IV. Payment of Increased Subscriptions

The Executive Directors have also considered the main issues connected with the payment of the gold portion of increases in quotas both under the present Articles and under amended Articles.

A few Executive Directors feel that the 25 per cent portion of any quota increase payable in gold, as required under the present Articles, could continue to be paid, with appropriate arrangements being made to mitigate the effects of such payments. Many Directors believe, however, that severe problems of principle and technique would be involved in mitigating such payments to the Fund which make it an unpromising avenue of approach.

Most Executive Directors strongly support the principle of an amendment of the Articles which would permit the use of other media in the payment of the "gold portion" of increased subscriptions. Some believe that members should be permitted to use SDRs in place of gold, and, perhaps in special circumstances, permitted to pay the "gold portion" in other members currency agreed with the Fund or in their own currency.

In view of the comparatively small holdings of SDRs of many members, and the fact that not all members are participants in the Special Drawing Account, a number of Directors suggest that, for the Sixth General Review, members might have an option to pay in SDRs or in their own currency. However, some Directors also proposed that the payment of an increased subscription could be made either entirely in members' own currencies or in a proportion somewhat higher than the present 75 per cent. In the event members' own currencies were widely used in excess of 75 per cent of the quota increases, a number of issues, relating to Fund liquidity and operations, would arise for solution by the Executive Directors.

Illustrative Distribution of Quotas Among Different Groups
Based on 35 per cent Overall Increase in Fund Quotas

(In millions of SDRs)

Group	Present Quotas (1)	Potential Quotas A1/ (2)	Potential Quotas B2/ (3)
Industrial countries	18,365	23,140	23,598
Percentage share in total	*(62.92)*	*(58.72)*	*(59.88)*
Other developed countries	2,735	3,575	3,513
Percentage share in total	*(9.37)*	*(9.07)*	*(8.91)*
Major oil exporters	1,454	3,926	3,926
Percentage share in total	*(4.98)*	*(9.96)*	*(9.96)*
Other developing countries	6,087	8,218	7,823
Percentage share in total	*(20.85)*	*(20.85)*	*(19.85)*
Total (including China)	29,191	39,410	39,410

1/ Potential quotas under A calculated by doubling the shares of major oil exporters as a group and maintaining the shares of other developing countries as a group; the percentage increase in the quotas of the group of other developed countries was set at an intermediate position between the increases of the industrial and of the other developing countries.

2/ Potential quotas under B calculated by doubling the shares of major oil exporters and the balance distributed to countries in proportion to their present quotas.

Mr Polak

December 6, 1974

MEMORANDUM

To: Files

From: William B. Dale

Subject: U.S. Views on Quotas

In a conversation yesterday with Mr. Cross, he indicated the following U.S. views and constraints as to quotas:

1. The U.S. view is that they are not prepared to see practically any reduction in their present share of voting power (20.8 per cent), which they feel can be viewed as giving them only small protection from erosion to below 20 per cent due to increased membership. At the same time, Mr. Cross acknowledged my point that the only genuinely important 80 per cent majority is in relation to amendment and that if the United States could not receive support from some others, the position would be weak. But he also stated a recurring theme of U.S. Treasury doctrine, namely, that a situation in which U.S. voting power would sink below 20 per cent might well provoke a situation that would involve less U.S. commitment to the Fund, a situation, he said, that both the United States and the Fund ought to be concerned about. We also mentioned that one possibility would be to include in the amendment to the Articles a provision raising the requirement for approval of amendments to 85 per cent of voting power. This would of course be a two-edged sword, giving others a veto on amendment as well as protecting the United States. Moreover, said Mr. Cross, he would prefer to save such an amendment for a situation in which major changes in membership (admission of the Soviet Union, or Mainland China, or both) were in question.

2. The Treasury has been thinking of a maximum increase in the U.S. quota of SDR 2 billion, having in mind the Congressional appropriation process required.

In this connection, he mentioned that there is a connection in the Treasury view between the amount of quota increase the United States will support and the prospective use of the resources in question: there would be a greater disposition to go along with a higher quota increase if the resources were to be directly used to supply drawings than if the resources were to form the basis for guaranties for borrowing by the Fund from oil exporters.

3. Mr. Bennett's statement in Paris probably was understood to mean U.S. support for a tripling of the share of oil exporters in quotas, and was no doubt meant that way. Cross, however, felt that is excessive, and hoped to pull the U.S. position back to support not more than a tripling of the absolute amount of oil exporters' quotas.

4. Cross felt that there was no good basis for countenancing the maintenance of non-oil LDC shares in quotas, and was strongly determined that they should share in the reduction of shares for others occasioned by the increase in the share of the oil exporters.

I observed that the constraints the United States had apparently built into its position provided for extremely narrow maneuvering room, if any, in the quota exercise. I thought there would be understanding of the U.S. view under 1. above, but the whole of the U.S. position did not make me sanguine about the prospects.

cc: Managing Director
Mr. Gold
Mr. Polak
Mr. Habermeier
Mr. Del Canto
Mr. Beza

Office Memorandum

TO : Mr. Polak

DATE: December 3, 1974

FROM : R.R. Rhomberg and E. Suss

SUBJECT : Quota Calculations

Further to our memorandum of today, the attached table shows special quota increases calculated on four bases:

(i) special increases shown in Table 1 of EB/CQuota 74/6, i.e., increases calculated by the incremental approach using the Treasurer's Department's formula and data;

(ii) special increases calculated from the same formula and data, but by the absolute rather than the incremental method;

(iii) special increases calculated by the absolute method from the simplified formula (based on imports and variability of exports) using the same data employed in the calculation under (i) and (ii) above;

(iv) special increases calculated by the absolute method from the simplified formula described under (iii) but using 1973 data for imports.

A comparison of these four columns permits the assessment of the following effects: The difference between columns (1) and (2) shows the effect of using the incremental method. A comparison of columns (2) and (3) shows the effect of using the simplified formula rather than the formula employed by the Treasurer's Department. A comparison of columns (3) and (4) shows the effect of using 1973 data on imports rather than average import data for 1970-72.

Alternative Special Increases Given Under Variant 2 Using Various Formulas for Distribution.

	Treasurer's, Incremental Approach	Treasurer's, Non-incremental Approach	Single formula, Treasurer's import data	Single formula, 1973 Import data
	(1)	(2)	(3)	(4)
1. Australia	–	–	–	–
2. Spain	125.4	109.1	62.6	92.4
3. S. Africa	38.6	44.0	39.5	–
4. Yugoslavia	23.8	21.6	42.9	42.6
5. N. Zealand	–	–	–	–
6. Finland	43.1	40.3	44.7	40.1
7. Romania	–	–	11.2	27.2
8. Turkey	–	7.9	–	–
9. Greece	7.5	12.5	33.3	34.9
10. Ireland	3.8	9.0	30.6	22.9
11. Portugal	49.7	41.2	28.2	32.5
12. Iceland	0.1	1.3	–	0.4
13. Malta	–	–	–	–

	(1)	(2)	(3)	(4)
6. Jamaica	7.7	11.2	15.2	8.4
7. Ivory Coast	7.8	16.3	7.6	11.0
8. Syria	3.0	2.4	7.5	6.0
9. Kenya	9.0	14.4	13.1	8.0
0. Tunisia	3.8	1.9	2.2	6.7
31. Dom. Rep.	1.4	3.2	4.6	4.5
32. Tanzania	3.5	4.9	6.4	4.9
33. Uganda	3.8	1.1	–	–
34. Singapore	78.3	96.9	129.4	196.2
35. Bolivia	–	–	–	–
6. Afghanistan	–	–	–	–
7. Panama	17.9	13.9	8.7	5.8
8. Guatemala	6.9	8.9	6.7	5.2
9. El Salvador	–	–	1.7	2.2
0. Cameroon	2.6	1.8	3.1	1.1
1. Senegal	–	0.3	7.2	2.1
2. Costa Rica	4.9	2.6	7.7	6.4
3. Yemen, P.D.R.	9.9	6.6	0.3	0.2
4. Liberia	–	1.6	–	–
5. Ethiopia	1.8	3.1	1.2	–
6. Nicaragua	–	0.8	2.8	3.1
7. Cyprus	5.2	3.4	5.6	8.3
8. Malagasy Rep.	1.3	2.3	2.7	–
9. Sierra Le.	–	–	–	–
0. Khmer Rep.	0.1	–		–

	(1)	(2)	(3)	(4)
51. Honduras	2.1	2.4	3.8	1.6
52. Guinea	–	–	–	–
53. Jordon	1.1	1.6	4.4	4.8
54. Mauritius	–	–	–	–
55. Mali	1.3	–	–	–
56. Bahamas	13.1	11.9	9.4	24.5
57. Guyana	–	–	1.1	–
58. Haiti	–	–	–	–
59. Paraguay	–	–	–	–
60. Burundi	0.4	–	–	–
61. Somalia	–	–	–	–
62. Rwanda	–	–	–	–
63. Togo	1.0	–	–	–
64. Malawi	1.6	–	1.0	0.3
65. Gabon	8.1	8.1	3.1	3.8
66. Mauritania	2.6	1.6	1.2	–
67. Dahomey	1.3	–	–	0.1
68. Congo	0.1	1.2	1.5	0.6
69. Chad	1.9	–	–	–
70. Cent. Afr. Rep.	0.1	–	–	–
71. Upper Volta	0.1	–	–	–
72. Niger	1.3	–	–	–
73. Laos	–	–	–	–
74. Fiji	1.3	2.4	3.1	3.9
75. Barbados	0.1	0.1	2.6	2.1

	(1)	(2)	(3)	(4)
76. Nepal	4.0	3.0	1.5	–
77. Bahrain	3.7	6.1	6.2	8.1
78. Yemen Arab R.	1.1	–	–	1.8
79. Lebanon	22.5	49.7	41.2	44.4
80. Eq. Guinea	–	–	–	–
81. Swaziland	4.6	1.9	1.1	2.0
82. Gambia	–	–	–	–
83. Lesotho	–	–	0.5	1.2
84. Botswana	3.8	2.5	2.8	3.7
85. W. Samoa	–	–	0.2	–

Mr. Habermeier:

Relevant to possible suggestions for tomorrow's Board Meeting.

JJP

Office Memorandum

TO : Mr. Polak

DATE: December 2, 1974

FROM : R. R. Rhomberg and E. Suss

SUBJECT : Quota calculations-1973 data

At your suggestion to explore quota calculations with 1973 data, to the extent that these are available, Miss Suss and I have prepared the figures inserted in the attached Table 1 of EB/CQuota/74/6.

Quotas were calculated from the formula using imports and the variability of exports to explain the 1971 quotas of developing countries in SM/73/275. The formula is

$$Q_c = .2103\ M + .6312\ V_x$$

where Q_c equals calculated quota, M equals merchandise imports, and V_x equals the variability of merchandise exports. Imports are quantitatively much more important in this formulation than the variability of exports. In some instances, import data for 1973 had to be estimated on the basis of data for two or three quarters of 1973 or by applying to the 1972 figures the average growth rate* for imports of the group of developing countries. The variability of exports is calculated from data for 1955-1971; the addition of another year would not substantially alter these figures, and their weight in determining calculated quotas is in any case quite small.

Calculations were made (a) for the group of developing countries other than major oil exporters and (b) for the group of other developed countries (for which quotas were calculated on the basis of the formula for the developing countries shown above). In each group, calculated quotas were normalized to the quota total for the group shown in columns 5 and 6 of Table 1, and special quota increases were then calculated by allocating the amount available for such increases for the group in question in proportion to the excess of calculated quota over 120 per cent of present quota. (This means that the incremental method was not used for the group of developing countries in these calculations.)

For the other developed countries, the figures produced differ for those shown in column 4 of Table 1 in two ways: (i) more recent data are used and (ii) the formula for calculating quotas differs for the formula used by the Treasurer's Department. For the group of developing countries, the figures differ for the same two reasons, and in addition because (iii) the absolute, rather than the incremental, method of calculation was used.

In a number of instances the difference between calculated quotas under the method described in this note and the original figures in column 4 of Table 1 is quite large. We are looking at the sources of these discrepancies in order to determine the extent to which they result from one or other of the reasons given under (i)-(iii) above.

*/ 1972-73.

Table 1. Quota Calculations Based on Table B of EB/CQuota/74/5
(35 Per Cent Overall Increase with 20 Per Cent
General Increase)

(In millions of SDRs)

	Present Quota (1)	20 per cent General Increase (2)	Special Increases		Totals	
			Variant 1[1/] (3)	Variant 2[2/] (4)	(1)+(2)+(3) (5)	(1)+(2)+(4) (6)
A. Industrial Countries						
United States	6,700	1,340.0	326.0	171.0	8,366.0	8,211.0
United Kingdom	2,800	560.0	31.5	--	3,391.5	3,360.0
Germany	1,600	320.0	186.0	285.0	2,106.0	2,205.0
France	1,500	300.0	97.0	92.0	1,897.0	1,892.0
Japan	1,200	240.0	143.0	221.0	1,583.0	1,661.0
Canada	1,100	220.0	69.0	64.0	1,389.0	1,384.0
Italy	1,000	200.0	64.5	62.0	1,264.5	1,262.0
Netherlands	700	140.0	56.5	68.0	896.5	908.0
Belgium and Luxembourg	670	134.0	54.5	66.0	858.5	870.0
Sweden	325	65.0	34.0	49.0	424.0	439.0
Austria	270	54.0	13.0	7.0	337.0	331.0
Denmark	260	52.0	15.5	13.0	327.0	325.0
Norway	240	48.0	11.0	5.0	299.0	293.0
Total	18,365				23,140.0	23,140.0
Percentage share in total	*(62.92)*				*(58.72)*	*(58.72)*
B. Other Developed Countries						
Australia	665	133.0	35.2	--	833.2	798.0
Spain	395	79.0	70.2	125.4	544.2	599.4
South Africa	320	64.0	41.9	38.6	425.9	422.6
Yugoslavia	207	41.4	26.8	23.8	275.2	272.2
New Zealand	202	40.4	2.1	---	244.3	242.4
Finland	190	38.0	29.7	43.1	257.7	271.1
Romania	190	38.0	14.7	--	242.7	228.0
Turkey	151	30.2	15.4	--	196.6	181.2
Greece	138	27.6	15.9	7.5	181.5	173.1
Ireland	121	24.2	13.3	3.8	158.5	149.0
Portugal	117	23.4	23.8	49.7	164.2	190.1
Iceland	23	4.6	2.4	0.1	30.0	27.7
Malta	16	3.2	1.3	-	20.5	19.2
Total	2,735				3,575.0	3,575.0
Percentage share in total	*(9.37)*				*(9.07)*	*(9.07)*
C. Major Oil Exporters						
Venezuela	330	66.0	297.5	297.5	693.5	693.5
Indonesia	260	52.0	89.0	89.0	401.0	401.0
Iran	192	38.4	351.0	351.0	581.5	581.5
Nigeria	135	27.0	138.5	138.5	300.5	300.5
Saudi Arabia	134	26.8	457.5	457.5	618.5	618.5
Algeria	130	26.0	120.5	120.5	276.5	276.5
Iraq	109	21.8	185.5	185.5	316.5	316.5
Kuwait	65	13.0	254.5	254.5	332.5	332.5
Ecuador	33	6.6	28.5	28.5	68.0	68.0
Libyan Arab Republic	24	4.8	193.5	103.5	222.5	222.5
Qatar	20	4.0	25.0	25.0	49.0	49.5
United Arab Emirates	15	3.0	27.5	27.5	45.5	45.5
Oman	7	1.4	12.0	12.0	20.5	20.5
Total	1,454				3,926.0	3,926.0
Percentage share in total	*(4.98)*				*(9.96)*	*(9.96)*

For footnotes see page 8

Table 1 (continued). Quota Calculations Based on Table B of EB/CQuota/74/5
(35 Per Cent Overall Increase with 20 Per Cent
General Increase)

(In millions of SDRs)

	Present Quota (1)	20 per cent General Increase (2)	Special Increases Variant 1[1] (3)	Special Increases Variant 2[2] (4)		Totals (1)+(2)+(3) (5)	Totals (1)+(2)+(4) (6)	
D. Developing Countries								
India	940	188.0	20.0	--	—	1,148.0	1,128.0	
Brazil	440	88.0	166.3	225.0	121.9	694.3	753.0	649.9
Argentina	440	88.0	47.7	18.2	—	575.7	546.2	528.0
Mexico	370	74.0	74.7	75.5	19.5	518.7	519.5	463.5
Pakistan	235	47.0	--	--	—	282.0	282.0	
Egypt	188	37.6	10.0	--	—	235.6	225.6	
Malaysia	186	37.2	22.5	11.9	33.3	245.7	235.1	256.5
Chile	158	31.6	33.6	35.3	—	223.2	224.9	159.6
Colombia	157	31.4	17.7	7.7	—	206.1	196.1	188.4
Philippines	155	31.0	20.0	12.0	16.6	206.0	198.0	202.6
Thailand	134	26.8	18.5	12.5	34.8	179.3	173.3	195.6
Israel	130	26.0	45.5	60.1	123.0	201.5	216.1	279.0
Bangladesh	125	25.0	8.9	--	—	158.9	150.0	
Peru	123	24.6	13.7	5.7	0.4	161.3	153.3	148.0
Morocco	113	22.6	17.4	13.6	—	153.0	149.2	
Zaire	113	22.6	26.2	29.1	6.3	161.8	164.7	141.9
Sri Lanka	98	19.6	--	--	—	117.6	117.6	
Ghana	87	17.4	7.0	--	—	111.4	104.4	
Korea	80	16.0	53.6	81.6	144.3	149.6	177.6	240.3
Zambia	76	15.2	43.2	64.2	7.2	134.4	155.4	98.4
Sudan	72	14.4	1.5	--	—	79.9	86.4	
Uruguay	69	13.8	2.6	--	—	85.4	82.8	
Trinidad and Tobago	63	12.6	4.0	--	7.4	79.6	75.6	83.0
Viet-Nam	62	12.4	11.8	11.4	15.0	86.2	85.8	89.4
Burma	60	12.0	--	--	—	72.0	72.0	
Jamaica	53	10.6	8.9	7.7	8.4	72.5	71.3	72.0
Ivory Coast	52	10.4	8.9	7.8	11.0	71.3	70.2	73.4
Syrian Arab Republic	50	10.0	5.9	3.0	6.0	65.9	63.0	66.0
Kenya	48	9.6	9.2	9.0	8.0	66.8	66.6	65.6
Tunisia	48	9.6	6.3	3.8	6.7	63.9	61.4	64.3
Dominican Republic	43	8.6	4.4	1.4	4.5	56.0	53.0	56.1
Tanzania	42	8.4	5.5	3.5	4.9	55.9	53.9	55.3
Uganda	40	8.0	5.5	3.8	—	53.5	51.8	48.0
Singapore	37	7.4	48.0	78.5	196.2	92.4	122.7	240.6
Bolivia	37	7.4	3.0	--	—	47.4	44.4	
Afghanistan	37	7.4	--	--	—	44.4	44.4	
Panama	36	7.2	13.3	17.9	5.8	56.5	61.1	49.0
Guatemala	36	7.2	7.0	6.9	5.2	49.9	50.1	48.4
El Salvador	35	7.0	1.8	--	2.2	43.8	42.0	44.2
Cameroon	35	7.0	4.4	2.6	1.1	46.4	44.6	43.1
Senegal	34	6.8	2.6	--	2.1	43.4	40.8	42.9
Costa Rica	32	6.4	5.5	4.9	6.4	43.9	43.3	44.8
Yemen, People's Dem. Republic	29	5.8	8.1	9.9	0.2	42.9	44.7	35.0
Liberia	29	5.8	1.1	--	—	35.9	34.8	
Ethiopia	27	5.4	3.3	1.8	—	35.7	34.2	32.4
Nicaragua	27	5.4	2.2	--	3.1	34.6	32.4	35.5
Cyprus	26	5.2	5.2	5.2	8.3	36.4	36.4	39.5
Malagasy Republic	26	5.2	3.0	1.3	—	34.2	32.5	31.2
Sierra Leone	25	5.0	0.7	--	—	30.7	30.0	
Khmer Republic	25	5.0	2.2	0.1	—	32.2	30.1	30.0
Honduras	25	5.0	3.7	2.7	1.6	33.7	32.7	31.6
Guinea	24	4.8	0.4	--	—	29.2	28.8	
Jordan	23	4.6	2.6	1.1	4.8	30.2	28.7	32.4
Mauritius	22	4.4	--	--	—	26.4	26.4	
Mali	22	4.4	2.6	1.3	—	29.0	27.7	26.4
Bahamas	20	4.0	9.2	13.1	24.5	33.2	37.1	48.5
Guyana	20	4.0	1.1	--	—	25.1	24.0	
Haiti	19	3.8	0.7	--	—	23.5	22.8	
Paraguay	19	3.8	1.5	--	—	24.3	22.8	
Burundi	19	3.8	1.8	0.4	—	24.6	23.2	22.8

For footnotes see page 8

Table 1 (concluded). Quota Calculations Based on Table B of EB/CQuota/74/5
(35 Per Cent Overall Increase with 20 Per Cent
General Increase)

(In millions of SDRs)

	Present Quota	20 per cent General Increase	Special Increases		Totals	
			Variant 1 1/	Variant 2 2/	(1)+(2)+(3)	(1)+(2)+(4)
	(1)	(2)	(3)	(4)	(5)	(6)
D. Developing Countries (concluded)						
Somalia	19	3.8	0.4	--	23.2	22.8
Rwanda	19	3.8	1.1	--	23.9	22.8
Togo	15	3.0	1.8	1.0	19.8	19.0
Malawi	15	3.0	2.2	1.6	20.2	19.6
Gabon	15	3.0	6.3	8.7	24.3	26.7
Mauritania	13	2.6	2.5	2.6	18.2	18.2
Dahomey	13	2.6	1.8	1.3	17.4	16.9
Congo, People's Republic	13	2.6	1.5	0.7	17.0	16.3
Chad	13	2.6	2.2	1.9	17.8	17.5
Central African Republic	13	2.6	1.5	0.7	17.1	16.3
Upper Volta	13	2.6	1.5	0.7	17.1	16.3
Niger	13	2.6	1.8	1.3	17.4	16.9
Laos	13	2.6	0.3	--	15.9	15.6
Fiji	13	2.6	1.8	1.3	17.4	16.9
Barbados	13	2.6	1.5	0.7	17.1	16.3
Nepal 3/	14	2.8	3.3	4.0	20.1	21.0
Bahrain	10	2.0	3.0	3.7	15.0	15.7
Yemen Arab Republic	10	2.0	1.5	1.1	13.5	13.1
Lebanon	9	1.8	13.8	22.5	24.6	33.3
Equatorial Guinea	8	1.6	--	--	9.6	9.6
Swaziland	8	1.6	3.3	4.6	12.9	14.2
The Gambia	7	1.4	0.4	--	8.8	8.4
Lesotho	5	1.0	0.4	--	6.4	6.0
Botswana	5	1.0	2.6	3.8	8.6	9.8
Western Samoa	2	0.4	--	--	2.4	2.4
Total	6,087				8,218.0	8,218.0
Percentage share in total	*(20.85)*				*(20.85)*	*(20.85)*
Grand Total (including China	29,191				39,408.0	39,408.0

1/ Variant 1: The allocation of special increases under Variant 1 is based on

(a) For the industrial and other developed countries: in proportion to the shares of these countries in their respective subtotals of the excess of calculated over present quotas under the absolute approach (Column D of Table 4 of EB/CQuota/74/2).

(b) For the major oil exporting countries: in proportion to the shares of these countries in the total of their international reserves as of middle of 1974.

(c) For developing countries: in proportion to the shares of these countries in their subtotal of the excess of calculated over present quotas under the incremental approach (Column 2 of Table 2 of EB/CQuota/74/3).

2/ See text, Section 4, b and c.

3/ Member has not yet paid its last two installments of subscription.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

Mr. J.J. Polak
Room 9-320
#11

EB/CQuota/74/6

November 29, 1974

To: Members of the Committee of the Whole on Review of Quotas

From: The Secretary

Subject: Sixth General Review of Quotas - Illustrative Distributions of Quota Increases

The attached paper, which presents illustrative distributions of quota increases, has been prepared by the staff for discussion by the Committee on Wednesday, December 4, 1974.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Sixth General Review of Quotas -
Illustrative Distributions of Quota Increases

Prepared by the Treasurer's and Research Departments

Approved by W. O. Habermeier and J. J. Polak

November 29, 1974

This memorandum presents illustrative quota calculations for individual Fund members on the basis of a number of different assumptions, which are detailed below in sections 1 through 4. The quota calculations are presented in Tables 1 through 4; Table 5 shows the percentage shares of members' quotas which result from the calculations. In constructing these tables account has been taken of the discussions of the Committee of the Whole on the size of any general increase, the criteria that might be considered for selecting members for special quota increases and the methods of allocating special quota increases to such members.

1. Size of overall increase

The size of the overall increase of the Fund has been put at 35 per cent in Tables 1 and 2, and 50 per cent in Tables 3 and 4. An overall increase of 35 per cent over the present Fund (including China) of SDR 29.19 billion would result in a Fund of SDR 39.41 billion, and that of 50 per cent would result in a Fund of SDR 43.78 billion. Such overall percentage increases fall within the range mentioned by a number of Directors at the last meeting of the Committee of the Whole. The overall increase in the size of the Fund resulting from each of the last two quota reviews was about 35 per cent; the overall increase resulting from the 1959 quota review was almost 60 per cent.

2. General quota increases

Insofar as general quota increases are concerned, Tables 1 and 2 are based on a general increase of 20 per cent which has been allocated to all members (except China). This general increase is equivalent to almost 60 per cent of the overall quota increase of 35 per cent. In Tables 3 and 4 the general increase has been set at 35 per cent for all members (except China). This general increase is equivalent to 70 per cent of the overall quota increase of 50 per cent. The smaller proportionate share in the case of a 35 per cent overall increase is related to the fact that the doubling of the quotas of the oil exporting countries takes a larger relative share of the smaller overall increase.

A proportionately large general increase has the effect of broadly maintaining the relative positions of members in the Fund. As a proportion to past overall quota increases, the general increase accounted for 78 per cent of the increase in 1959/60, for 73 per cent in 1965/66 and for 65 per cent in connection with the Fifth General Review on 1969/70.

3. Special quota increases by groups of members

Calculations of special quota increases have been made taking into account the positions of certain groups of members in an enlarged Fund--in particular the considerations underlying Table B of EB/CQuota/74/5, which many Executive Directors found a reasonable compromise if other approaches, such as had also been included in that paper, would not find general acceptance. Calculations made on the basis of Table B of EB/CQuota/74/5 are to be found in Tables 1 and 3 below. For comparative purposes calculations have also been made on the basis of Table C of EB/CQuota/74/5, and these are to be found in Tables 2 and 4 below.

Table B of EB/CQuota/74/5 was constructed on the basis of doubling the share in the Fund of the group of "major oil exporting" countries and maintaining the share of the group of "other developing" countries. The aggregate calculated quotas of all developed countries taken together would have increased by about 26.6 per cent and 41 per cent for overall increases in the size of Fund of 35 and 50 per cent. However, many of the countries classified in the "other developed" group have economic characteristics more nearly akin to developing than to industrial countries. For this reason it would seem appropriate to moderate somewhat the decline in their share in an enlarged Fund, either taking the group as a whole or for individual countries within the group. The latter approach would involve reclassifying countries and treating some countries in this group as "industrial" and some as "developing" countries. No reclassification of countries has been made in this paper. Furthermore, the share in the overall increase for the group of "other developed" countries has been set midway between the share in the overall increase for the group of "other developing" countries and the share in the overall increase for the group of "industrial" countries--i.e., for an overall increase in the Fund of 35 per cent, the increase for the group of "other developed" is 30.5 per cent, and for an overall increase of 50 per cent, the increase for the group is 45 per cent.

Doubling the share of the major oil exporting countries was put forward in an earlier paper as a rough approximation of the measure of the increase in their relative positions in world trade, payments and reserves. On the basis of reserves data, this group of countries has increased its share in the world total from 6.2 per cent at end-1970 to 8.1 per cent at end-1972 to 16.6 per cent in mid-1974; the share of this group in world exports increased from 5.7 per cent in 1970 to 6.5 per cent in 1972 to 13 per cent in the first six months of 1974.

Sufficient data to measure fully members' relative positions at the present time are not available, nor would they be indicative of the size of the needed adjustments which are still underway. It is presumed, however, that the recent changes in the positions of the major oil exporting countries vis-a-vis the rest of the world would not be quickly reversed. There is, of course, some risks of overadjustment partly because of the uncertainty about relative positions, but also because a quota cannot be decreased without the consent of the member concerned. The next general quota review would provide an opportunity to assess relative positions more accurately than can be made at present. In any event it is apparant that a large increase in these members' quotas would usefully augment the Fund's liquidity provided, of course, that the currencies of these members were fully usable in the normal course of the Fund's business.

The calculations based on Table C of EB/CQuota/74/5 provide for a doubling of the share of the major oil exporting countries in Fund quotas, and a proportionate compensating reduction in the shares of all other groups.

4. Distribution of special increases with each group

While maintaining the constraints on the shares of individual groups of countries in the Fund noted above, the following methods have been adopted in allocating special increases among countries within each group:

(a) "Major Oil Exporting" countries: For this group of countries, special quota increases have been allocated on the basis of their individual shares in the total of their external reserves as of end-June 1974. This method has been followed in Tables 1 through 4. Two alternative measures of relative economic size for this group of countries, namely their share in the total of their exports and their share in the total of their calculated quotas, would yield for most countries only a slightly different allocation, but both tend to raise substantially the share of three of the smallest oil exporting members.

(b) "Industrial" and "Other Developed" group: For these two groups of countries special quota increases have been allocated on two bases, referred to as Variant 1 and Variant 2 in Tables 1 through 4. In Variant 1 the special increases were distributed to members in each group in proportion to the excess (if positive) of their calculated quotas over their present quotas as shown in Column D of Table 4 of EB/CQuota/74/2. This method was followed in allocating special quota increases in the Fifth General Review. In Variant 2 the special increases are distributed in proportion to the excess (if positive) of calculated quotas over present quotas after taking account of the general increase. However, the calculated quotas, as shown in Column D of Table 4 of EB/CQuota/74/2, have been scaled down to sum to the quota totals for each country group as indicated in Section 3 above.

(c) "Developing Countries" (other than major oil exporters): For this group the same methods have been followed as outlined in (b) above, except that their calculated quotas are those based on the incremental quota calculations shown in Column 2 of Table 2 in EB/CQuota/74/3. The use of the incremental calculations, which aims at reflecting both the comparative economic growth of members and the existing structure of quotas, has the effect of spreading more evenly the special increases among the countries in this group.

5. Use of more recent data

The present quota calculations are based on data for periods ending in 1972. For many countries some of the 1972 data had to be estimated. If it were desired to base quota calculations on more recent data, a formula involving fewer variables would have to be used. In particular, the formula would have to exclude national income, at least for the developing countries, for which the value of this variable has in any event been questioned. Some simplified quota formulas were illustrated in SM/73/275.

6. Concluding observations

A few observations might be made about the calculations presented in Tables 1 through 4:

(a) The number of countries eligible for special quota increases varies considerably depending on the size of the general increase in the Fund relative to the overall increase and on the methods adopted in allocating quota increases between countries. Compared with Variant 1, Variant 2 (especially in Tables 3 and 4 in which special increases account for a smaller proportion of the increase) reduces the number of countries as being eligible for special quota increases, but raises the amount of the increase for eligible members.

(b) The built-in constraints regarding shares of different groups of countries in the Fund and the distribution of general increases to all members has resulted in comparatively small special increases in quotas for the industrial countries. The fall in the percentage shares of some of these countries, especially the United States, is substantial, particularly in the calculations presented in Tables 1 and 3 (see Table 5). The quotas of the industrial countries which comprise the Group of Ten have in the past been determined on a negotiated basis and the same might well apply on this occasion.

(c) Further substantial differences arise in the distribution of special quota increases depending on how the shares of different groups of countries have been allocated. Tables 2 and 4 (in which the shares of groups of members, other than that of the major oil exporters have been reduced proportionately) show amounts of special quota increases for the

industrial countries which are larger by about 40 per cent than those shown in Tables 1 and 3 (in which the shares of the major oil exporters have been doubled and the shares of the group of "other developing" countries has been maintained unchanged). There are, of course, corresponding smaller special increases in Tables 2 and 4 for the group of other developed countries (the amounts are close to 20 per cent less) and the other developing countries (the amounts are about 45 per cent less) as compared with the increases shown in Tables 1 and 3.

(d) The extent of rounding of quotas that would be agreed is important because it might change the shares of groups of countries significantly.

Table 1. Quota Calculations Based on Table B of EB/CQuota/74/5
(35 Per Cent Overall Increase with 20 Per Cent
General Increase)

(In millions of SDRs)

	Present Quota (1)	20 per cent General Increase (2)	Special Increases		Totals	
			Variant 1 1/ (3)	Variant 2 2/ (4)	(1)+(2)+(3) (5)	(1)+(2)+(4) (6)
A. Industrial Countries						
United States	6,700	1,340.0	326.0	171.0	8,366.0	8,211.0
United Kingdom	2,800	560.0	31.5	--	3,391.5	3,360.0
Germany	1,600	320.0	186.0	285.0	2,106.0	2,205.0
France	1,500	300.0	97.0	92.0	1,897.0	1,892.0
Japan	1,200	240.0	143.0	221.0	1,583.0	1,661.0
Canada	1,100	220.0	69.0	64.0	1,389.0	1,384.0
Italy	1,000	200.0	64.5	62.0	1,264.5	1,262.0
Netherlands	700	140.0	56.5	68.0	896.5	908.0
Belgium and Luxembourg	670	134.0	54.5	66.0	858.5	870.0
Sweden	325	65.0	34.0	49.0	424.0	439.0
Austria	270	54.0	13.0	7.0	337.0	331.0
Denmark	260	52.0	15.5	13.0	327.0	325.0
Norway	240	48.0	11.0	5.0	299.0	293.0
Total	18,365				23,140.0	23,140.0
Percentage share in total	*(62.92)*				*(58.72)*	*(58.72)*
B. Other Developed Countries						
Australia	665	133.0	35.2	--	833.2	798.0
Spain	395	79.0	70.2	125.4	544.2	599.4
South Africa	320	64.0	41.9	38.6	425.9	422.6
Yugoslavia	207	41.4	26.8	23.8	275.2	272.2
New Zealand	202	40.4	2.1	--	244.3	242.4
Finland	190	38.0	29.7	43.1	257.7	271.1
Romania	190	38.0	14.7	--	242.7	228.0
Turkey	151	30.2	15.4	-	196.6	181.2
Greece	138	27.6	15.9	7.5	181.5	173.1
Ireland	121	24.2	13.3	3.8	158.5	149.0
Portugal	117	23.4	23.8	49.7	164.2	190.1
Iceland	23	4.6	2.4	0.1	30.0	27.7
Malta	16	3.2	1.3	-	20.5	19.2
Total	2,735				3,575.0	3,575.0
Percentage share in total	*(9.37)*				*(9.07)*	*(9.07)*
C. Major Oil Exporters						
Venezuela	330	66.0	297.5	297.5	693.5	693.5
Indonesia	260	52.0	89.0	89.0	401.0	401.0
Iran	192	38.4	351.0	351.0	581.5	581.5
Nigeria	135	27.0	138.5	138.5	300.5	300.5
Saudi Arabia	134	26.8	457.5	457.5	618.5	618.5
Algeria	130	26.0	120.5	120.5	276.5	276.5
Iraq	109	21.8	185.5	185.5	316.5	316.5
Kuwait	65	13.0	254.5	254.5	332.5	332.5
Ecuador	33	6.6	28.5	28.5	68.0	68.0
Libyan Arab Republic	24	4.8	193.5	103.5	222.5	222.5
Qatar	20	4.0	25.0	25.0	49.0	49.5
United Arab Emirates	15	3.0	27.5	27.5	45.5	45.5
Oman	7	1.4	12.0	12.0	20.5	20.5
Total	1,454				3,926.0	3,926.0
Percentage share in total	*(4.98)*				*(9.96)*	*(9.96)*

For footnotes see page 8

Table 1 (continued). Quota Calculations Based on Table B of EB/CQuota/74/5
(35 Per Cent Overall Increase with 20 Per Cent
General Increase)

(In millions of SDRs)

	Present Quota (1)	20 per cent General Increase (2)	Special Increases Variant 1[1/] (3)	Special Increases Variant 2[2/] (4)	Totals (1)+(2)+(3) (5)	Totals (1)+(2)+(4) (6)
D. Developing Countries						
India	940	188.0	20.0	--	1,148.0	1,128.0
Brazil	440	88.0	166.3	225.0	694.3	753.0
Argentina	440	88.0	47.7	18.2	575.7	546.2
Mexico	370	74.0	74.7	75.5	518.7	519.5
Pakistan	235	47.0	--	--	282.0	282.0
Egypt	188	37.6	10.0	--	235.6	225.6
Malaysia	186	37.2	22.5	11.9	245.7	235.1
Chile	158	31.6	33.6	35.3	223.2	224.9
Colombia	157	31.4	17.7	7.7	206.1	196.1
Philippines	155	31.0	20.0	12.0	206.0	198.0
Thailand	134	26.8	18.5	12.5	179.3	173.3
Israel	130	26.0	45.5	60.1	201.5	216.1
Bangladesh	125	25.0	8.9	--	158.9	150.0
Peru	123	24.6	13.7	5.7	161.3	153.3
Morocco	113	22.6	17.4	13.6	153.0	149.2
Zaire	113	22.6	26.2	29.1	161.8	164.7
Sri Lanka	98	19.6	--	--	117.6	117.6
Ghana	87	17.4	7.0	--	111.4	104.4
Korea	80	16.0	53.6	81.6	149.6	177.6
Zambia	76	15.2	43.2	64.2	134.4	155.4
Sudan	72	14.4	1.5	--	79.9	86.4
Uruguay	69	13.8	2.6	--	85.4	82.8
Trinidad and Tobago	63	12.6	4.0	--	79.6	75.6
Viet-Nam	62	12.4	11.8	11.4	86.2	85.8
Burma	60	12.0	--	--	72.0	72.0
Jamaica	53	10.6	8.9	7.7	72.5	71.3
Ivory Coast	52	10.4	8.9	7.8	71.3	70.2
Syrian Arab Republic	50	10.0	5.9	3.0	65.9	63.0
Kenya	48	9.6	9.2	9.0	66.8	66.6
Tunisia	48	9.6	6.3	3.8	63.9	61.4
Dominican Republic	43	8.6	4.4	1.4	56.0	53.0
Tanzania	42	8.4	5.5	3.5	55.9	53.9
Uganda	40	8.0	5.5	3.8	53.5	51.8
Singapore	37	7.4	48.0	78.3	92.4	122.7
Bolivia	37	7.4	3.0	--	47.4	44.4
Afghanistan	37	7.4	--	--	44.4	44.4
Panama	36	7.2	13.3	17.9	56.5	61.1
Guatemala	36	7.2	7.0	6.9	49.9	50.1
El Salvador	35	7.0	1.8	--	43.8	42.0
Cameroon	35	7.0	4.4	2.6	46.4	44.6
Senegal	34	6.8	2.6	--	43.4	40.8
Costa Rica	32	6.4	5.5	4.9	43.9	43.3
Yemen, People's Dem. Republic	29	5.8	8.1	9.9	42.9	44.7
Liberia	29	5.8	1.1	--	35.9	34.8
Ethiopia	27	5.4	3.3	1.8	35.7	34.2
Nicaragua	27	5.4	2.2	--	34.6	32.4
Cyprus	26	5.2	5.2	5.2	36.4	36.4
Malagasy Republic	26	5.2	3.0	1.3	34.2	32.5
Sierra Leone	25	5.0	0.7	--	30.7	30.0
Khmer Republic	25	5.0	2.2	0.1	32.2	30.1
Honduras	25	5.0	3.7	2.7	33.7	32.7
Guinea	24	4.8	0.4	--	29.2	28.8
Jordan	23	4.6	2.6	1.1	30.2	28.7
Mauritius	22	4.4	--	--	26.4	26.4
Mali	22	4.4	2.6	1.3	29.0	27.7
Bahamas	20	4.0	9.2	13.1	33.2	37.1
Guyana	20	4.0	1.1	--	25.1	24.0
Haiti	19	3.8	0.7	--	23.5	22.8
Paraguay	19	3.8	1.5	--	24.3	22.8
Burundi	19	3.8	1.8	0.4	24.6	23.2

For footnotes see page 8

Table 1 (concluded). Quota Calculations Based on Table B of EB/CQuota/74/5 (35 Per Cent Overall Increase with 20 Per Cent General Increase)

(In millions of SDRs)

	Present Quota (1)	20 per cent General Increase (2)	Special Increases: Variant 1 1/ (3)	Special Increases: Variant 2 2/ (4)	Totals: (1)+(2)+(3) (5)	Totals: (1)+(2)+(4) (6)
D. Developing Countries (concluded)						
Somalia	19	3.8	0.4	--	23.2	22.8
Rwanda	19	3.8	1.1	--	23.9	22.8
Togo	15	3.0	1.8	1.0	19.8	19.0
Malawi	15	3.0	2.2	1.6	20.2	19.6
Gabon	15	3.0	6.3	8.7	24.3	26.7
Mauritania	13	2.6	2.5	2.6	18.2	18.2
Dahomey	13	2.6	1.8	1.3	17.4	16.9
Congo, People's Republic	13	2.6	1.5	0.7	17.0	16.3
Chad	13	2.6	2.2	1.9	17.8	17.5
Central African Republic	13	2.6	1.5	0.7	17.1	16.3
Upper Volta	13	2.6	1.5	0.7	17.1	16.3
Niger	13	2.6	1.8	1.3	17.4	16.9
Laos	13	2.6	0.3	--	15.9	15.6
Fiji	13	2.6	1.8	1.3	17.4	16.9
Barbados	13	2.6	1.5	0.7	17.1	16.3
Nepal 3/	14	2.8	3.3	4.0	20.1	21.0
Bahrain	10	2.0	3.0	3.7	15.0	15.7
Yemen Arab Republic	10	2.0	1.5	1.1	13.5	13.1
Lebanon	9	1.8	13.8	22.5	24.6	33.3
Equatorial Guinea	8	1.6	--	--	9.6	9.6
Swaziland	8	1.6	3.3	4.6	12.9	14.2
The Gambia	7	1.4	0.4	--	8.8	8.4
Lesotho	5	1.0	0.4	--	6.4	6.0
Botswana	5	1.0	2.6	3.8	8.6	9.8
Western Samoa	2	0.4	--	--	2.4	2.4
Total	6,087				8,218.0	8,218.0
Percentage share in total	*(20.85)*				*(20.85)*	*(20.85)*
Grand Total (including China	29,191				39,408.0	39,408.0

1/ Variant 1: The allocation of special increases under Variant 1 is based on

(a) For the industrial and other developed countries: in proportion to the shares of these countries in their respective subtotals of the excess of calculated over present quotas under the absolute approach (Column D of Table 4 of EB/CQuota/74/2).
(b) For the major oil exporting countries: in proportion to the shares of these countries in the total of their international reserves as of middle of 1974.
(c) For developing countries: in proportion to the shares of these countries in their subtotal of the excess of calculated over present quotas under the incremental approach (Column 2 of Table 2 of EB/CQuota/74/3).

2/ See text, Section 4, b and c.

3/ Member has not yet paid its last two installments of subscripyion.

Table 2. Quota Calculations Based on Table C of EB/CQuota/74/5
(35 Per Cent Overall Increase with 20 Per Cent General Increase)

(In millions of SDRs)

Member	Present quota (1)	20 Per cent general increase (2)	Special increases: Variant 1[1/] (3)	Special increases: Variant 2[2/] (4)	Total: (1)+(2)+(3) (5)	Total: (1)+(2)+(4) (6)
A. Industiral Countries						
United States	6,700	1,340.0	461.4	258.2	8,501.4	8,298.2
United Kingdom	2,800	560.0	44.8	--	3,404.8	3,360.0
Germany	1,600	320.0	262.8	393.0	2,182.8	2,313.0
France	1,500	300.0	137.3	131.7	1,937.3	1,931.7
Japan	1,200	240.0	202.0	305.3	1,642.0	1,745.3
Canada	1,100	220.0	98.0	90.6	1,418.0	1,410.6
Italy	1,000	200.0	91.6	87.8	1,291.6	1,287.8
Netherlands	700	140.0	79.9	95.6	919.9	935.6
Belgium and Luxembourg	670	134.0	77.1	93.0	881.1	897.0
Sweden	325	65.0	47.8	67.7	437.8	457.7
Austria	270	54.0	18.6	10.4	342.6	334.4
Denmark	260	52.0	22.0	18.9	334.0	330.9
Norway	240	48.0	15.9	7.8	303.9	295.8
Total	18,365				23,598.0	23,598.0
Percentage share in total	*(62.92)*				*(59.88)*	*(59.88)*
B. Other Developed Countries						
Australia	665	132.0	27.9	--	825.9	798.0
Spain	395	79.0	55.7	106.4	529.7	580.4
South Africa	320	64.0	33.2	27.0	417.2	411.0
Yugoslavia	207	41.4	21.2	16.3	269.5	264.7
New Zealand	202	40.4	1.6	--	244.0	242.4
Finland	190	38.0	23.5	35.1	251.5	263.1
Romania	190	38.0	11.7	--	239.7	228.0
Turkey	151	30.2	12.2	--	193.2	181.2
Greece	138	27.6	12.6	2.9	178.2	168.5
Ireland	121	24.2	10.5	--	155.5	145.2
Portugal	117	23.4	18.9	43.3	159.3	183.7
Iceland	23	4.6	1.9	--	29.5	27.6
Malta	16	3.2	1.0	--	20.2	19.2
Total	2,735				3,513.0	3,513.0
Percentage share in total	*(9.37)*				*(8.91)*	*(8.91)*
C. Major Oil Exporters						
Venezuela	330	66.0	297.5	297.5	693.5	693.5
Indonesia	260	52.0	89.0	89.0	401.0	401.0
Iran	192	38.4	351.0	351.0	581.5	581.5
Nigeria	135	27.0	138.5	138.5	300.5	300.5
Saudi Arabia	134	26.8	457.5	457.5	618.5	618.5
Algeria	130	26.0	120.5	120.5	276.5	276.5
Iraq	109	21.8	185.5	185.5	316.5	316.5
Kuwait	65	13.0	254.5	254.5	332.5	332.5
Ecuador	33	6.6	28.5	28.5	68.0	68.0
Libyan Arab Republic	24	4.8	193.5	193.5	222.5	222.5
Qatar	20	4.0	25.0	25.0	49.0	49.0
United Arab Emirates	15	3.0	27.5	27.5	45.5	45.5
Oman	7	1.4	12.0	12.0	20.5	20.5
Total	1,454				3,926.0	3,926.0
Percentage share in total	*(4.98)*				*(9.96)*	*(9.96)*

For footnotes see page 11

Table 2 (continued). Quota Calculations Based on Table C of EB/CQuota/74/5
(35 Per Cent Overall Increase with 20 Per Cent General Increase)

(In millions of SDRs)

Member	Present quota (1)	20 Per cent general increase (2)	Special increases: Variant 1[1/] (3)	Special increases: Variant 2[2/] (4)	Total: (1)+(2)+(3) (5)	Total: (1)+(2)+(4) (6)
D. Developing Countries						
India	940	188.0	11.3	--	1,139.3	1,128.0
Brazil	440	88.0	94.2	138.7	622.2	666.7
Argentina	440	88.0	27.0	2.3	555.0	530.3
Mexico	370	74.0	42.3	41.7	486.3	485.7
Pakistan	235	47.0	--	--	282.0	282.0
Egypt	188	37.6	5.6	--	231.2	225.6
Malaysia	186	37.2	12.8	3.7	236.0	226.9
Chile	158	31.6	19.0	19.8	208.6	209.4
Colombia	157	31.4	10.0	1.7	198.4	190.1
Philippines	155	31.0	11.3	4.5	197.3	190.5
Thailand	134	26.8	10.5	5.2	171.5	166.0
Israel	130	26.0	25.7	36.7	181.7	192.7
Bangladesh	125	25.0	5.0	--	155.0	150.0
Peru	123	24.6	7.7	1.1	155.3	148.7
Morocco	113	22.6	9.8	6.5	145.4	142.1
Zaïre	113	22.6	14.9	16.7	150.5	152.7
Sri Lanka	98	9.6	--	--	117.6	118.0
Ghana	87	17.4	4.0	--	108.4	104.0
Korea	80	16.0	30.3	52.1	126.3	148.1
Zambia	76	15.2	24.5	40.6	115.7	131.6
Sudan	72	14.4	0.8	--	87.2	86.0
Uruguay	69	13.8	1.5	--	84.3	83.0
Trinidad and Tobago	63	12.6	2.3	--	77.9	76.0
Viet-Nam	62	12.4	6.7	6.2	81.1	80.2
Burma	60	12.0	--	--	72.0	72.0
Jamaica	53	10.6	5.0	3.9	68.6	67.4
Ivory Coast	52	10.4	5.0	4.0	67.4	66.5
Syrian Arab Republic	50	10.0	3.4	0.8	63.4	60.8
Kenya	48	9.6	5.2	4.9	62.8	62.9
Tunisia	48	9.6	3.6	1.5	61.2	59.5
Dominican Republic	43	8.6	2.5	--	54.1	52.0
Tanzania	42	8.4	3.1	1.4	53.5	51.8
Uganda	40	8.0	3.1	1.6	51.1	49.6
Singapore	37	7.4	27.2	50.8	71.6	94.8
Bolivia	37	7.4	1.7	--	46.1	44.0
Afghanistan	37	7.4	--	--	44.4	44.0
Panama	36	7.2	7.5	11.0	50.7	54.0
Guatemala	36	7.2	4.0	3.8	47.2	46.8
El Salvador	35	7.0	1.0	--	43.0	42.0
Cameroon	35	7.0	2.5	0.9	44.5	42.9
Senegal	34	6.8	1.5	--	42.3	41.0
Costa Rica	32	6.2	3.1	2.6	41.3	40.6
Yemen, People's Dem. Rep. of	29	5.8	4.6	5.9	39.4	40.9
Liberia	29	5.8	0.6	--	35.4	35.0
Ethiopia	27	5.4	1.9	0.6	34.3	32.6
Nicaragua	27	5.4	1.3	--	33.7	32.0
Cyprus	26	5.2	2.9	2.9	34.0	33.9
Malagasy Republic	26	5.2	1.7	0.3	32.9	31.3
Sierra Leone	25	5.0	0.4	--	30.4	30.0
Khmer Republic	25	5.0	1.3	--	31.3	30.0
Honduras	25	5.0	2.0	1.3	32.0	31.3
Guinea	24	4.8	0.2	--	29.0	29.0
Jordan	23	4.6	1.5	0.2	29.1	27.7
Mauritius	22	4.4	--	--	26.4	26.0
Mali	22	4.4	1.5	0.4	27.9	26.4

For footnotes see page 11

Table 2 (concluded). Quota Calculations Based on Table C of EB/CQuota/74/5
(35 Per Cent Overall Increase with 20 Per Cent General Increase)

(In millions of SDRs)

Member	Present quota (1)	20 Per cent general increase (2)	Special increase Variant 1 1/ (3)	Special increase Variant 2 2/ (4)	Total (1)+(2)+(3) (5)	Total (1)+(2)+(4) (6)
D. Developing Countries (concluded)						
Bahamas	20	4.0	5.2	8.2	29.2	32.2
Guyana	20	4.0	0.6	--	24.6	24.0
Haiti	19	3.8	0.4	--	23.2	23.0
Paraguay	19	3.8	0.8	--	23.6	23.0
Burundi	19	3.8	1.0	--	23.8	23.0
Somalia	19	3.8	0.2	--	23.0	23.0
Rwanda	19	3.8	0.6	--	23.4	23.0
Togo	15	3.0	1.0	0.4	19.0	18.4
Malawi	15	3.0	1.3	0.8	19.3	18.8
Gabon	15	3.0	3.6	5.4	21.6	23.4
Mauritania	13	2.6	1.5	1.4	17.1	19.4
Dahomey	13	2.6	1.0	0.6	16.6	16.6
Congo, People's Rep. of the	13	2.6	0.8	0.1	16.4	16.1
Central African Republic	13	2.6	0.8	1.0	16.4	17.0
Chad	13	2.6	1.3	0.1	16.9	15.7
Upper Volta	13	2.6	0.8	0.1	16.4	16.1
Niger	13	2.6	1.0	0.6	16.6	16.6
Laos	13	2.6	0.2	--	15.8	15.6
Fiji	13	2.6	1.0	0.6	16.6	16.2
Barbados	13	2.6	0.8	0.1	16.4	15.7
Nepal 3/	14	2.8	1.9	2.3	18.7	19.1
Bahrain	10	2.0	1.7	2.2	13.7	14.2
Yemen Arab Republic	10	2.0	0.8	0.5	12.8	12.5
Lebanon	9	1.8	7.7	14.7	18.5	25.7
Equatorial Guinea	8	1.6	0.1	--	9.7	9.5
Swaziland	8	1.6	1.9	2.9	11.5	12.9
Gambia, The	7	1.4	0.2		8.6	8.4
Lesotho	5	1.0	0.2		6.2	6.0
Botswana	5	1.0	1.5	2.4	7.5	8.4
Western Samoa	2	0.4	--		2.4	2.4
Total	6,087				7,823.0	7,823.0
Percentage share in total	*(20.85)*				*(19.85)*	*(19.85)*
Grand Total (including China)	29,191				39,408.0	39,408.0

1/ Variant 1: The allocation of special increases under Variant 1 is based on

(a) For the industrial and other developed countries: in proportion to the shares of these countries in their respective subtotals of the excess of calculated over present quotas under the absolute approach (Col. D of Table 4 of EB/CQuota/74/2);
(b) for the major oil exporting countries: in proportion to the shares of these countries in the total of their international reserves as of middle of 1974;
(c) for other developing countries: in proportion to the shares of these countries in their subtotal of the excess of calculated over present quotas under the incremental approach (Col. 2 of Table 2 of EB/CQuota/74/3).

2/ See text, Section 4, b and c.

3/ Member has not yet paid its last two installments of subscription.

Table 3. Quota Calculations Based on Table B of EB/CQuota/74/5
(50 Per Cent Overall Increase With 35 Per Cent General Increase)

(In millions of SDRs)

	Present Quota (1)	35 per cent General Increase (2)	Special Increases Variant 1[1] (3)	Special Increases Variant 2[2] (4)	Totals (1)+(2)+(3) (5)	Totals (1)+(2)+(4) (6)
A. Industrial Countries						
United States	6,700	2,345.00	291.5	142.0	9,336.0	9,187.0
United Kingdom	2,800	980.00	28.5	-	3,808.0	3,780.0
Germany	1,600	560.00	166.0	260.3	2,326.0	2,420.3
France	1,500	525.00	87.0	82.2	2,112.0	2,107.2
Japan	1,200	420.00	127.5	202.4	1,747.5	1,822.4
Canada	1,100	385.00	62.0	56.3	1,547.0	1,541.3
Italy	1,000	350.00	58.0	54.9	1,408.0	1,404.9
Netherlands	700	245.00	50.5	61.7	995.5	1,006.7
Belgium and Luxembourg	670	234.50	48.5	60.1	953.0	965.1
Sweden	325	113.75	30.0	44.6	469.0	483.6
Austria	270	94.50	12.0	5.8	376.5	369.8
Denmark	260	91.00	14.0	11.6	365.0	362.6
Norway	240	84.00	10.0	4.1	334.0	328.1
Total	18,365				25,776.0	25,776.0
Percentage share in total	*(62.92)*				*(58.87)*	*(58.87)*
B. Other Developed Countries						
Australia	665	232.75	33.1	-	931.1	898.0
Spain	395	138.25	66.0	120.6	599.2	654.0
South Africa	320	112.00	39.4	33.3	471.4	465.5
Yugoslavia	207	72.45	25.2	20.3	304.6	300.0
New Zealand	202	70.70	2.0	-	274.7	272.5
Finland	190	66.50	27.9	40.4	284.4	297.0
Romania	190	66.50	13.8	-	270.3	256.5
Turkey	151	52.85	14.5	-	218.0	204.0
Greece	138	48.30	14.9	4.9	200.9	191.5
Ireland	121	42.35	12.5	1.5	175.8	165.0
Portugal	117	40.95	22.4	48.5	180.3	206.5
Iceland	23	8.05	2.2	-	33.2	31.0
Malta	16	5.60	1.0	-	22.5	21.5
Total	2,735				3,966.0	3,966.0
Percentage share in total	*(9.37)*				*(9.05)*	*(9.05)*
C. Major Oil Exporters						
Venezuela	330	115.50	327.0	327.0	772.5	772.5
Indonesia	260	91.00	98.0	98.0	449.0	449.0
Iran	192	67.20	386.0	386.0	645.0	645.0
Nigeria	135	47.25	152.0	152.0	334.5	334.5
Saudi Arabia	134	46.90	503.0	503.0	684.0	684.0
Algeria	130	45.50	132.5	132.5	308.0	308.0
Iraq	109	38.15	204.5	204.0	351.5	351.0
Kuwait	65	22.75	280.0	280.0	368.0	368.0
Ecuador	33	11.55	31.5	31.5	76.0	76.0
Libyan Arab Republic	24	8.40	212.5	212.5	245.0	245.0
Qatar	20	7.00	27.5	27.5	54.5	54.5
United Arab Emirates	115	5.25	30.0	30.0	50.0	50.0
Oman	7	2.45	13.0	13.0	22.5	22.5
Total	1,454				4,361.0	4,361.0
Percentage share in total	*(4.98)*				*(9.96)*	*(9.96)*

For footnotes see page 14.

Table 3 (continued). **Quota Calculations Based on Table B of EB/CQuota/74/5**
(50 Per Cent Overall Increase With 35 Per Cent
General Increase)

(In millions of SDRs)

	Present Quota (1)	35 per cent General Increase (2)	Special Increases		Totals	
			Variant 1 1/ (3)	Variant 2 2/ (4)	(1)+(2)+(3) (5)	(1)+(2)+(4) (6)
D. Developing Countries						
India	940	329.00	20.0	-	1,289.0	1,269.0
Brazil	440	154.00	166.3	243.3	760.3	837.3
Argentina	440	154.00	47.7	4.1	641.7	598.1
Mexico	370	129.50	74.7	73.1	573.7	572.6
Pakistan	235	82.25	--	-	317.2	317.3
Egypt	188	65.80	10.0	-	263.8	253.8
Malaysia	186	65.10	22.5	6.6	273.6	257.7
Chile	158	55.30	33.7	34.8	247.0	248.1
Colombia	157	54.95	17.7	2.9	229.7	214.9
Philippines	155	54.25	20.0	7.9	229.2	217.2
Thailand	134	46.90	18.5	9.3	199.4	190.2
Israel	130	45.50	45.5	64.4	221.0	239.9
Bangladesh	125	43.75	8.9	-	177.6	168.8
Peru	123	43.05	13.7	1.9	179.7	168.0
Morocco	113	39.55	17.4	11.3	169.9	163.9
Zaïre	113	39.55	26.2	29.3	178.7	181.9
Sri Lanka	98	34.30	--	-	132.3	132.3
Ghana	87	30.45	7.0	-	124.4	117.5
Korea	80	28.00	53.6	91.3	161.6	199.3
Zambia	76	26.60	43.2	71.3	145.8	173.9
Sudan	72	25.20	1.5	-	98.7	97.2
Uruguay	69	24.15	2.5	-	95.5	93.2
Trinidad and Tobago	63	22.05	4.0	-	89.0	85.1
Viet-Nam	62	21.70	11.8	10.9	95.5	94.6
Burma	60	21.00	--	-	81.0	81.0
Jamaica	53	18.55	8.9	6.7	80.4	78.3
Ivory Coast	52	18.20	8.9	7.0	79.1	77.2
Syrian Arab Republic	50	17.50	5.9	1.5	73.4	69.0
Kenya	48	16.80	9.2	8.6	74.0	73.4
Tunisia	48	16.80	6.3	2.6	71.1	67.4
Dominican Republic	43	15.05	4.4	-	62.4	58.1
Tanzania	42	14.70	5.5	2.4	62.2	59.1
Uganda	40	14.00	5.5	2.8	59.5	56.8
Singapore	37	12.95	48.0	89.1	98.0	139.1
Bolivia	37	12.95	3.0	-	53.0	50.0
Afghanistan	37	12.95	--	-	50.0	50.0
Panama	36	12.60	13.3	19.3	61.9	67.9
Guatemala	36	12.60	7.0	6.6	55.6	55.2
El Salvador	35	12.25	1.9	-	49.1	47.3
Cameroon	35	12.25	4.4	1.7	51.6	49.0
Senegal	34	11.90	2.5	-	48.4	45.9
Costa Rica	32	11.20	5.5	4.5	48.7	47.7
Yemen, People's Dem. Rep.	29	10.15	8.1	10.3	47.2	49.5
Liberia	29	10.15	1.1	-	40.2	39.2
Ethiopia	27	9.45	3.3	1.1	39.7	37.6
Nicaragua	27	9.45	2.2	-	38.6	36.5
Cyprus	26	9.10	5.2	5.0	40.3	40.1
Malagasy Republic	26	9.10	3.0	0.5	38.1	35.6
Sierra Leone	25	8.75	0.7	-	34.4	33.8
Khmer Republic	25	8.75	2.2	-	35.9	33.8
Honduras	25	8.75	3.7	2.3	37.4	36.1
Guinea	24	8.40	0.4	-	32.8	32.4
Jordan	23	8.05	2.6	0.4	33.6	31.5
Mauritiu	22	7.70	--	-	29.7	29.7
Mali	22	7.70	2.6	0.6	32.3	30.3
Bahamas	20	7.00	9.2	14.4	36.2	41.4
Guyana	20	7.00	1.1	-	28.1	27.0
Haiti	19	6.65	0.7	-	26.3	25.7
Paraguay	19	6.65	1.5	-	27.1	25.7
Burundi	19	6.65	1.9	-	27.5	25.7

For footnotes see page 14.

Table 3 (concluded). Quota Calculations Based on Table B of EB/CQuota/74/5
(50 Per Cent Overall Increase with 35 Per Cent
General Increase)

(In millions of SDRs)

	Present Quota (1)	35 per cent General Increase (2)	Special Increases Variant 1[1/] (3)	Special Increases Variant 2[2/] (4)	Totals (1)+(2)+(3) (5)	Totals (1)+(2)+(4) (6)
D. Developing Countries (concluded)						
Somalia	19	6.65	0.4	-	26.0	25.7
Rwanda	19	6.65	1.1	-	26.7	25.7
Togo	15	5.25	1.8	0.6	22.6	20.9
Malawi	15	5.25	2.2	1.4	22.4	21.7
Gabon	15	5.25	6.3	9.6	26.3	29.9
Mauritania	13	4.55	2.6	2.5	20.1	20.1
Dahomey	13	4.55	1.8	1.0	19.3	18.6
Congo, People's Republic of the	13	4.55	1.5	0.3	19.0	17.9
Chad	13	4.55	2.2	1.8	19.7	19.4
Central African Republic	13	4.55	1.5	0.3	19.0	17.9
Upper Volta	13	4.55	1.5	0.3	19.0	17.9
Niger	13	4.55	1.8	1.0	19.5	18.6
Laos	13	4.55	0.3	-	18.0	17.6
Fiji	13	4.55	1.8	1.0	19.5	18.6
Barbados	13	4.55	1.5	0.3	19.0	17.9
Nepal[3/]	14	4.90	3.3	4.1	22.2	20.9
Bahrain	10	3.50	3.0	3.9	16.5	17.4
Yemen Arab Republic	10	3.50	1.5	0.9	15.0	14.4
Lebanon	9	3.15	13.3	25.7	25.9	37.9
Equatorial Guinea	8	2.80	--	-	10.8	11.8
Swaziland	8	2.80	3.3	5.0	14.1	15.8
The Gambia	7	2.45	0.4	-	9.8	9.5
Lesotho	5	1.75	0.4	-	7.1	6.8
Botswana	5	1.75	2.6	4.2	9.3	11.0
Western Samoa	2	0.70	--	-	2.7	2.7
Total	6,087				9,131.0	9,131.0
Percentage share in total	*(20.85)*				*(20.85)*	*(20.85)*
Grand total (including China)	29,191				43,786.0	43,786.0

1/ Variant 1: The allocation of special increases under Variant 1 is based on

(a) For the industrial and other developed countries: In proportion to the shares of these countries in their respective subtotals of the excess of calculated over present quotas under the absolute approach (Column D of Table 4 of EB/CQuota/74/2).
(b) For the major oil exporting countries: In proportion to the shares of these countries in the total of their international reserves as of middle of 1974.
(c) For other developing countries: In proportion to the shares of these countries in their subtotal of the excess of calculated over present quotas under the incremental approach (Column 2 of Table 2 of EB/CQuota/74/3).

2/ See text, Section 4, b and c.

3/ Member has not yet paid its last two installments of subscription.

Table 4. Quota Calculations Based on Table C of EB/CQuota/74/5
(50 Per Cent Overall Increase with 35 Per Cent General Increase)

(In millions of SDRs)

Member	Present quota (1)	35 Per cent general increase (2)	Special increases: Variant 1[1] (3)	Special increases: Variant 2[2] (4)	Totals: (1)+(2)+(3) (5)	Totals: (1)+(2)+(4) (6)
A. Industrial Countries						
United States	6,700	2,345.00	434.6	242.0	9,479.6	9,287.0
United Kingdom	2,800	980.00	42.1	--	3,822.1	3,780.0
Germany	1,600	560.00	247.0	371.8	2,407.5	2,531.8
France	1,500	525.00	129.3	124.1	2,154.3	2,149.1
Japan	1,200	420.00	190.2	288.8	1,810.2	1,908.8
Canada	1,100	385.00	92.3	85.4	1,577.3	1,570.4
Italy	1,000	350.00	86.3	82.9	1,436.3	1,432.9
Netherlands	700	245.00	75.2	90.2	1,020.2	1,035.2
Belgium and Luxembourg	670	234.50	72.6	87.7	977.1	992.7
Sweden	325	113.75	45.0	64.0	484.0	503.0
Austria	270	94.50	17.5	9.9	382.0	373.9
Denmark	260	91.00	20.7	17.8	371.1	368.8
Norway	240	84.00	15.0	7.4	339.0	331.4
Total	18,365				26,261.0	26.261.0
Percentage share in total	*(62.92)*					
B. Other Developed Countries						
Australia	665	232.75	26.3	--	924.3	898.0
Spain	395	138.25	52.6	103.5	585.9	637.0
South Africa	320	112.00	31.4	23.1	463.4	455.0
Yugoslavia	207	72.45	20.1	13.7	299.5	293.0
New Zealand	202	70.70	1.5	--	274.2	272.5
Finland	190	66.50	22.2	33.6	278.7	290.0
Romania	190	66.50	11.0	--	267.5	256.5
Turkey	151	52.85	11.5	--	215.4	204.0
Greece	138	48.30	11.9	0.9	198.2	187.5
Ireland	121	42.35	9.9	--	173.3	163.5
Portugal	117	40.95	17.8	43.6	175.8	201.5
Iceland	23	8.05	1.8	--	32.8	31.0
Malta	16	5.60	1.0	--	22.6	21.5
Total	2,745				3,911.0	
Percentage share in total	*(9.37)*					
C. Major Oil Exporters						
Venezuela	330	115.50	327.0	327.0	77.5	772.5
Indonesia	260	91.00	98.0	98.0	449.0	449.0
Iran	192	67.20	386.0	386.0	645.0	645.0
Nigeria	135	47.25	152.0	152.0	334.0	334.0
Saudi Arabia	134	46.90	503.0	503.0	684.0	684.0
Algeria	130	45.50	132.5	132.5	308.0	308.0
Iraq	109	38.15	204.0	204.0	351.0	351.0
Kuwait	65	22.75	280.0	280.0	368.0	368.0
Ecuador	33	11.55	31.5	31.5	76.0	76.0
Libyan Arab Republic	24	8.40	212.5	212.5	245.0	245.0
Qatar	20	7.00	27.5	27.5	54.5	54.5
United Arab Emirates	15	5.25	30.0	30.0	50.0	50.0
Oman	7	2.45	13.0	13.0	22.5	22.5
Total	1,454				4,360.0	4,360.0
Percentage share in total	*(4.98)*				*(9.96)*	*(9.96)*

For footnotes see page 17.

Table 4 (continued). Quota Calculations Based on Table C of EB/CQuota/74/5
(50 Per Cent Overall Increase with 35 Per Cent General Increase)

(In millions of SDRs)

Member	Present quota (1)	35 Per cent general increase (2)	Special increases		Totals	
			Variant 1[1/] (3)	Variant 2[2/] (4)	(1)+(2)+(3) (5)	(1)+(2)+(4) (6)
D. Developing Countries						
India	940	329.00	10.6	--	1,279.6	1,269.0
Brazil	440	154.00	88.7	137.5	682.7	731.5
Argentina	440	154.00	25.4	--	619.4	594.0
Mexico	370	129.50	39.8	36.4	539.3	535.9
Pakistan	235	82.25	--	--	317.2	317.3
Egypt	188	65.80	5.3	--	259.1	253.8
Malaysia	186	65.10	12.2	0.1	263.2	251.2
Chile	158	55.30	17.9	17.7	231.2	231.0
Colombia	157	54.95	9.5	--	221.5	212.0
Philippines	155	54.25	10.6	1.5	219.9	210.8
Thailand	134	46.90	9.9	2.8	190.8	183.7
Israel	130	45.50	24.2	36.1	199.7	211.6
Bangladesh	125	43.75	4.7	--	173.4	168.8
Peru	123	43.05	7.3	--	173.4	166.1
Morocco	113	39.55	9.3	4.5	161.8	157.1
Zaire	113	39.55	14.0	15.3	166.5	167.9
Sri Lanka	98	34.50	--	--	132.5	132.5
Ghana	87	30.45	3.7	--	121.2	117.5
Korea	80	28.00	28.6	53.4	136.6	161.4
Zambia	76	26.60	23.1	41.4	125.7	144.0
Sudan	72	25.20	0.8	--	98.0	97.2
Uruguay	69	24.15	1.4	--	94.6	93.2
Trinidad and Tobago	63	22.05	2.2	--	87.2	85.1
Viet-Nam	62	21.70	6.3	5.3	90.0	89.0
Burma	60	21.00	--	--	81.0	81.0
Jamaica	53	18.55	4.7	3.0	76.2	74.6
Ivory Coast	52	18.20	4.7	3.1	74.9	73.3
Syrian Arab Republic	50	17.50	3.1	--	70.6	67.5
Kenya	48	16.80	4.9	4.2	69.7	69.0
Tunisia	48	16.80	3.3	0.6	68.1	65.4
Dominican Republic	43	15.05	2.4	--	60.5	58.1
Tanzania	42	14.70	2.9	0.6	59.6	57.3
Uganda	40	14.00	3.0	0.9	57.0	54.9
Singapore	37	12.95	25.6	52.9	75.6	102.9
Bolivia	37	12.95	1.6	--	51.6	50.0
Afghanistan	37	12.95	--	--	50.0	50.0
Panama	36	12.60	7.1	10.9	55.7	59.5
Guatemala	36	12.60	3.7	3.2	52.3	51.8
El Salvador	35	12.25	1.0	--	48.2	47.3
Cameroon	35	12.25	2.4	0.3	49.7	47.6
Senegal	34	11.90	1.4	--	47.3	45.9
Costa Rica	32	11.20	3.0	2.1	46.2	45.3
Yemen, People's Dem. Rep. of	29	10.15	4.3	5.6	43.5	44.8
Liberia	29	10.15	0.6	--	39.8	39.2
Ethiopia	27	9.45	1.8	0.1	38.3	36.6
Nicaragua	27	9.45	1.2	--	37.7	36.5
Cyprus	26	9.10	2.8	2.5	37.9	37.6
Malagasy Republic	26	9.10	1.6	--	36.7	35.1
Sierra Leone	25	8.75	0.4	--	34.1	33.8
Khmer Republic	25	8.75	1.2	--	35.4	33.8
Honduras	25	8.75	2.0		35.8	34.6
Guinea	24	8.40	0.2	--	33.6	32.4
Jordan	23	8.05	1.4	--	32.5	31.1
Mauritius	22	7.70	--	--	29.7	29.7
Mali	22	7.70	1.4	--	31.1	29.7

For footnotes see page 17.

Table 4 (concluded). Quota Calculations Based on Table C of EB/CQuota/74/5
(50 Per Cent Overall Increase with 35 Per Cent General Increase)

(In millions of SDRs)

Member	Present quota (1)	35 Per cent general increase (2)	Special increases: Variant 1[1/] (3)	Special increases: Variant 2[2/] (4)	Totals: (1)+(2)+(3) (5)	Totals: (1)+(2)+(4) (6)
D. Developing Countries (concluded)						
Bahamas	20	7.00	4.9	8.3	31.9	35.3
Guyana	20	7.00	0.6	--	27.6	27.0
Haiti	19	6.65	0.4	--	26.0	25.7
Paraguay	19	6.65	0.8	--	26.5	25.7
Burundi	19	6.65	1.0	--	26.6	25.7
Somalia	19	6.65	0.2	--	25.6	25.7
Rwanda	19	6.65	0.5	--	26.2	25.7
Togo	15	5.25	1.0	0.1	21.2	20.4
Malawi	15	5.25	1.2	0.5	21.5	20.8
Gabon	15	5.25	3.3	5.5	23.6	25.8
Mauritania	13	4.55	1.4	1.2	19.0	18.8
Dahomey	13	4.55	1.0	0.3	18.6	17.9
Congo, People's Rep. of the	13	4.55	0.8	--	18.4	17.6
Chad	13	4.55	1.2	0.8	18.5	18.4
Central African Republic	13	4.55	0.8	--	18.4	17.6
Upper Volta	13	4.55	0.8	--	18.4	17.6
Niger	13	4.55	1.0	0.3	18.6	17.9
Laos	13	4.55	0.2	--	17.8	17.6
Fiji	13	4.55	1.0	0.3	18.6	17.9
Barbados	13	4.55	0.8	--	18.4	17.6
Nepal[3/]	14	4.90	1.8	2.2	20.7	19.0
Bahrain	10	3.50	1.6	2.1	15.1	15.6
Yemen Arab Republic	10	3.50	0.8	0.3	14.3	13.8
Lebanon	9	3.15	7.3	15.3	19.5	27.5
Equatorial Guinea	8	2.80	--	--	10.8	10.8
Swaziland	8	2.80	1.8	2.9	12.6	13.7
Gambia, The	7	2.45	0.2	--	9.6	9.5
Lesotho	5	1.75	0.2	--	7.0	6.8
Botswana	5	1.75	1.4	--	8.2	6.8
Western Samoa	2	0.70	--	--	2.7	2.7
Total	6,087				8,704.0	8,704.0
Percentage share in total	*(20.85)*				*(19.87)*	*(19.87)*
Grand Total (including China)	29,191				43,784.0	43,784.0

1/ Variant 1: The allocation of special increases under Variant 1 is based on

(a) for the industrial and other developed countries: in proportion to the shares of these countries in their respective subtotals of the excess of calculated over present quotas under the absolute approach (Col. D of Table 4 EB/CQuota/74/2);
(b) for the major oil exporting countries: in proportion to the shares of these countries in the total of their international reserves as of middle of 1974;
(c) for developing countries: in proportion to the shares of these countries in their subtotal of the excess of calculated over present quotas under the incremental approach (Col. 2 of Table 2 of EB/CQuota/74/3).

2/ See text, Section 4, b and c.

3/ Member has not yet paid its last two installments of subscription.

Table 5. Percentage Shares of Members in the Totals of Potential Quotas Based on Overall Increases in Size of Fund of 35 Per Cent and 50 Per Cent

(In percentage of totals)

Member	Present quota	35 Per Cent Increase in Fund				50 Per Cent Increase in Fund			
		Table 1		Table 2		Table 3		Table 4	
		Variant 1	Variant 2	Variant 1	Variant 2	Variant 1	Variant 2	Variant 1	Variant 2
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
A. Industrial Countries									
United States	22.95	21.23	20.84	21.57	21.06	21.32	20.98	21.65	21.21
United Kingdom	9.59	8.61	8.53	8.64	8.53	8.70	8.63	8.73	8.63
Germany	5.48	5.34	5.60	5.54	5.87	5.31	5.33	5.50	5.78
France	5.14	4.81	4.80	4.92	4.90	4.82	4.81	4.92	4.91
Japan	4.11	4.02	4.22	4.17	4.43	3.99	4.16	4.13	4.36
Canada	3.77	3.52	3.51	3.60	3.58	3.53	3.52	3.60	3.59
Italy	3.43	3.21	3.20	3.28	3.27	3.22	3.21	3.28	3.27
Netherlands	2.40	2.27	2.30	2.33	2.37	2.27	2.30	2.33	2.36
Belgium and Luxembourg	2.29	2.18	2.21	2.24	2.28	2.18	2.20	2.23	2.27
Sweden	1.11	1.08	1.11	1.11	1.16	1.07	1.10	1.11	1.15
Austria	0.92	0.86	0.84	0.87	0.85	0.86	0.84	0.87	0.85
Denmark	0.89	0.83	0.82	0.85	0.84	0.83	0.83	0.85	0.84
Norway	0.82	0.76	0.74	0.77	0.75	0.76	0.75	0.77	0.76
B. Other Developed Countries									
Australia	2.28	2.12	2.03	2.10	2.03	2.13	2.05	2.11	2.05
Spain	1.35	1.38	1.52	1.34	1.47	1.37	1.49	1.34	1.45
South Africa	1.10	1.08	1.07	1.06	1.04	1.08	1.06	1.06	1.04
Yugoslavia	0.71	0.70	0.69	0.68	0.67	0.70	0.68	0.68	0.67
New Zealand	0.69	0.62	0.62	0.62	0.62	0.63	0.62	0.63	0.62
Finland	0.65	0.65	0.69	0.64	0.67	0.65	0.68	0.64	0.66
Romania	0.65	0.62	0.58	0.61	0.58	0.62	0.59	0.61	0.59
Turkey	0.52	0.50	0.46	0.49	0.46	0.50	0.47	0.49	0.47
Greece	0.47	0.46	0.44	0.45	0.43	0.46	0.44	0.45	0.43
Ireland	0.41	0.40	0.38	0.39	0.37	0.40	0.38	0.40	0.37
Portugal	0.40	0.42	0.48	0.40	0.47	0.41	0.47	0.40	0.46
Iceland	0.08	0.08	0.07	0.07	0.07	0.08	0.07	0.08	0.07
Malta	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
C. Major Oil Exporters									
Venezuela	1.13	1.76	1.76	1.76	1.76	1.76	1.76	1.76	1.76
Indonesia	0.89	1.02	1.02	1.02	1.02	1.03	1.03	1.03	1.03
Iran	0.66	1.48	1.48	1.48	1.48	1.47	1.47	1.47	1.47
Nigeria	0.46	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76
Saudi Arabia	0.46	1.57	1.57	1.57	1.57	1.56	1.56	1.56	1.56
Algeria	0.44	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Iraq	0.37	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Kuwait	0.22	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Ecuador	0.11	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Libyan Arab Republic	0.08	0.57	0.57	0.56	0.56	0.56	0.56	0.56	0.56
Qatar	0.07	0.12	0.13	0.12	0.12	0.12	0.12	0.12	0.12
United Arab Emirates	0.05	0.12	0.12	0.12	0.12	0.11	0.11	0.11	0.11
Oman	0.02	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
D. Developing Countries									
India	3.22	2.91	2.86	2.89	2.86	2.94	2.90	2.92	2.90
Brazil	1.51	1.76	1.91	1.58	1.69	1.74	1.91	1.56	1.67
Argentina	1.51	1.46	1.39	1.41	1.35	1.46	1.37	1.41	1.36
Mexico	1.28	1.32	1.32	1.23	1.23	1.31	1.31	1.23	1.22
Pakistan	0.80	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72
Egypt	0.64	0.60	0.57	0.59	0.57	0.60	0.58	0.59	0.58
Malaysia	0.64	0.62	0.60	0.60	0.58	0.62	0.59	0.60	0.57
Chile	0.54	0.57	0.57	0.53	0.53	0.56	0.57	0.53	0.53
Colombia	0.54	0.52	0.50	0.50	0.48	0.52	0.49	0.51	0.48
Philippines	0.53	0.52	0.50	0.50	0.48	0.52	0.50	0.50	0.48

Table 5 (continued). Percentage Shares of Members in the Totals of Potential Quotas Based on Overall Increases in Size of Fund of 35 Per Cent and 50 Per Cent

(In percentage of totals)

Member	Present quota	35 Per Cent Increase in Fund				50 Per Cent Increase in Fund			
		Table 1		Table 2		Table 3		Table 4	
		Variant 1	Variant 2	Variant 1	Variant 2	Variant 1	Variant 2	Variant 1	Variant 2
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
D. Developing Countries (continued)									
Thailand	0.46	0.46	0.44	0.44	0.42	0.46	0.43	0.44	0.42
Israel	0.44	0.51	0.55	0.46	0.49	0.50	0.55	0.46	0.48
Bangladesh	0.43	0.40	0.38	0.39	0.38	0.41	0.39	0.40	0.39
Peru	0.42	0.41	0.39	0.39	0.38	0.41	0.38	0.40	0.38
Morocco	0.39	0.39	0.38	0.37	0.36	0.39	0.37	0.37	0.36
Zaïre	0.39	0.41	0.42	0.38	0.39	0.41	0.42	0.38	0.38
Sri Lanka	0.34	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Ghana	0.30	0.28	0.26	0.28	0.26	0.28	0.27	0.28	0.27
Korea	0.27	0.38	0.45	0.32	0.38	0.37	0.46	0.31	0.37
Zambia	0.26	0.34	0.39	0.29	0.33	0.33	0.40	0.29	0.33
Sudan	0.25	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
Uruguay	0.24	0.22	0.21	0.21	0.21	0.22	0.21	0.22	0.21
Trinidad and Tobago	0.22	0.20	0.19	0.20	0.19	0.20	0.19	0.20	0.19
Viet-Nam	0.21	0.22	0.22	0.21	0.20	0.22	0.22	0.21	0.20
Burma	0.21	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.19
Jamaica	0.18	0.18	0.18	0.17	0.17	0.18	0.18	0.17	0.17
Ivory Coast	0.18	0.18	0.18	0.17	0.17	0.18	0.18	0.17	0.17
Syrian Arab Republic	0.17	0.17	0.16	0.16	0.15	0.17	0.16	0.16	0.15
Kenya	0.16	0.17	0.17	0.16	0.16	0.17	0.17	0.16	0.16
Tunisia	0.16	0.16	0.16	0.15	0.15	0.16	0.15	0.16	0.15
Dominican Republic	0.15	0.14	0.13	0.14	0.13	0.14	0.13	0.14	0.13
Tanzania	0.14	0.14	0.14	0.14	0.13	0.14	0.13	0.14	0.13
Uganda	0.14	0.14	0.13	0.13	0.13	0.14	0.13	0.13	0.13
Singapore	0.13	0.23	0.31	0.18	0.24	0.22	0.32	0.17	0.24
Bolivia	0.13	0.12	0.11	0.12	0.11	0.12	0.11	0.12	0.11
Afghanistan	0.13	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Panama	0.12	0.14	0.16	0.13	0.14	0.14	0.16	0.13	0.14
Guatemala	0.12	0.13	0.13	0.12	0.12	0.13	0.13	0.12	0.12
El Salvador	0.12	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Cameroon	0.12	0.12	0.11	0.11	0.11	0.12	0.11	0.11	0.11
Senegal	0.12	0.11	0.10	0.11	0.10	0.11	0.10	0.11	0.10
Costa Rica	0.11	0.11	0.11	0.11	0.10	0.11	0.11	0.11	0.10
Yemen, People's Dem. Rep. of	0.10	0.11	0.11	0.10	0.10	0.11	0.11	0.10	0.10
Liberia	0.10	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Ethiopia	0.09	0.09	0.09	0.09	0.08	0.09	0.09	0.09	0.08
Nicaragua	0.09	0.09	0.08	0.09	0.08	0.09	0.08	0.09	0.08
Cyprus	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Malagasy Republic	0.09	0.09	0.08	0.08	0.08	0.09	0.08	0.08	0.08
Sierra Leone	0.09	0.08	0.08	0.08	0.08	0.09	0.08	0.08	0.08
Khmer Republic	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Honduras	0.09	0.09	0.08	0.08	0.08	0.09	0.08	0.08	0.08
Guinea	0.08	0.07	0.07	0.07	0.07	0.08	0.07	0.08	0.07
Jordan	0.08	0.08	0.07	0.07	0.07	0.08	0.07	0.07	0.07
Mauritius	0.08	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Mali	0.08	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Bahamas	0.07	0.09	0.09	0.07	0.08	0.08	0.09	0.07	0.08
Guyana	0.07	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Haiti	0.07	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Paraguay	0.07	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Burundi	0.07	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06

Table 5 (concluded). Percentage Shares of Members in the Totals of Potential Quotas Based on Overall Increases in Size of Fund of 35 Per Cent and 50 Per Cent

(In percentage of totals)

Member	Present quota (1)	35 Per Cent Increase in Fund: Table 1 Variant 1 (2)	Table 1 Variant 2 (3)	Table 2 Variant 1 (4)	Table 2 Variant 2 (5)	50 Per Cent Increase in Fund: Table 3 Variant 1 (6)	Table 3 Variant 2 (7)	Table 4 Variant 1 (8)	Table 4 Variant 2 (9)
D. Developing Countries (concluded)									
Somalia	0.07	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Rwanda	0.07	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Togo	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Malawi	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Gabon	0.05	0.06	0.07	0.05	0.06	0.06	0.07	0.05	0.06
Mauritania	0.04	0.05	0.05	0.04	0.05	0.05	0.05	0.04	0.04
Dahomey	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Congo, People's Republic of the	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Chad	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Central African Republic	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Upper Volta	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Niger	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Laos	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Fiji	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Barbados	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Nepal	0.04	0.05	0.05	0.04	0.04	0.05	0.05	0.04	0.04
Bahrain	0.03	0.04	0.04	0.04	0.04	0.04	0.04	0.03	0.04
Yemen Arab Republic	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Lebanon	0.03	0.06	0.08	0.05	0.07	0.06	0.09	0.04	0.06
Equatorial Guinea	0.03	0.03	0.02	0.02	0.02	0.03	0.03	0.03	0.02
Swaziland	0.03	0.03	0.04	0.03	0.03	0.03	0.04	0.03	0.03
Gambia, The	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Lesotho	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Botswana	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.02	0.02
Western Samoa	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

INTERNATIONAL MONETARY FUND

Payment of the Gold Portion of Quota Increases--Issues and Techniques

Prepared by the Treasurer's Department

(In consultation with Legal and Research Departments)

Approved by W. O. Habermeier

November 26, 1974

I. Introduction

In his statement of November 14, 1974 on amendment of the Articles of Agreement (Buff 74/136), the Managing Director suggested that prior to the first meeting of the Interim Committee the Executive Directors might wish to study closely, inter alia, the need for amendment in connection with the payment for increased subscriptions in view of the existing requirement that a proportion of the increase must be paid in gold: it was also proposed that the staff submit a memorandum dealing fully with this subject. The Executive Directors welcomed this proposal, and several among them requested that the staff memorandum also discuss the possibility of attempting to arrange for a quota increase under the present Articles. This memorandum, therefore, outlines the main issues connected with the payment of the gold portion of increases in quotas both under the present Articles and under amended Articles.

The actual size and distribution of quota increases will be relevant to the method of handling subscription payments. Precise proposals as to the method, or combination of methods, to be employed for these payments might best wait until the size of the increase and its distribution among members are more clearly delineated and until the nature of any amendments and their probable timing are better known. In this memorandum, and purely to illustrate the overall magnitudes involved, it is assumed that the gold portion of increased subscription payments would be of the order of SDR 2.6 to 4.4 billion. These figures are derived from overall increases of about 35-60 per cent over the present size of the Fund of SDR 29.2 billion. These percentages lie in the middle of the range of overall increases discussed so far in the Committee of the Whole.[1]

1/ The gold portion would be about SDR 300 million for each 4 per cent of increase over present quotas.

The main issue with gold payments arises from the obvious fact that members are unwilling to relinquish gold at its present official price. However, it does not follow from this that arrangements for the payment for increased quotas necessitate an agreement on some form of "unfreezing" of official gold holdings or an understanding on the future role of gold in the international payments mechanism, however desirable this might be for other reasons. This memorandum assumes that the present unwillingness to use gold will persist, although if new provisions on gold could be agreed for incorporation into an amendment, the conclusions reached on quota payments may well need to be reconsidered.1/

Section II of this paper discusses various devices for arranging for subscription payments for quota increases. Section III deals with the use of SDRs and Section IV with other techniques that might be available under amended Articles; the discussion in these two Sections assumes that, by amendment, members would be authorized to use SDRs instead of gold in the payment of increased quota subscriptions and that the Fund would be empowered to allow, at its discretion and in circumstances as yet to be defined, some or all members to use the currency of a creditor member, or their own currency, for all or some of the gold portion of the quota increase.2/ Other techniques that would require amendments are also discussed briefly in Section IV. The final Section summarizes the main conclusions of the paper.

II. Quota Payments under the Present Articles of Agreement

1. Past Practices

In connection with past general quota reviews, the Fund adopted certain procedures to mitigate the effects of gold payments both on members with low reserves and on reserve centers' gold holdings. Five techniques were used:

(i) The reduction of the gold payment, consistent with Article III, Section 4(a), in the proportion by which a member's monetary reserves were less than its new quota, thus in effect allowing these members to substitute their own currency for gold. The quantitative role of this instrument was insignificant because it applied only to a relatively small number of members and to the proportion by which a member's

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1/ The main issues relating to the future arrangements for gold are listed for discussion in a separate staff memorandum (EBS/74/416, November 15, 1974).

2/ A first version of a possible amendment on quota subscriptions is contained in DAA/74/3 dated July 16, 1974. Executive Directors discussed the first version on August 15, 1974 (EBM/74/104). The broad descriptions used in the text of this present paper may not, of course, correspond with the final form of an amendment.

monetary reserves were below its new quota.[1] For this reason, while it could be used again for some members, it could not provide any general solution.

(ii) The alleviation of the effect of gold subscriptions on members with low reserves by means of a special unconditional drawing facility under which these members could purchase the currency needed to buy gold for quota payments from other members. While this measure did not reduce the amount of gold paid to the Fund, it had the effect of allowing these members (at least initially) to finance the gold portion of their quota increases with their <u>own currency</u>, without reducing their access to the regular credit tranches. These special drawings also had the result of reducing the Fund's holdings of usable currencies <u>pro tanto</u>, thus in effect increasing the need for and facilitating replenishment by gold sales under (iii), below.

(iii) The mitigation of the impact of gold payments on the gold holdings of members by the Fund selling some of its gold back to members with net creditor positions to the extent that they sold gold to members needing it for quota payments, thus indirectly accepting <u>creditor</u> currencies in payment of quota increases instead of gold. As indicated, to some extent this technique was used in conjunction with (ii), above. The legal basis for this mitigation technique through gold sales was the replenishment of currencies under Article VII, Section 2(ii). Of all techniques used it has been quantitatively the most important; nevertheless, the net remission of gold has not on average exceeded one-fifth of the gold portion of past quota increases.

(iv) The mitigation of the impact of a quota increase on the gold holdings of reserve centers by the Fund placing some gold in the form of a general deposit with the reserve centers, repayable on demand, thus in effect accepting <u>gold claims</u> in place of some part of the gold portion of the quota increase. This was a highly controversial method of mitigation, which was used only once and not repeated.[2] Since it creates a claim by the

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1/ On the one occasion when it was applied, the reduction of gold payments was equal to SDR 31.8 million, or 12 per cent of the quota increases of the members to which it applied.

2/ The technique was not based on a specific provision of the Articles but on an interpretation by the Executive Directors of the provisions on the form of payments and the purposes of the Fund. This partly explains why under the First Amendment a qualified majority of 85 per cent of total voting power was introduced in Article III, Section 4(c) for any decisions dealing with the payment, or made with the sole purpose of mitigating the effects of the payment, of increases in quotas proposed as a result of a general review of quotas.

Fund to future transfers of gold, it would no doubt raise the same kind of issues that present transfers of gold would create and is not pursued below.

(v) The payment of increase by installments (see Appendix).

The possibility of alleviating gold payments in the present situation are examined in the remainder of this Section.

2. <u>Large-scale replenishment of creditor currencies</u>

If gold received by the Fund were to be immediately returned to members through replenishment operations, such sales normally would have to be confined to members whose currencies are held below 75 per cent of quota and be limited to amounts that would not raise the Fund's holdings above that level. The technique would be as follows: on the same value date, a creditor member would sell gold to another member against foreign exchange, that other member would pay the gold to the Fund, and the Fund would replenish its holdings of the creditor member's currency by gold. The gold transfers could all be made at the official price. While the gold holdings of the creditor members would remain unchanged, their super gold tranche positions would decline and their foreign exchange holdings (presumably U.S. dollars) would rise. If the creditor member was a reserve center, these operations might mean a reduction in its official liabilities matched by a reduction in its Fund position.[1/] In the past, creditor members have often resisted reductions in their creditor positions, and recently an Executive Director suggested that a creditor should have a veto over reductions in connection with subscription payments. Thus, to make large-scale replenishment possible would require a willingness on the part of creditor members both to accept these changes in the composition of their reserves and also to cooperate fully with the Fund in what would be a large number of complex operations. Moreover, since the intention would be to eliminate completely the receipt of gold this method might also be open to the objection that it might be inconsistent with the intent of the existing Articles.

Furthermore, a serious practical obstacle to a general mitigation operation with gold is the fact that, at the present time, super gold tranche positions in the aggregate are just a little over SDR 2 billion; the maximum aggregate of quota increases which could be handled would thus, <u>prima facie</u>, be about SDR 8 billion, or about 27 per cent over the present size of the Fund. Such an absorption of all net creditor positions would entail very difficult consequences for members indebted to the Fund: they could no longer count on being able to repurchase with currencies but might be forced to use SDRs (or even gold) to fulfill their repurchase commitments. Outstanding purchases have exceeded the amount of aggregate net creditor positions to a greater or lesser degree

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<u>1/</u> If payment to the reserve center were made from deposits in the Euro-currency market, the reserve center's official liabilities would not be reduced.

for many years, mainly as a result of previous replenishment transactions with gold not fully compensated for by a flow of gold to the Fund in repurchases.[1/] This imbalance has, however, so far been only a potential source of difficulty since outstanding drawings tended to rise over time and reductions in outstanding drawings, such as those that occurred in 1971-72, were only temporary. Nevertheless, as a safeguard, it would not be advisable to reduce net creditor positions through replenishment to a level much below SDR 1 billion. Thus, with such a limitation, aggregate quota increases could not go much beyond SDR 4 or 5 billion, or 14-17 per cent over the present level at the present time unless net creditor positions were to be greatly enlarged before subscription payments were made.

3. Replenishment Accompanied by the Expansion of Creditor Positions

If creditor positions were to be expanded, either as a result of the expansion of purchases that would be expected to follow a general quota increase or deliberately in order to create additional room for the replenishment operations described above, creditor members might be more willing to cooperate in these operations. The following techniques might be envisaged.

(i) One approach might be to authorize an overall increase of the Fund's quotas commensurate with the needs of the next quinquennium but arrange for all members to take up their authorized quota in uniform proportionate installments as and when rising purchases on the Fund would have led to enlarged net creditor positions, which would open up leeway for further mitigation operations by replenishment. For example, a first installment of 15 per cent could be arranged at once, with the remainder following in several smaller steps after review by the Executive Directors, say, each half-year thereafter, provided that net creditor positions had increased by, say, SDR 500 million since the previous installment. This procedure would, of course, be inferior to a once-and-for-all increase: it would stagger increases for members that need to use the Fund's resources; it would prolong the administrative and operational difficulties: and it would fail to achieve some of the major advantages of a definite and substantial effective quota increase.

(ii) Another approach would be to adopt a similar technique as in the past and permit members to draw on the Fund in connection with their gold subscriptions provided they had a balance of payments need to do so. The mechanics of such an operation could be as follows: on the same day and for the same SDR equivalents, such a member would draw a net creditor currency from the Fund, use this currency to purchase gold from the

1/ At the end of October 1974, outstanding balances (other than under the Oil Facility) and subject to repurchase were equivalent to SDR 3.9 billion; super gold tranche positions were equivalent to SDR 2.1 billion.

issuer of that currency, and pay the gold to the Fund, while the Fund would replenish the same creditor currency with the gold received. As a result of all these transactions the Fund position and the gold holdings of the net creditor country would remain unchanged; the purchasing member would, in practice, be increasing its quota by paying the gold portion with its own currency, and it could complete the circle by repurchasing its purchase with SDRs, either at once, or at a later stage, consistent with the Fund's policy for repurchases. Members drawing on their gold tranche positions would have to meet the requirement of need, although the Fund could not challenge their representation. But the legal requirement of conditionality applying in the credit tranches[1/] may make it difficult or undesirable for debtor members to use this technique. It may, however, be estimated that mitigation operations of the order of about SDR 1 billion could be conducted by members with gold tranche positions.

(iii) Other ways to enlarge net creditor positions could be envisaged in connection with the Oil Facility. One method would be to use the Fund's currency holdings to finance at least part of any facility agreed for 1975; another method would be to transform a considerable part of existing loan claims on the Fund, created under the Oil Facility, into super gold tranche positions. This could be done by using the currency holdings of the Fund to repay outstanding claims on the Fund. In the first place this technique could be applied to finance quota increases of the major oil exporters, Canada, and the other members that presently lend under the facility, although other creditor currencies could also be involved.[2/] It might, however, require a change in the existing rate of remuneration.

1/ Conditionality of credit tranche purchases became a legal requirement pursuant to provisions of the First Amendment to the Articles of Agreement, in particular by the addition of a new Article V, Section 3(c).

2/ A conversion of loan claims on the Fund into super gold tranche positions could be arranged under existing loan agreements as follows. The Fund would allow members to make purchases under the same conditions as exist for the original purchases under the Oil Facility. These purchases would be financed from the Fund's holdings of lenders' currencies. The proceeds would be used immediately to repurchase the original Oil Facility; the Fund would, upon this repurchase, be entitled to repay the lenders. Of course, the cooperation of each lending member would be required to achieve this conversion of loan claims and to arrange the related mitigation operations in gold. This cooperation would be similar to that required from other net creditor members under any scheme of mitigation by the sale of gold.

4. General Conclusions on Arrangements under Present Articles

It is evident that the arrangements discussed in this Section suffer from substantial defects. They are all intended to achieve the complete abandonment of gold payments for quota increases and the substitution for gold of creditor currencies, members' own currencies, and possibly (by subsequent repurchases) of SDRs. They would entail considerable, and perhaps unmanageable, operational complexity, and they would require very detailed discussion and negotiation. The time and effort devoted to establishing such arrangements could more profitably be employed in seeking a consensus on a set of amendments, under which a quota increase could be arranged in accordance with the amended Articles, and from which much wider benefits could be derived.

III. The Use of SDRs in Quota Payments Under Amended Articles

1. General Considerations

This Section discusses the use of SDRs to make quota payments, which is not, of course, possible under the existing Articles. The main aim of the amendment proposed in DAA/74/3 is to allow members, at their option, to substitute SDRs for gold; it is also envisaged that the Fund would be empowered to accept, at its option, currencies of other members, or the member's own currency, in circumstances and under conditions which remain as yet to be defined. It should be noted that the form of the proposed amendment establishes a presumption in favor of the use of SDRs and accords the use of currencies a somewhat secondary role. This implied preference for the use of SDRs rather than currencies is discussed in more detail in Section IV, paragraph 3, below. At this point, it is sufficient to draw attention to two aspects of SDR use in quota payments: the ability to use SDRs will assist in promoting the status and usefulness of the asset, and the Fund will receive an asset with which, subject to members' acceptance limits, it can replenish its holdings of usable currencies.[1/]

Nevertheless, the use of SDRs in subscription payments does give rise to a series of issues that are each discussed in more detail in the remaining paragraphs of this Section. These are:

(i) A considerable number of members (including the nine non-participants) do not hold sufficient SDRs to pay the 'gold' portions

1/ SDRs may also, by agreement with the purchasing member, be transferred directly in purchases. This is similar to replenishment, but the SDRs transferred would presumably be directed to participants through the designation process rather than their recipients being selected by the Fund on a basis related to the currency holdings of these members in the General Account.

that would fall due if the overall quota increase was of the order of 35-60 per cent, as envisaged above.

(ii) Under the present reconstitution provisions, of those participants holding sufficient SDRs to pay the increase many would increase, pro tanto, their existing needs to reconstitute and many more participants would join the list of those with a reconstitution need.

(iii) Action would be necessary on the part of the present non-participants to enable them to accept, hold, and use SDRs. This would be of particular importance to certain major oil-exporters who are not yet participants.

(iv) The full payment with SDRs of 25 per cent of any quota increase would lead, at least initially, to the concentration in the hands of the General Account of a sizeable proportion of the total of existing SDRs.

(v) The Fund's income would increase substantially, at least initially.

4. Acquisition of SDRs by Members Requiring them for Quota Payments

(i) The only way for a participant to obtain SDRs without receiving them from another participant or from the General Account is by way of an allocation. Allocations of SDRs, however, must respond to the global need for reserves, and broad support for an allocation does not seem to exist at the present time. This does not preclude the possibility that by the time the quota increase is to be paid (which might be as much as 18 months away) there might be the necessary support for a new allocation. However, in view of the uncertainties involved, it obviously remains necessary to explore other techniques.

(ii) There is no lack of techniques available under the existing Articles for the transfer of SDRs to those participants that do not hold sufficient SDRs to pay their quota increases, and the techniques could be more numerous under amended Articles. However, in the methods listed below, any receipts of SDRs from other participants would, of course, have to rely on the willingness of the users to relinquish SDRs voluntarily. Transfers of SDRs from the General Account, using the methods explained below, would provide more assured means for participants to receive SDRs needed for quota payments.

(a) If a participant so wished, and had a balance of payments need, it could use SDRs to buy back any balances of its own currency held by other participants that wished to receive SDRs to make quota payments.

(b) Under Article XXV, Section 2(b)(ii) and 3(c) the Fund could prescribe that participants may engage in transactions by agreement, exempt from the requirement of need, in which the SDR holdings of the two participants concerned in a transaction move closer to their net cumulative allocations. In other words, a participant with an excess holding of SDRs could, by agreement, transfer that excess holding to another participant, provided that the SDR holdings of the latter were not thereby raised above the level of its allocation. This method of transfer could be made available immediately by a decision of the Executive Directors.[1/]

(c) Under amended Articles there would presumably be greater scope for SDR transactions by agreement between participants and for exemptions from the requirement of need; thus the scope for the transfer of SDRs from participants willing to reduce their holdings to those who wished to augment their holdings could be much greater.

(d) Participants included in designation plans that needed SDRs for quota payments could be given some form of priority designation. This would be unlikely to conflict with the present rules of designation, since their SDR holdings would probably be relatively low in relation to their allocations, although this may not be true in all cases.

(e) Participants could receive SDRs from the General Account's holdings. The main avenues would be (i) under the existing reconstitution procedures, (ii) transfers in purchases to members using the Fund's resources in accordance with established policies, and (iii) replenishment operations in SDRs. Each of these would affect, either immediately or at a later stage, the Fund's holdings of creditor currencies. The more rapidly, and the greater the scale on which the Fund would move SDRs, directly or indirectly, back to participants against creditor currencies, the more would the effect of this procedure resemble the large scale mitigation of gold sales discussed above. However, as discussed in the next paragraph, these transfers could be expected to be on a much smaller scale.

5. Quantitative Considerations

If total quotas were assumed to rise by 35-60 per cent, the total amounts of SDRs that members (that is, including present non-participants) would need to acquire to supplement their present SDR holdings in order

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1/ A limitation to this technique would be that those participants that have not received allocations (Bangladesh, Bahamas, Bahrain, China and any non-participants that became participants) could not, by definition, engage in these transactions.

to meet their quota payments would be in the range of about SDR 350 million to SDR 650 million.[1] If reconstitution had not been abrogated, and if it were assumed that no participant's SDR holdings would be reduced below 30 per cent of its allocation, or would not be reduced further if already below 30 per cent, these amounts would rise to a range of about SDR 600 to SDR 1,200 million. Thus, if the overall quota increase was in the upper part of the assumed range, and reconstitution had not been abrogated, fairly extensive transfers from the General Account might become necessary. However, even on the assumption that the larger amount would have to be acquired exclusively from the General Account against the receipt of creditor currencies, the inflow of these currencies would be likely to remain within manageable limits and give rise to a lesser problem than the mitigation arrangements outlined in the previous Section.[2] Creditor members would still have to relinquish a substantial part of their net creditor positions in the General Account. It would be possible to some extent to delay this effect, and perhaps reduce its quantitative impact completely, if members were able to make gold tranche purchases of SDRs. This would mean, in effect, temporary payment in their own currencies and later repurchase either with creditor currencies or with subsequent increases in their SDR holdings.

If reconstitution were abrogated, the possible inflow of creditor currencies arising from a quota increase would be substantially reduced. It should, however, be borne in mind that at present the reconstitution procedures are the only means by which a participant can be in a position where it is entitled to obtain SDRs.

6. Non-Participants

Participants that have not received an allocation, and non-participants, have no assurance or entitlement to obtain SDRs from other

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1/ Based on holdings at end-October. As mentioned above, the quota increases assume that the share oil-exporting countries in total quotas is doubled. These estimates are thus rather eough approximations as to the transfers that might be necessary: better estimates will presumably be possible as discussion of the quota increase proceeds.

2/ The mechanism of such transfers of SDRs against the receipt of creditor currencies would be either the reconstitution procedures, which would mean that members would first make their quota payments and subsequently get SDRs back from the General Account against creditor currency, or the replenishment of the Fund's holdings of the currency of a creditor member that had sold SDRs to a participant needing them for a quota payment. In these operations the actual size of the Fund's SDR holdings would not be a limiting factor since drawings and quota payments could take place on the same day.

participants or from the General Account.[1] One or two of the countries of the first group might be in a position to obtain SDRs from the Fund in a regular purchase transaction under the policies for the use of the Fund's resources: otherwise they would have to obtain SDRs from another participant. As regards the non-participating members, they would first have to become 'other holders' or participants in order to be legally able to accept, hold, and use SDRs. The procedure to become an 'other holder' is complicated, while becoming a participant is relatively simple. If they became participants, these members would receive SDRs only to the extent that they wished to do so (since in the absence of an allocation there is no obligation to accept SDRs) and only to the extent that the Fund and other participants were willing to give up SDRs to them. One way for non-participants to start to acquire SDRs would be for them to become participants forthwith and agree to be included in the quarterly designation plans, possibly with some priority in designation. The Fund could also decide to replenish with SDRs the currencies of these new participants, provided the Fund had sold their currency first and thus established a super gold tranche position. Finally, they might be able to obtain SDRs from other participants in transactions by agreement.

7. The Concentration of SDRs in the General Account

If the full 25 per cent of a quota increase were to be paid in SDRs, it would lead to a heavy concentration of SDRs in the General Account and a corresponding reduction of the role of SDRs in members' reserves. In total, SDRs would be only about 4 per cent of total reserves and their distribution among participants would be very unbalanced, with perhaps the large majority of participants having relatively low holdings. The role of the SDR might tend to be predominantly that of a vehicle for General Account transactions rather than a means of settlement of imbalances.

The distribution of SDR holdings among participants could, of course, be improved in various ways. Some Executive Directors have suggested that, by amendment, a procedure for 'reverse designation' could be established, so that participants with relatively high holdings would be called upon to transfer SDRs to participants with low holdings. One objection to this procedure might be that it would involve participants in a new form of conversion obligation. Moreover, reverse

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1/ At end-September 1974 there were nine Fund members that were not participants in the Special Drawing Account. They were: Ethiopia, Kuwait, Lebanon, Libyan Arab Republic, Portugal, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates. Participants without allocations are Bangladesh, Bahamas, Bahrain, China and Romania.

designation would not assist in achieving a better balance between participants' SDR holdings and the General Account's holdings; in fact, the more balanced the distribution of SDRs among members prior to the quota increase, the less opportunity there would be for the Fund to transfer SDRs back to participants under the reconstitution procedures. This issue, and possible ways to alleviate it, are discussed further in Section IV.

8. The Impact on the Fund's Income

The rise in the Fund's income as a result of large-scale SDR subscriptions would, at least initially, be very substantial: at 5 per cent interest, SDR 2 to 4 billion would produce additional gross income of SDR 100-150 million.[1] In the first instance, the new income would eliminate present deficits and it might also allow consideration of a unification of the rate of remuneration. Should a surplus develop, a distribution of new income could be made, thus reducing the interest cost to members of their subscription payments. It remains to be seen, however, what the net effect on the Fund's net income would be. It is possible that members that exchange SDRs for a gold tranche by quota payments in SDRs might more readily purchase the gold tranche than in the past, since in various respects--interest rate, repurchase provisions and the requirement of use prior to credit tranche use--the gold tranche has characteristics that are less attractive than SDRs.[2] It will be desirable in this regard, as well as for other reasons, to examine the extent to which, under amended Articles, basic gold tranche positions could be made more similar to SDRs: this will be dealt with in a separate note at a later stage.

IV. Other Techniques for Subscription Payments Under Amended Articles

1. Introduction

The discussion in the previous Section shows that the problems involved in making subscription payments in SDRs would not be unmanageable. The abrogation of reconstitution, or further allocation in due course, would help to alleviate some of these problems. Nevertheless, if there were no further allocation, the distribution of SDRs as between participants and the General Account would be highly unbalanced and the importance of SDRs in participants' reserves much reduced: for this

1/ This is not intended to suggest that there would not be a substantial impact on income if payment were made in other ways. For example, to the extent that creditor currencies were received remuneration payments would be reduced. The effects on the Fund's income of a quota increase cannot be judged until the size of an increase and its method of payment is known. Even then much will depend on the changing distribution of members' positions.

2/ In the past there has been some evidence that members that have established basic gold tranche positions with foreign exchange (on which they earned interest) have been more ready to draw the gold tranche.

reason, paragraph 2, below, outlines the possible establishment of an 'SDR Subscription Account', that is, a limited form of Substitution Account, that would issue SDRs for quota payments against the surrender of foreign exchange from members' reserves.

The amendment that has thus far been put forward also foresees the possibility of the direct use of creditor currencies and members' own currencies in subscription payments. This raises the obvious question as to why the Fund should not directly receive these creditor currencies in accordance with the amendment proposed rather than indirectly by transfers of SDRs to participants; this leads on to the questions of why there should be a 'gold' portion at all, and why the Fund should be willing to receive creditor currencies but not a member's own currency in subscription payments. These issues are discussed in paragraphs 3 and 4 of this Section.

2. An SDR Subscription Account

The purpose of an SDR Subscription Account would be to enable members to pay their subscriptions by obtaining newly-issued SDRs from the Account against payment of currency held in their reserves. The maximum size of such an Account would initially be 25 per cent of any increase in the size of the Fund, although a smaller size could be envisaged. Such an Account would not, of course, increase the total of international reserves since reserve currency holdings would be surrendered for SDRs.1/ While the General Account would obtain a large holding of SDRs, it would not be at the expense of a correspondingly large reduction in participants' SDR holdings. It is not proposed at this stage to discuss the detailed working of an SDR Subscription Account created for this limited purpose. Annex 7 of the Outline of Reform provides a general description of how a Substitution Account might operate. The establishment of any form of substitution account would, of course, raise many difficult issues, most of which have been discussed in extenso in connection with the Reform. An SDR Subscription Account, however, would have a much more limited purpose than the Substitution Account envisaged in the Reform discussions, and its maximum size would be determined by quota increases. The possibility of establishing a limited SDR Subscription Account underlines the desirability of including in the amended Articles a general authority to make substitution possible.

3. Comparison of the Use of SDRs, Creditor Currencies, and Members' Own Currencies

The amendment proposed by the staff to enable SDRs, creditor currencies, or members' own currencies to be used to pay the "gold"

1/ It is assumed that reserve centers would not use their own currencies to obtain SDRs from the Account.

portion of the quota increase, has followed what might be called the 'traditional' Fund approach. It takes a 25 per cent "gold" portion as the norm; it creates a presumption in favor of gold and SDRs, as international reserve assets that are not the liabilities of an individual member, as the means of payment; and it ranks creditor currencies and members' own currencies, in that order, as secondary means of payment. The proposed draft amendment thus implicitly continues two aspects of the 'traditional' approach: that a primary reserve asset that members can be legally obliged to receive from the Fund in exchange for their currency is superior from the point of view of the liquidity of the General Account, and that an increase in quota should have an element of a contribution by the member for its increased ability to use the Fund's resources. In view of the problems of the concentration of SDRs and the drawbacks of subscriptions in net creditor currencies, the question arises whether, on a uniform basis for all members, the payment in members' own currencies should not, on this occasion, be raised beyond the level of 75 per cent of the payment for quota increases.

The following comparisons can be made between the payment of different assets.

(a) Use of <u>SDRs</u> would, most probably, maximize both the liquidity benefits for the General Account and also the contribution element by members, although some members may feel that a contribution of foreign exchange from their reserves represents a greater contribution than a use of SDRs, at least at present interest rates and on the assumption that the capital value of the SDR will not differ greatly from that of reserve currency. However, the liquidity advantage of SDRs is subject to participants' acceptance limits and although on average and over time they will be superior in this respect, at a particular time this may not be so. For example, major surplus countries may not be participants, or have not received allocations, and thus have no acceptance limits at all.

(b) Use of <u>creditors currencies</u> will, as mentioned above, generally be inferior from the point of view of the Fund's liquidity, and the contribution element will really depend on a member's assessment of the attractiveness of SDRs. But, of course, the principal problems with the use of creditor currencies are the change in the composition of creditors' assets and the reduction of the scope for repurchases in currencies. It is concluded that any direct use of net creditor currency in subscription payments should be on a small scale, perhaps not exceeding the extent to which it would otherwise be necessary to supply SDRs from the General Account, against these currencies, to participants needing them for subscription payments.

(c) Use of <u>members' own currencies</u> would not be as beneficial for the Fund's liquidity as SDRs or creditor currencies, although it should be noted that payment in members' own currency would not increase the total of existing gold tranche positions, which represent the most immediate claims on the Fund. Moreover, from the point of view of the usability of a creditor currency it is immaterial for the Fund whether it is received from its issuer or from another member. The contribution element would be eliminated until the currency was sold, or repurchased, in the gold tranche.

4. Combination of Assets

The above discussion suggests that SDRs should normally be the means of payment of the "gold" portion. Since there is no difference from the point of view of the Fund's liquidity in receiving a creditor currency from its issuer or from another member it might avoid many of the problems involved with full payment in SDRs or with the use of creditor currencies if, on this occasion, and without prejudice to decisions in connection with future reviews, the proportion of the whole increase to be paid in members' own currencies were raised and the SDR proportion reduced <u>pro tanto</u> below 25 per cent, leaving creditor currencies to be used only in cases where problems existed in obtaining SDRs. It should be noted, however, that a large number of members would incur a need to repurchase (sooner or later) down to 75 per cent of quota, so the difficulties involved with creditor currencies would not be resolved altogether.[1]

It would be possible under amended Articles to apply special repurchase policies to currency holdings above 75 per cent of quota that arose from subscription payments. A member might not be required to repurchase this portion of holdings at all,[2] and the Fund could pursue a more active policy of selling a currency held above 75 per cent of quota, providing the balance of payments and reserve position of the member was sufficiently strong. Alternatively, and perhaps preferably, members might be obliged to repurchase this portion in SDRs following a further allocation, although it would always be possible to make exemptions for members with reserves below a certain level in relation to quota.

1/ Repurchases would arise as follows: with a quota of 100 and Fund holdings at 75, a member doubles its quota by paying--say--100 in its own currency. It keeps (in absolute amount) its 25 gold tranche position: but the Fund's holdings are 175 and it has to repurchase down to 150 (as 75% of the new quota). In effect, its 'contribution', which alone establishes a claim on the Fund, has been delayed until the repurchase. In this example the repurchase would involve the full 25 per cent of the increase.

2/ This would require a change in the draft provisions put forward in DAA/74/2 Supplement 2 on repurchases.

In the light of the foregoing, it might be envisaged that on this occasion, on a uniform basis for all members with the possible exception of members with low reserves, about 85 or 90 per cent of the quota increase, instead of the traditional 75 per cent, be paid in members' own currencies and the remaining 15 or 10 per cent in SDRs.

V. Summary and Conclusions

1. Under the existing Articles the total of Fund quotas could not be raised by the amounts discussed to date without giving rise to very difficult, and time-consuming, problems of principle and procedure. The problems of principle would be that any device for complete remission of the gold portion of quota increases may appear to be inconsistent with the Articles. Any arrangements for remission would be operationally very complex, and in particular raise a series of problems associated with a large inflow of creditor currencies, which would reduce the scope for future repurchases in currencies and also change the composition of creditor members' reserves, increasing their currency holdings and reducing their super gold tranche positions. The latter effects might be alleviated to some extent by deliberately expanding creditor positions.

2. Payments in SDRs under amended Articles would be a much more manageable procedure. There are a variety of techniques under the existing Articles that might be used for moving SDRs to members with insufficient holdings to make any agreed quota payments and the scope could be greater under amended Articles. The need for these SDR transfers would be reduced if reconstitution were abolished.

3. However, even with quota payments in SDRs, the General Account would probably have to transfer SDRs against receipt of creditor currencies. The inflow of creditor currencies would raise the same type of difficulties mentioned above, although on a much smaller scale than for the same overall quota increase under the present Articles. A second drawback would be that a high proportion of existing SDRs would be concentrated in the Fund and the distribution of the remaining SDRs among participants would be highly unbalanced.

4. These difficulties may be met in a number of ways. The most forward-looking approach would be in the form of a limited subscription account: an SDR Subscription Account could be established to issue SDRs against the surrender of reserve currency balances thus increasing the amounts of SDRs in issue without increasing the total of reserves.

5. As regards the possible use of other techniques, namely to accept in place of SDRs the currencies of other members or the member's own currency, it is suggested that the SDR should be the main asset in which the "gold" portion of the increased subscription is to be paid, since SDRs would tend to safeguard the Fund's liquidity better than the other forms of payment. Nevertheless, consideration could be given to

the following possibilities: (i) to the extent that SDRs had to be transferred from the General Account against creditor currencies to participants with low holdings of SDRs, it would obviously be more convenient for this amount of creditor currencies to be transferred directly to the General Account in quota payments, and (ii) since SDRs at present form a small proportion of total reserves, it might simplify the quota increase on this occasion to permit more than 75 per cent of the increase to be paid in members' own currencies. The higher the proportion subscribed in members' own currencies the less need there would be for payment in creditor currencies as described in (i) above. In principle, the proportion between SDR payments and payments in a member's own currency should be uniform for all members, but the portion to be paid in the member's own currency could be increased for members with low reserves. In the event that these procedures would raise the Fund's holdings of a member's currency above 75 per cent of the new quota, it is possible to contemplate that there should be no requirement for repurchases of such a currency subscription, or at least not initially; alternatively the repurchase could be conditional on the future allocation of SDRs.

Gold Payments and Their Alleviation in Connection with Quota Increases

To reduce the impact on members' reserves of gold payments arising from increases in quotas the Fund, in the past, has provided a number of different arrangements.

The following sets out in chronological order, the alleviation facilities offered in connection with quota increases:

1. 1959 "Enlargement of Fund Resources Through Increases in Quotas"[1/]

(i) Members could increase their quotas in installments. Paragraph 7(a) of the First and Second Resolutions provided that a member, representing that its reserves should not be reduced by an immediate full gold payment, could consent to the increase in its quota by installments.

(ii) In addition, the Report of the Executive Directors to the Board of Governors in part III "Payment of Additional Subscription" provided for special drawings up to 25 per cent of the increase in quota.

2. Quota Increases Under the Compensatory Financing Decision[2/]

Members were offered the same two alleviation facilities as for the 1959 quota increases:

(i) Quota increases by installments.

(ii) Special drawing up to 25 per cent of the increase.

These two facilities were provided by Executive Board Decision on "Quota Increases - Gold Subscriptions" agreed at Meeting 63/33, June 14, 1963 (SM/63/37, Supplement 2, June 14, 1963.

3. 1965 - Fourth Quinquennial Review

a. Mitigation of the primary impact

(i) Acceptance of increased quotas in installments as provided in Board of Governors Resolution No. 20-6, paragraph 6(a).

(ii) Special drawings for an amount not exceeding 25 per cent of the quota increase. Repurchases of such drawings were normally to be effected in equal annual installments over a period of five years. This facility was limited to member countries that received only a general increase as provided in paragraphs 13-18 of the Report of the Executive

1/ Board of Governors Resolution Nos. 14-1, 14-2, and 14-3, effective February 2, 1959.

2/ Executive Board Decision No. 1477-(63/7), February 25, 1963 as amended by Executive Board Decision No. 2192-(66/81) September 20, 1966.

Directors to the Board of Governors on "Increases in Quotas of Members - Fourth Quinquennial Review".

b. Mitigation of the secondary impact on reserve currency countries

(i) The Fund decided that special drawings in connection with quota increases, up to the equivalent of $150 million could be made in currencies which the Fund could then replenish by the sale of gold, the currency drawn being used to purchase gold from the country drawn upon (so-called triangular transactions). This facility was provided in paragraph 19 of the Report of the Executive Directors to the Board of Governors on "Increases in Quotas of Members--Fourth Quinquennial Review".

(ii) The Fund decided that "general deposits" of gold could be made to a total of not more than the equivalent of $350 million with its depositories in the United Kingdom and the United States. This facility was provided in paragraph 20 of the Report of the Executive Directors to the Board of Governors on "Increases in Quotas of Members--Fourth Quinquennial Review".

4. 1970 Fifth General Review[3/]

a. Mitigation of the primary impact

(i) Acceptance of increased quota in equal annual installments, or a partial increase in its quota with further increases thereafter, up to the full amount, as provided in Board of Governors Resolution No. 25-3, paragraph 1 and paragraph 6(a).

(ii) The Fund decided, for the first time, to exercise the discretion given in Article III, Section 4(a) of the Fund Agreement, to reduce the portion of the increase in quota subscriptions payable in gold in the case of a member with monetary reserves less than the new quota. This facility was provided in paragraph 5 of Board of Governors Resolution No. 25-3.

In accordance with Article III, Section 4(a) a member was permitted to pay in gold only that proportion of 25 per cent of the increase in quota that the member's monetary reserves bore to the increased quota to which the member consented, and to pay the balance of the increase in quota in the member's currency. Any member paying less than 25 per cent of its quota increase in gold had to undertake to repurchase the additional currency subscription beyond 75 per cent of the increase in quota in five equal annual installments commencing one year after the date on which the quota increase became effective.

No provision for special drawings were included as under the Amended Articles of Agreement unconditional drawings in the credit tranches for this purpose would not be permitted.

3/ Board of Governors Resolution No. 25-3 on "Increases in Quotas of Members--Fifth General Review", effective February 9, 1970.

B. <u>Mitigation of secondary impact</u>

The Fund decided to sell gold up to the equivalent of $700 million to those members that sold gold to other members to enable the latter to pay the gold portion of their quota increases. This facility was provided in paragraph 7 of Board of Governors Resolution No. 25-3.

Office Memorandum

TO : Files

DATE: November 26, 1974

FROM : R. R. Rhomberg

SUBJECT : Quota Calculations

Mr. Williams called me last night on this subject and I had two telephone conversations with him, last night and this morning, on the question of the influence of the Fund size used for normalization of calculated quotas on the distribution of calculated special quota increases. He seemed to think that the size of the Fund used for normalization would not affect the calculations of Variant 1 shown in the draft paper (special increases distributed in proportion to the excess of calculated over present quotas) but only those of Variant 2 (special increases distributed in proportion to the excess of calculated quotas over present quotas augmented by the general increase). I tried to convince Mr. Williams this morning that Variant 1 would also be affected by the choice of Fund size, and he agreed that there were ways of calculating the increases under Variant 1 where Fund size used in normalization would make a difference but indicated that this was not the case under the system of calculation that had been used.

R. R. Rhomberg

cc: Mr. Polak
Mr. Williams

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TO : Files DATE: November 26, 1974

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R. R. Rhomberg

cc: Mr. Polak
Mr. Williams

Office Memorandum

TO : Mr. Rhomberg

DATE: November 26, 1974

FROM : David Williams DW

SUBJECT : Quota Calculations

I do not believe your memorandum for files is a fair account of our conversations on the quota calculations. In Variant 1 the countries selected for special increases were those whose calculated quotas exceeded their present quotas and that the amount of any special increase was a uniform percentage of such excess. We believe that these calculated excess, which are derived from quota calculations which were based on generally accepted quota formulas and were normalized on the results of the Bretton Woods quota formula, are indicative of members' relative economic growth since the last adjustment of quotas. This relative growth should be reflected in any increase in the Fund; the proportionate method of distributing the special increases is an equitable one. In view of the way the calculated quotas were used, i.e., as a method of selection of countries and the proportionate allocation of any given special increase, I argued to you that Variant 1 would not change for any changes in the size of the Fund. This method was also followed in the Fifth Review.

I argued, however, that the calculated quotas could be used in different ways--e.g., to select special increases only on the basis of a most-out-of-line concept. Our version of Variant 2 simply excluded those countries whose calculated quota was 20 per cent or less in excess of present quota (though we might have based the exclusion on 40 per cent or less). You argued that the calculated quotas must first be scaled down to some arbitrary figures--e.g., SDR 39 billion, SDR 43 billion and out of these varying totals the countries whose quotas are most out of line would be adjusted for special increase. Apart from this variable concept of "out-of-lineness", I disagree that the calculated quotas, based on the quota formulas, must be scaled down to arbitrary numbers.

cc: Mr. Habermeier
Mr. Polak ✓

Office Memorandum

TO : Mr. W. O. Habermeier

DATE: November 26, 1974

FROM : G. Nicoletopoulos

SUBJECT : Payment of the Gold Portion of Quota Increases --Issues and Techniques

We have the following comments on your draft on the above subject dated November 25.

General Comments

1. We have considerable difficulty with the proposal that the Articles be amended to establish a Subscription Account and to segregate holdings of currencies acquired in payment of quota increases. The establishment of a separate account is a very complex matter and raises constitutional and other problems. The chances that such an account could be established in the next 1-2 years are minimal. The paper makes no allusion to these problems. An additional consideration is that a Subscription Account would serve one of the purposes to be served by the Substitution Account that has been envisaged in the Outline. I would therefore suggest that you omit the proposal with regard to the Substitution Account. If it were to be retained, it should be discussed in a separate section toward the end of the paper as a longer term project to be considered in connection with the establishment of the Substitution Account. Similar objections apply to the segregation of Fund holdings.

2. We believe that the memorandum downgrades excessively the possibilities under the existing Articles and dismisses them too definitely. While we share your views in favor of amendment, it would seem inadvisable to close all doors to the possible use of techniques under the existing Articles.

Other Comments

Page 1, first paragraph: Take out the tenth line. The last sentence should be rephrased in view of the fact that the staff papers on amendment do not deal with a subscription account or the segregation of holdings.

Second paragraph: Take out the words "For this reason" in the second sentence.

Page 2, last three lines: The descriptions of the proposal in the staff memorandum on amendment given here and in the first paragraph on page 11 are not consistent with each other and do not precisely correspond to the suggestions made in the memorandum.

Page 3, first paragraph: Replace "As a result of" with "In connection with".

Paragraph 1(i): It would be useful to indicate the magnitude of mitigation under the Sixth General Review if there were to be a reduction of the gold payment under Article III, Section 4(a).

Page 4, paragraph 1(iii): The last sentence should indicate that the technique described therein was used in combination with the technique described in (ii).

Fifth line from the bottom: Replace the word "sight" with "general".

Footnote: Take out the words "The controversial nature of the technique partly explains why".

Page 5: At the end of paragraph 1 mention should be made, for the purpose of completeness, of increases in quotas by installments, including the variant introduced in the Fifth General Review.

Fifth line from bottom and remainder of page: The source of the suggestion that a creditor member should have a veto over reductions in its creditor position should be mentioned. In connection with a reference to the possible reluctance of creditor members, it would be useful to add that under Article VII, Section 2(i) the Fund is empowered to require a member to accept gold in exchange for its currency.

Page 6, first sentence: This sentence should be rephrased in order to eliminate the possible implication that the past practice was inconsistent with the Articles.

Page 8, line five from bottom: Members holding gold tranche positions would have to meet the requirement of need, although the Fund would not be able to challenge their representations. The statement that conditionality may make it impossible or undesirable for debtor members to use this technique might be toned down, for it would not necessarily apply to members that had part of the first credit tranche.

Page 9: The description of the technique for the conversion of loan claims into super gold tranche positions seems unduly complicated.

Page 10: The difficulties under the present Articles seem to be somewhat exaggerated. This applies particularly to the statement that creditor currencies and special drawing rights would probably fail to enhance the liquidity of the Fund.

Page 11: This section lacks clarity because the positions under the present Articles and under possible amendments are not adequately distinguished. For instance, on page 13, sub-paragraph (ii), it is not clear whether the statement "there is no lack of techniques available" is addressed to the present Articles or to possible amendments. Similarly, on page 14, in paragraph (d), it is unclear whether the second sentence refers to the present or to the amended Articles. Also, the section assumes that in the amended Articles the present reconstitution provision would be retained (see p. 12, sub-paragraph (ii)).

In line 3 of page 11, and in several other places in this section, reference is made to "the proposed amendment" but there is no indication of the details of the amendment and where the Executive Directors could find it.

Page 12, sub-paragraph (ii): It might be explained that the present non-participants could become either participants or other holders.

sub-paragraph (iv), fourth line: Rephrase to ensure conformity with Article XXIV, Section 1.

Page 13, sub-paragraph (ii): The last sentence in this paragraph is true only if the Fund is required to make such transfers.

Sub-paragraphs (d) and (e) seem to assume that notwithstanding changes in the possible uses of the special drawing rights by amendment the designation and reconstitution rules would remain unchanged. This does not seem realistic.

Page 15, line 8 from the bottom: "That" is a misprint for "than".

Page 16, first paragraph: The problems relating to reconstitution could be solved in connection with the amendment.

Page 19, title: Replace "New" with "Other".

Second paragraph: The question arises again what proposed amendment is referred to here and in line 5 of this paragraph.

Page 22, line 6 from bottom: Replace "currency" with "currencies".

Page 23, last incomplete paragraph: This description does not entirely fit with the draft provision in DAA/74/3, Sup. 1.

Page 24, last paragraph: Under the draft provisions in DAA/74/2, Sup. 2, the Fund could probably adopt policies regarding the repurchase of currency paid instead of gold that could meet the points made here, except that the Fund could not authorize members not to purchase this currency at all.

<u>Page 25, paragraph 1, line 6</u>: Replace "such arrangements" with "arrangements for remission".

<u>Paragraph 2</u>: Reference should be made to the possibility of solving these problems by amendment.

<u>Page 26, line 9 from bottom</u>: Add "portion" after "gold".

<u>Appendix, page 2, par. 4.a.(i)</u>: Two types of mitigation were allowed in connection with this general increase: increases by installments and partial increases.

cc: Acting Managing Director
Mr. Polak
Mr. Gold

Quotas

Paris, November 21, 1974

To: Mr. J. Bennett

From: J. J. Polak

The question of the relative cost to a member of paying in SDR versus its own currency for 25 per cent of its quota increase is somewhat complicated. It depends on the Fund's holdings of its currency in per cent of the new quota at the time of the quota increase (and the magnitude of the amount involved insofar as it may straddle different situations).

The interest cost of the use of SDRs is always 5 per cent. The interest cost involved in raising the Fund's holdings of the currency in question for the same amount can be more or less. At present rates of remuneration and charges, that cost would be:

Fund holdings in per cent of new quota	Effective cost to member	
below 50%	5%	Remuneration foregone
50 to 75%	2 1/2 %	Remuneration foregone
75 to 100%	0	
above 100%	4%-6% 7%[1]	Failure to achieve reduction in charges

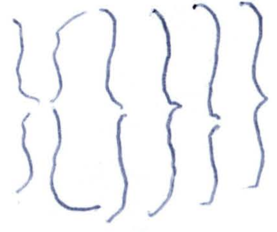
1/ If outstanding credit tranche drawings are under the oil facility only.

Cc. Gold
Habermeier

SUBJECT COPY

Significance of quotas

Normal drawings
EFF Compfin /
[Oil facility
new quotas



Resources for these –

Votes

Pt in national curr.

Paris G-10
Nov. 20-21, 1974

MEMORANDUM

TO: Mr. Habermeier November 15, 1974

FROM: J. J. Polak

SUBJECT: Quota Paper

My original idea was that there would be no need for a new paper, simply a few paragraphs introducing and describing the tables we wanted to circulate. A quick reading of the draft paper you sent me does not change my opinion on the subject. In any event, this draft would need very substantial editing and clarification (as has unfortunately been the case of all drafts on quotas coming from your Department) and I do not have the time or the inclination to perform this service again.

Specifically, I do not think the sections on general and special quota increases --insofar as I can understand them--are needed, except for the information provided in footnote 1 on page 2. In section 4, I presume something important is intended to be conveyed by the first paragraph on page 8 but it is not clear what. The second paragraph on page 8 is also much less clear than the description itself given on page 10. As regards page 9, I am sorry that we are not yet ready to make calculations on the basis of more current data. However, if the reader is asked to wait for further work I see no point in a cursory discussion of various alternatives here.

I am shocked by the use of the formula that gives special increases' to all countries. This is the result of what is mentioned in (vi) on page 10, which is obviously an unsatisfactory distribution system. I would suggest giving all countries a general increase of 35 per cent of quota and distributing the remainder in proportion to the excess of calculated quotas, adjusted to an appropriate total level, over 135 per cent of quota.

It is not clear from the text of (i) what is meant by the exclusion of China. In particular, is the increase of 50 per cent applied to a total with or without China? I do not understand the point in (iv) of raising one group of developed countries by 45 per cent and another group by 40 per cent. If there is any justification for this it certainly is not the one given, which I read to mean that 40 per cent is almost 45 per cent. If equality was desired it could have been obtained; if it was not desired the reason for the inequality should be given.

SUBJECT COPY

I would be inclined to apply the 35 per cent general increase to the industrial countries also; I see no convincing reason for making these countries less sensitive than others on maintaining their shares within the group.

On a more general level, I would accompany these calculations with another set based on a one third or 35 per cent overall increase and a general increase of about 25 per cent.

I would certainly not object to making comparable calculations on the assumptions underlying Table C.

SUBJECT COPY

F - R

Office Memorandum

Quotas

TO : The Managing Director

DATE: November 14, 1974

FROM : William B. Dale

SUBJECT : The Trouble with Mitigation

Mitigation of the normal 25 per cent gold payment requirement for quota increases (except in the relatively limited number of cases where, because member's reserves are less than the new quota, the Fund is empowered to reduce the proportion of gold payment) is distasteful because it is complicated and gives the appearance of evading the intent of the Articles. But however one feels about those matters, they are not in my view the main problem with mitigation. The main problem is that in the end mitigation cannot be made to work satisfactorily from a technical point of view.

Case A

Suppose Germany, with by far the largest super gold tranche position in the Fund, were ready to serve as the mitigation intermediary. One mitigation possibility would be for other members to buy gold from Germany at the official price, for dollars, and pay it to the Fund for their quota increases. The Fund would then immediately sell the identical gold to Germany to replenish its holdings of deutsche mark.

After all such transactions, the result would be:

1. Germany's gold holdings would be the same as before the transactions;

2. Germany's dollar holdings would be increased by an amount equivalent to the total volume of mitigation transactions for which Germany served as intermediary;

3. Germany's super gold tranche (and her total reserve position in the Fund) would have been reduced by the same amount as her dollar holdings had been increased;

4. Due to the change in the composition of her reserves to be brought about by 2. and 3., Germany would not be likely to agree to serve as intermediary under these arrangements;

5. Even if Germany would agree to serve as intermediary, the procedure described could not be carried beyond an amount which brought the Fund's holdings of deutsche mark up to 75 per cent of quota, and this would be limited to SDR 911.8 million as of November 8, an amount which would facilitate quota increases of only SDR 3.6 billion.

Case B

Suppose that all members which had super gold tranche positions would join Germany in consenting to serve as intermediating in such mitigation transactions. Each such member would go through the same steps, and the same disadvantages, as described above. However, on the basis of the November 8 situation, the aggregate of the super gold tranches available for such use would be a little over SDR 2 billion, so that the aggregate of quota increases which could be handled in this way would be about SDR 8 billion, only slightly more than 25 per cent of present quotas.

Case C

The quantitative limits to the mitigation process described above could be increased if by the time of the quota increase purchases outstanding, and correspondingly, super gold tranche positions were higher than now.

Case D

Suppose that by the time the quota increase were agreed, the United States had a substantial super gold tranche position due to quite large purchases of dollars from the Fund in the interim. Then suppose the United States agreed to serve as the mitigation intermediary. In that event, the United States would sell gold for dollars to another member, which would pay the gold to the Fund for its quota increase. The Fund would then sell the same gold to the United States in replenishment.

The United States would not have the change in composition of its gross reserves mentioned in the case of Germany under Case A. Instead, the net outcome for the United States would be a reduction of its super gold tranche (and of its aggregate gross reserves) balanced by a reduction in its liabilities to foreign official

dollar holders (or with an offset in a reduction of official dollar holdings in the Euro-currency market, which is much more difficult to follow through). In any event, the United States would have similar, though slightly different reasons as other members to resist serving as intermediary.

Case E

The situation would be different if members subscribing to quota increases were to purchase from the Fund the currency of the member country from which they would buy the gold (against that currency) for their quota increase. In that event the circle would be complete. In the example of Case A, the Fund's holdings of deutsche mark (and therefore the German reserve position in the Fund) would be the same after the series of transactions as before. Telescoping the whole series of transactions--and abstracting from technical and operational problems that could arise--the essential financial result would be the same as if quota increases were subscribed wholly with the currency of each member.

There are two further points to be made, however. First, this mechanism of Case E would work fully only if drawings could be made available unconditionally to all members in the amount of 25 per cent of their quota increases, and only if such drawings were in some sense genuinely additional to all other facilities in the Fund. Given the legal basis for conditionality of drawings in the credit tranches under the 1969 amendment, it seems doubtful whether these requirements could be met for a large number of members.

The second point is that, as a technical matter, all mitigation schemes have the final result that what the Fund receives instead of 25 per cent gold subscription is currency. Under Cases A through D, the currency effectively received, in lieu of gold, would be the currency of a member that presently holds a super gold tranche position. That may sustain Fund liquidity quite well in the short term, but it would provide no necessary assurance for the longer term, when the usability of countries' currencies might turn around due to the evolution of payments and reserve positions. Under Case E, the medium effectively received by the Fund in lieu of gold would be the currency of each member subscribing to a quota increase. That would be likely, on the whole, to be considerably more disadvantageous for the Fund's future liquidity than the previous four Cases.

cc: Messrs. Gold, Polak, Habermeier

SUBJECT COPY

MEMORANDUM

TO: Managing Director November 11, 1974

FROM: J. J. Polak

SUBJECT: Work Program, Sixth Review of Quotas

In order to make further progress I would recommend that we concentrate staff work on the preparation of further tables. This appears to be the only way in which the implications of certain desires expressed by Board members can be clearly seen. The surrounding text could make clear that the staff does not necessarily believe that the range of possibilities discussed in the table submitted defines the area in which agreement will be reached. This position can the more readily be believed inasmuch as the table which most Board members appear to support (Table B) probably does not provide a basis for ultimate agreement.

I would recommend submitting to the Board various versions of Table B, using again those numerical assumptions on which there seemed the greatest density of support, while recognizing explicitly the existing dissent from this range. In this line I would make the calculations for an overall size of about 33 per cent and 50 per cent, with general increases of three fourths of the overall increase.

To show what this would mean for individual countries I would suggest the following:

(a) For the industrial countries distribute the total on the basis of the Bretton Woods formula or a similar formula using data for 1971 to 1973.

(b) For the other developed countries and the non-oil producing LDCs use a simplified formula with trade and export variability only, using data for 1971 to 1973.

(c) Distribute the extra 5 per cent for the oil producing countries on the basis of the volume of their oil exports in recent years.

This approach meets the rather generally expressed desire for the use of the more current data, which is possible for the LDCs if we go over to a simplified formula.

cc: Deputy Managing Director
Mr. Gold
Mr. Habermeier
Mr. Sturc

Office Memorandum

TO : The Managing Director
The Deputy Managing Director

DATE: November 7, 1974

FROM : W.O. Habermeier

SUBJECT : Work Program--Sixth Review of Quotas

It appears desirable that I report briefly to you where we stand on the quota review at present and what our next steps might be.

1. The last meeting of the Committee of the Whole on the Review of Quotas did not reach any specific conclusions nor did it result in guidance for the staff on the next stage of our work. However, several matters became clearer.

First, as regards the overall size of a quota increase, the greater number of Executive Directors seemed to favor increases in the range of 35-50 per cent over the present size of the Fund. There were some major differences of opinion remaining, for example, Mr. Cross and, similarly, Mr. Schleiminger conceding only an increase of only 25 per cent or less, and at the other end of the spectrum, a number of Directors, largely from the less developed countries, arguing for 70 per cent or more.

Secondly, there was fairly widespread agreement that the share of the major oil exporting countries needs to be adjusted significantly upward and the approximate doubling of their share, which the staff had used as an illustration, did not cause negative reactions. However, there was a clear desire to provide some quantitative justification for that kind of adjustment; another significant element was the idea (Mr. Cross) that this special adjustment should be regarded as "anticipatory." In addition, the idea was strongly advanced by several that a substantial increase in their share would be somehow made conditional on the effective strengthening of the Fund's liquidity by using the currencies of these members in transactions.

Thirdly, there was substantial diversity of opinion on the relative role of general and special adjustment within the overall increase--some arguing for a fairly high proportion of the general adjustment with a fairly low proportion of the special adjustments (e.g., Mr. Lieftinck argued for 80 per cent of all increases in the form of general increases); some others arguing more strongly for the clearest possible reflection in the relative change in their economic position (e.g. Japan).

Fourthly, the question was raised explicitly of how to go about paying the increases in subscriptions, in particular, the 25 per cent of the increase which is normally payable under the existing Articles in gold, and a paper was promised on the policy issues that are likely to arise.

2. Against this background the following next steps would seem appropriate: the next discussion of the Committee of the Whole should be concerned with the size of the overall increase of the Fund but would focus its discussion on the distribution of individual quota increases. This approach would hopefully elicit a more specific conclusion from the Executive Directors and would advance the general discussion of quotas sufficiently before the Interim Committee meets.

It would be too early to expect a consensus on the overall increase in the size of the Fund. In fact, an early, and possibly a hasty, agreement on the overall size could reduce the flexibility in adjusting individual quotas. It would therefore seem reasonable to continue to make quota calculations on the basis of the three alternative assumptions on the size of the overall increase, namely 25 per cent, 50 per cent, and 75 per cent.

We should also try to force the pace on (i) general increases versus special increases; (ii) the principle of selecting countries for special quota increases; (iii) the methods of allocating the special quota increases.

On the relationship between general and special increases within the overall increase, two differing and fairly strongly held opinions are apparant: there are those who wish to avoid a decline in their relative positions in any enlarged fund, such as the United States and the less developed countries as a group, and in particular major members among them such as India on the one hand. On the other hand there are those like Japan, Korea, and a long list of individual members including Israel, Yugoslavia, South Africa and many more, who wish to maximize their absolute and also their relative positions in response to their needs and also safeguard their claims for seats in the Board and Committees. This group could well call for a relatively large overall increase and a relatively small general increase. Some acceptable combination reconciling these opposing views needs to be worked at, for example, a large general adjustment with a relatively large number of special increases.

On the principles of selecting the countries eligible for special increases we need to adopt some quantitative criteria. This might be done on the basis of 1 or 2 simplified formulas using relatively current economic variables. These formulas would need to be fitted with the economic criteria on which the substantial relative adjustment of quotas of major oil exporters would be based so as to preserve to the greatest extent possible a uniform approach for all members of the Fund (Mr. Cross argued in the meeting that the staff had gone about the issue of adjusting quotas in the wrong way by discussing groups of members rather than adopting a uniform approach for all members).

Furthermore, considerable headway would be desirable on the question of the size of the special increases for the major oil exporting countries and in this regard some economic criteria can be developed using recent economic data.

The use of more current indicators, but short of projections, for these members would presumably need to be extended in some form to all other members. An attempt should also be made to clarify the concept of "anticipatory" increases. It seems to involve a policy resolution that the special adjustment of the oil exporting countries' quotas is based on uncertain prognostication of their future position; thus other members should be enabled to catch up in the next review of quotas, if it appeared that their relative position had improved again.

Finally, the usability of the currencies of the oil exporting countries needs to be clarified more precisely. At present there is an amendment porposed to the Articles which would make it an obligation for members to convert their currency if it is sold by the Fund on the basis of the exchange rates at which the Fund sells currency.

A paper along the above lines is being prepared and it is hoped will be ready for your approval in about one week. A paper is also being prepared on the issues arising with regard to the payment of the quota increases and should be ready at about the same time, although possibly for somewhat later discussion.

cc: Mr. Gold
Mr. Polak
Mr. Sturc

MR POLAK

CONFIDENTIAL

Quotas

October 24, 1974

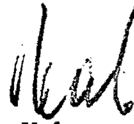
MEMORANDUM FOR FILES

Subject: IBRD--Recycling of Oil Surplus in 1975, and Related Issues

Mr. Hattori paid me the first of his announced visits yesterday on behalf of Mr. Cargill of the IBRD, to maintain a liaison with the Fund. His first and only interest on this occasion was in the Fund quota exercise and in particular the outlook for the quotas of the major oil exporters. I explained to him the work of the Committee of the Whole on Quotas and in particular the point which we had reached after the meeting of that Committee on Monday, October 21. Mr. Hattori wanted to know what special quota increase might be planned in Fund quotas; he hoped the World Bank could again take its cue from the Fund, as it had done in the past, for some kind of special adjustment of capital quotas in the World Bank. Mr. Hattori thought that the Fund was considering a proposal to double the share of the major oil exporters. I explained the nature of our illustrative calculations and the various alternative assumptions which we had made and related to him the desire of some of our Directors that special adjustments of the quotas of the major oil exporters, like any other quota adjustment, would need to be justified by some economic indicators, that they might be regarded as "anticipatory", and also the strong sentiment that the Fund's holdings of these members' currencies should be fully usable. I asked whether it was true that the World Bank contemplated a tripling of the quotas of the major oil exporters. Mr. Hattori responded that there might have been some thinking along these lines but nothing authoritative had emerged. (He mentioned as an aside that Mr. McNamara had volunteered to the Japanese Finance Minister a very strong commitment to increase Japan's relative position in the Bank.) He felt that it would presumably create difficulties if substantial differences were to develop in the voting strength of major members or groups of members in the two institutions. He was, of course, aware that some differences already existed.

I also asked Mr. Hattori about the likely timing of any action on quotas in the World Bank. He would not confirm the rumor that the Bank would be moving quickly, ahead of the Fund, and thus depart from past practices. (Incidentally, Mr. Hattori did not yet know that on past occasions we had dealt with Mr. Goshal of the Secretary's Department of the IBRD on quota matters, and with Mr. Adler.) Mr. Hattori's own view was that the present calendar of the World Bank would not allow the Bank and its Board to turn to the adjustment of quotas any time before January of next year; there were at least seven other major policy issues to be discussed by the Board in between, such as the interest rate charged by the Bank. He wondered whether the Fund would be able to conclude the quota review by early February 1975 to which I responded that while the present review was apparently more difficult than previous reviews, the discussions had so far progressed satisfactorily on schedule, and I certainly hoped that the Interim Committee, in its January meeting, would be able to come to the main policy conclusions in regard to quotas

so that not long thereafter one would know the general magnitude and the distribution of quotas among various members and groups of members of the Fund. One might even hope to know before that meeting the major principles which would govern the distribution of new quotas. Mr. Hattori felt that if indeed the Fund could stick to the February date he did not see how the World Bank could depart from the past practice of following the Fund, given the difficulties of establishing criteria for special quota adjustments and the problems that might be associated with different approaches and different results as between the two institutions.



W. O. Habermeier

cc: The Managing Director (on return)
The Acting Managing Director
Mr. Gold
Mr. Polak
Mr. Sturc
Area Department Heads

MEMORANDUM

TO: Mr. Fleming October 11, 1974

FROM: J. J. Polak

SUBJECT: Quota Increases and SDR Substitution

I do not think we should pursue this idea, at least for the time being. There are too many reasons on the other side, even if not all of them of the same validity.

1. I would expect the quota increase to be very substantially smaller than you assume, e.g., SDR 12 billion at the outside. Payments in SDRs and convertible currencies for 3 billion could be made without excessive difficulty, in particular if one assumes that Fund transactions would add substantially to creditor positions between now and the time when the quota increases would go into effect.

2. While convertible currencies are not quite as liquid as SDRs, the particular currencies we would be receiving have almost always been usable.

3. Although at this moment gold cannot be used by the Fund this situation will surely change if necessary (I would think even without amendment) so that the Fund's liquidity is in a sense very high.

4. I do not read the general attitude towards amendment to be such as to make it possible to include anything as marginal as substitution.

October 3, 1974

MEMORANDUM FOR FILES

Subject: Norway

When Mr. Kleppe called on the Managing Director this morning he stressed that Sweden had changed its attitude toward quota increases and that the Scandinavian countries were now all agreed on the desirability of a large increase in quotas.

He also confirmed that Norway is prepared to subscribe SDR 50 million to the oil facility in 1975 and he said that in 1976 a larger sum could be made available. He reminded us that the current account deficit foreseen for 1975 would be approximately $1 billion.

L. A. Whittome

cc: The Deputy Managing Director
Mr. Polak

Mr. Polak

Boards of Governors · 1974 Annual Meetings · Washington, D.C.

INTERNATIONAL MONETARY FUND

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION   INTERNATIONAL DEVELOPMENT ASSOCIATION

Address replies to:

JOINT SECRETARIAT – ANNUAL MEETINGS
IMF – IBRD AND AFFILIATES
WASHINGTON, D.C. 20431

Cable Address:

INTERMEET
WASHINGTONDC

October 1, 1974   Quotas

MEMORANDUM FOR FILES

Subject: Belgium

Mr. De Clercq called on the Managing Director this afternoon. The following points arose:

1. The Managing Director said that despite the refusal of the Germans to make any contribution to the oil facility arrangement this year, he had some hopes that the Dutch would decide to lend to the Fund under this arrangement. He said that he hoped that if this happened the Belgians would consider seriously whether they could also contribute. Mr. De Clercq seemed to nod but went no further.

2. In talking about the GAB, the Managing Director said that he thought that, insofar as the GAB was used to finance drawings on the normal facilities of the Fund, it was difficult to envisage a rate of interest above 4 per cent. If, however, under changed conditions it was agreed that it should also be used to finance the oil facility, then it would be appropriate that the rate of interest to the lender should be in line with that which the Fund received from its lending.

3. In a discussion on quotas, Mr. De Clercq said that he regarded the Belgian quota as already on the large side and that he thought that an increase of 25 per cent (he later raised this to 30 per cent) was as large as was suitable for Belgium. After some discussion Mr. De Clercq agreed that he could support a general increase in quotas of around 30 per cent, with special increases on top of this.

4. The Managing Director said that he hoped the Belgian Executive Director would be authorized to partake in a Fund Board discussion on gold later this year. Mr. De Clercq indicated that this could be done but the point was made that there would be a meeting of the EEC Ministers at which this subject would be taken on October 21 and that it would be further discussed by EEC Central Bank Governors in early November (I notice the Basle meeting is scheduled for November 12). The point was therefore made that any

Fund Board discussion should occur sufficiently after the Central Bank Governors' meeting to allow time for the transmission of instructions. This would seem to argue for a date not before the third week in November.

5. Lastly, there was some general discussion of the possible role of the Fund in recycling during 1975.

L. A. Whittome

cc: The Managing Director
The Deputy Managing Director
Mr. Gold
Mr. Polak

MEMORANDUM

TO: Mr. Armington September 30, 1974

FROM: J. J. Polak

SUBJECT: Export Variability and Quota Review--The Netherlands

I am somewhat unhappy that we were responsible for passing on to the Treasurer a description of the calculation of export variability which is obviously wrong, "averaging ratios [i.e., percentage deviations of five year moving averages] without regard to sign (the result being a 'root mean square proportional deviation')." This language was then passed on by Mr. Habermeier to Mr. de Vries.

SUBJECT COPY

Mr. Polak ✓

Office Memorandum

TO : Mr. de Vries

DATE: September 29, 1974

FROM : W. O. Habermeier

SUBJECT : Export Variability and Quota Review--The Netherlands

Thank you for your memorandum of September 17, 1974. I hope the following will clear up some of the seeming discrepancies between the Fund's calculations of export variability and those of the Netherlands Planning Bureau.

1. The difference between the variability ratio calculated by the Netherlands Planning Bureau and that calculated by the Fund seems to arise mainly from a difference of US$200 million in the average monthly export figure for 1966 used by the Planning Bureau and by the Fund; the 1966 figure in the worksheet provided by you is 363 million and that used by the Fund is 563 million. There are also slight differences in the data for other years (see attached). There also seems to have been an error in the SDR-dollar conversion rate in the Planning Bureau's calculations; the conversion rate should have been 1.0857 instead of 1.2063.* (This difference would not, however, have led to a higher variability in the Netherlands calculations.) It would seem that the higher figure arrived at by the Netherlands Planning Bureau results from the large difference in the export figure for 1966.

2. The export variability allowance in SM/74/71, Supplement 1 is, of course, a computation made for the purpose of determining maximum access to the Fund's Oil Facility; they are not the calculations used in the quota exercise. The idea behind the concept of the variability of exports is, of course, the same for the Oil Facility and for calculating quotas, the methods of computation are quite different. For calculating quotas, the variability of exports is defined as one standard deviation from a centered five-year moving average of exports covering a period of thirteen years (ending 1972); the formula used for this purpose is given in Appendix to SM/73/274, page 30. The variability measure used in connection with the calculations for the Oil Facility is computed by expressing the deviations as percentages of the corresponding five-year moving averages, covering a period of 17 years in most cases, and then averaging these ratios without regard to sign (the result being a "root mean squared proportional deviation"). ~~The resultant number, which, expressed as a percent, is called the~~ Export Variability Ratio in SM/24/41, Supplement 1, was multiplied by a country's 1972 exports (in SDRs) to arrive at two standard deviations of the country's exports, "scaled" to the 1972 level of exports. The formula used in connection with quota calculations yields one standard deviation scaled, in effect, to the SDR average level of exports over the period chosen for the calculation (i.e. 1960-1972 in the latest quota calculations).

*for 1972

Attachment

Exports of the Netherlands

($ billion, annual rate)

	IMF Data Fund Series[1/]	Series Shown in Mr. de Vries' Memo of 9/17/74[2/]
1955	2.69	2.69
56	2.86	2.87
57	3.10	3.10
58	3.22	3.22
59	3.61	3.61
60	4.03	4.03
61	4.29	4.31
62	4.58	4.58
63	4.96	4.97
64	5.81	5.81
65	6.40	6.40
66	6.76	4.36
67	7.31	7.28
68	8.37	8.34
69	10.00	9.96
70	11.77	11.77
71	13.93	14.02

1/ Used both for purposes of Oil Facility and Sixth Quota Review.
2/ Monthly averages have been converted to annual rates.

INTERNATIONAL MONETARY FUND

Sixth General Review of Quotas -
Illustrative Calculations on the Size of the Fund
and on the Distribution of Quotas Among Groups of Members

Prepared by the Treasurer's and Research Departments

Approved by W.O. Habermeier and J.J. Polak

September 26, 1974

The illustrative quota calculations presented in this paper have been prepared in the light of the Acting Chairman's statement and the discussions of the members of the Committee of the Whole in meetings No. 6 and No. 7 of August 7 and 14, 1974. At the last meeting of the Committee, it was indicated that these calculations would attempt to cover a number of interrelated issues such as the relationship between general and special increases in quotas in the context of different illustrative increases in the overall size of the Fund and different techniques of distributing special increases in quotas between various groups of members. No attempt would, however, be made at this stage to show the potential results of the above calculations for each member. The question of how to adjust individual quotas within certain groups of members would need to be discussed in a subsequent paper.

1. General and selective quota increases

For any given increase in the overall size of the Fund, it is a matter for judgment what the appropriate size of the general increase should be so as to ensure the overall adequacy of quotas and what should be the size of the selective increases to take into account the changes in members' relative positions in the world economy, especially if it is assumed that no member's quota will decrease from its present level. The smaller the desired overall increase in the size of the Fund, and the larger the desired changes in members' relative positions to reflect more faithfully the relative size of members in the world economy, the smaller would have to be the general increase in quotas. The larger the overall size of the Fund the more likely it is that both criteria of overall adequacy and changes in relative positions could be accommodated. In order to take some account of these considerations, the calculated size of the general quota increase in Appendix Tables A, B and C has been put for illustrative purposes at 10 per cent, 25 per cent, and 40 per cent in regard to overall increases in the size of the Fund of 25 per cent, 50 per cent, and 75 per cent, respectively. Table D has been constructed along the lines suggested by a member of the Committee of the Whole at Meeting No. 6, with the amounts scaled down proportionately. These overall percentage increases have been applied to the present actual total of all quotas, which amount to SDR 29,189.4 million; China's quota has been kept unchanged at SDR 550 million in each calculation.

2. Grouping of members

During the recent discussions of the Committee of the Whole, considerable emphasis was placed on the present and future shares in the total of Fund quotas of certain groups of members, such as the oil exporting countries and the developing countries, but also of very large members, such as the United States. With these views in mind, the Fund membership has been classified in this memorandum into three major groups: "Industrial," "Other Developed," and "Developing" which in turn has been subdivided into "Major Oil Exporters" and "Other Developing." The system of classification by groups follows that used in the *International Financial Statistics*. Obviously, these groups are not completely homogenous. For example, certain members classified in *IFS* as belonging to the group, "Other Developed," have economic characteristics similar to those of certain members in the "Other Developing" sub-group.

As regards the sub-group of "Major Oil Exporters," this includes Algeria, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Republic, Nigeria, Saudi Arabia, and Venezuela,[1/] and also Ecuador, Oman, Qatar, and the United Arab Emirates. This classification is based on the share of these countries in the total production of petroleum and the predominance of petroleum in their total exports;[2/] more generally it also takes account of the likely ability of these countries to assume a greater financial role in the world economy and, in particular, in the financing of balance of payments disequilibria through the General Account of the Fund. A number of them have already made bilateral loan agreements with the Fund for financing of the Oil Facility; the liquidity position of the Fund would, however, be enhanced if the Fund's holdings of the currency of these members were increased as a result of quota increases. In this connection, it will be noted that not all major oil exporting members have as yet made arrangements which would allow the use by the Fund of its existing holdings of these currencies in transactions with other members.

3. Criteria for distributing increases

In general, the distribution of quotas among groups of members will need to be based essentially on the criteria discussed in the staff paper on the function of quotas (SM/73/273, December 10, 1973). In the context of the present quota review, several elements may be singled out for special consideration.

a. In view of the large scale and rapid change in the structure of international payments, the distribution of quotas should be such that a

---

1/ These nine countries are grouped under "Major Oil Exporters" in the Fund's *Annual Report* for 1974 (see, for example, Footnote 4 to Table 1, page 4).

2/ Each of the members listed had a share of about 1 per cent or more of world production of petroleum, and their exports of petroleum accounted for more than one third of their total exports.

reasonable balance is achieved between creditor and debtor members, even though some strengthening of the Fund's liquidity can be achieved by borrowing. This consideration would lead to the conclusion that a substantial increase in the quotas of the major oil exporting members should be envisaged. The precise extent of such increases is not easy to determine because quota calculations cannot capture, for lack of data, the latest changes in world economic positions of members, nor indeed the changes in positions that might reasonably be expected in the next few years. In addition, any increase in the share of one group of members will mean a decline in the relative shares of other groups; this raises the issue whether the increased role of one group should affect the positions of all other groups of members in the same way or whether the necessary adjustments should be achieved by applying different criteria to various groups of Fund members.

b. Certain members, especially most of the developing members, are less able to borrow from the international money and capital markets and have a lesser access to inter-central bank credit facilities than the more developed members and members of certain economic and monetary groups, such as those in the European Community. Developing members are also less able to afford the accumulation of reasonably comfortable external reserves while their balance of payments positions are frequently more vulnerable than those of the developed countries; in some instances, their economies may also suffer from prolonged internal and external economic maladjustments. The Fund has already adopted policies to take account of these difficulties by creating several special credit facilities, all of which have the effect of increasing access to Fund credit by a greater multiple of the quota than would otherwise be the case. The quota formulas themselves have been adjusted to reflect the special circumstances of developing members. Nevertheless, it will again be important, in the staff's view, to insure adequate access of the non-oil producing developing members to the resources of the Fund, which could take the form, for example, of avoiding a decline in their share, taken as a whole, in the total of Fund quotas.

c. Increases, decreases, or the maintenance of the shares of a particular group of countries do not mean, of course, that the relative position of each member within the group should remain unchanged. Individual quotas will mainly be influenced by the relative change in countries' economic positions since the last review, as well as by the distribution between general quota increases and special increases, the techniques used to allocate special quota adjustments and, as experience shows, especially in relation to the larger quotas in the Fund, by the result of negotiations.

4. <u>Distribution of special quota increases among groups of members</u>

In order to determine the distribution of special quota increases among groups of members, a number of techniques could be used to allocate the overall amount available for special increases: for example, (i) by the amount that a member's calculated quota is larger than its present quota taken as a proportion of the total of calculated quotas over the total of present quotas and, similarly for groups of members; (ii) by the amount of the positive

difference between a member's calculated quota made for the Fifth and for the Sixth Quota reviews--i.e., the increment in the calculated quota--taken as a proportion of the total sum of such differences or similarly for a group of members; and (iii) by allocating an absolute amount or a predetermined share for quota increases to each group. These approaches are illustrated in the calculations appended to this paper. A choice exists under (i) to employ either the formulas used in past reviews or to apply a simpler formula based on the most recent international trade or reserve figures.1/ Since no new formula has been decided upon, the staff has used the concept of the "single calculated quota" in EB/CQuota/74/2, which is an amalgam of various quota formulas and employs statistical data ending in 1972.2/ The allocation of quota increases on the basis of predetermined shares or absolute amounts, as under (iii), is more arbitrary in nature and would reflect a judgment as to the role a group of members should have as prospective creditors, as prospective debtors, and for other reasons.

5. Illustrative calculations

The attached calculations have in general been based on the considerations noted above. Other details are explained in the notes to the tables; some of the main assumptions are as follows:

a. In all tables the total size of the Fund is assumed to be increased by 25 per cent, by 50 per cent, or by 75 per cent.

b. Greater percentage equi-proportional increases are assumed, the greater the overall increase: 10 per cent, 25 per cent, and 40 per cent, respectively, (except Appendix Table D).

c. In Tables B and C it has been assumed that the share of the developing countries will rise owing to a doubling of the share in total quotas of the major oil exporters, while the share of other developing countries will either remain unchanged (Appendix Table B) or fall in the same proportion as the shares of other groups (Appendix Table C). Appendix Table D is based on special additions to both groups of developing countries.

d. In Tables A and B special quota increases have been allocated in proportion to the excess of calculated quotas over existing quotas; in Table C the share of the major oil exporters has been doubled and the shares of other groups have been reduced proportionately; in Table D, allocations have been made on the basis of the increment in calculated quotas.

1/ As to the availability of data for quota calculations, see EB/CQuota/74/2, Appendix I.
2/ For an illustration of simplified quota formulas see SM/73/275.

6. A few observations on the results presented in Appendix Tables A-D may be useful.

a. The method employed in Table A does not result either in maintaining the share of the less developed countries or in increasing significantly the share of the major oil exporting countries because of the relatively fast growth of the groups of other members over the years from 1967-72. It is, of course, possible that the use of more recent data in the quota formulas or different formulas would change this conclusion, especially insofar as the major oil exporters are concerned.

b. The three other tables show a fall in the shares of the industrial and other developed countries. The largest fall in the shares of these groups of countries result from the assumptions underlying Table D.

c. There is no great difference in the share of the developed countries resulting from the assumption in Table B that the share of the "Other Developing" sub-group of countries is not reduced and their share in Table C, which assumes that the shares of other groups (including the sub-group) are reduced proportionately as a counterpart of the increase in the share of the major oil exporters group.

Table A. Potential Quotas Based on Increases in Sizes of Fund of 25 Per Cent, 50 Per Cent, and 75 Per Cent

(In millions of SDRs)

	Present quota	General Increases			Special increases 1/			Potential Quotas		
		10 per cent	25 Per cent	40 Per cent				25 Per cent increase in Fund (1)+(2)+(5)	50 Per cent increase in Fund (1)+(3)+(6)	75 Per cent increase in Fund (1)+(4)+(7)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Industrial countries	18,365	1,836	4,591	7,346	3,539	5,933	8,331	23,740	28,889	34,042
% share in Fund	*(62.92)*							*(65.06)*	*(65.98)*	*(66.64)*
% increase over present quotas								*(29.27)*	*(57.30)*	*(85.36)*
Other developed countries	2,529	253	632	1,012	293	491	690	3,075	3,652	4,231
% share in Fund	*(8.66)*							*(8.43)*	*(8.34)*	*(8.28)*
% increase over present quotas								*(21.59)*	*(44.40)*	*(67.30)*
Developing countries	7,745.4	774	1,937	3,099	603	1,011	1,413	9,122	10,693	12,257
% share in Fund	*(26.53)*							*(25.00)*	*(24.42)*	*(24.00)*
% increase over present quotas								*(17.77)*	*(38.06)*	*(58.25)*
Of which										
(i) Major oil exporters	1,454	145	364	582	279	468	655	1,878	2,286	2,691
% share in Fund	*(4.98)*							*(5.15)*	*(5.22)*	*(5.27)*
% increase over present quotas								*(29.16)*	*(57.22)*	*(103.64)*
(ii) Other developing countries	6,291.4	629	1,573	2,517	324	543	758	7,244	8,407	9,566
% share in Fund	*(21.55)*							*(19.85)*	*(19.20)*	*(18.73)*
% increase over present quotas								*(15.14)*	*(33.63)*	*(52.05)*
	28,639.4	2,863	7,160	11,457	4,435	7,435	10,434	35,937	43,234	50,530
China	550							550	550	550
	(1.88)							*(1.51)*	*(1.26)*	*(1.08)*
Total	29,189.4							36,487	43,784	51,080
Percentage increase in Fund								*(25.00)*	*(50.00)*	*(75.00)*

1/ Special Increases have been allocated in proportion to the shares of each group in the total of the excess of calculated over present quotas. Calculated quotas used for this purpose have been taken from Column C of Table 4 of EB/CQuota/74/2.

Table B. Potential Quotas Doubling the Shares of Major Oil Exporters and Maintaining Shares of Other Developing Countries in Increases in Sizes of Fund of 25 Per Cent, 50 Per Cent and 75 Per Cent

(In millions of SDRs)

	Present Quota	General Increases			Special Increases 1/			Potential Quotas		
		10 per cent	25 per cent	40 per cent				25 per cent increase in Fund (1)+(2)+(5)	50 per cent increase in Fund (1)+(3)+(6)	75 per cent increase in Fund (1)+(4)+(7)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Industrial countries	18,365	1,836	4,591	7,346	1,281	2,919	4,552	21,482	25,875	30,263
% share in Fund	*(62.92)*							*(58.87)*	*(59.10)*	*(59.25)*
% increase over present quotas								*(16.97)*	*(40.89)*	*(64.79)*
Other developed countries	2,529	253	632	1,012	176	402	628	2,958	3,563	4,169
% share in Fund	*(8.66)*							*(8.11)*	*(8.14)*	*(8.16)*
% increase over present quotas								*(16.96)*	*(40.88)*	*(64.85)*
Developing countries	7,745.4	774	1,937	3,099	2,978	4,114	5,252	11,497	13,796	16,096
% share in Fund	*(26.53)*							*(31.51)*	*(31.51)*	*(31.51)*
% increase over present quotas								*(48.44)*	*(78.12)*	*(107.81)*
Of which										
(i) Major oil exporters	1,454	145	364	582	2,035	2,543	3,052	3,634	4,361	5,088
% share in Fund	*(4.98)*							*(9.96)*	*(9.96)*	*(9.96)*
% increase over present quotas								*(149.93)*	*(199.93)*	*(249.93)*
(ii) Other developing countries	6,291.4	629	1,573	2,517	943	1,571	2,200	7,863	9,435	11,008
% share in Fund	*(21.55)*							*(21.55)*	*(21.55)*	*(21.55)*
% increase over present quotas								*(25.00)*	*(49.97)*	*(74.97)*
	28,639.4	2,863	7,160	11,457	4,435	7,435	10,434	35,937	43,234	50,528
China	550							550	550	550
	(1.88)							*(1.51)*	*(1.26)*	*(1.08)*
Total	29,189.4							36,487	43,784	51,078
Percentage increase in Fund								*(25.0)*	*(50.00)*	*(75.00)*

1/ Special increases leading to doubling of shares of major oil exporters, maintaining shares of other developing countries and distributing the balance to other groups in proportion to their shares in the excess of calculated over present quotas; calculated quotas are taken from Column C of Table 4 of EB/CQuota/74/2.

Table C. Potential Quotas After Doubling the Shares of subgroup "Major Oil Exporters" and Reducing Proportionately Shares of All Other Groups (including subgroup "Other Developing")

(In millions of SDRs)

		General Increases			Special Increases[1/]			Potential Quotas		
	Present quota (1)	10 Per cent (2)	25 Per cent (3)	40 Per cent (4)	(5)	(6)	(7)	25 Per cent increase in Fund (1)+(2)+(5) (8)	50 Per cent increase in Fund (1)+(3)+(6) (9)	75 Per cent increase in Fund (1)+(4)+(7) (10)
Industrial countries	18,365	1,836	4,591	7,346	1,622	3,305	4,989	21,822	26,261	30,700
% share in Fund	*(62.92)*							*(59.81)*	*(59.98)*	*(60.10)*
% increase over present quotas								*(18.82)*	*(42.99)*	*(67.15)*
Other developed countries	2,529	253	632	1,012	223	455	686	3,005	3,616	4,227
% share in Fund	*(8.66)*							*(8.24)*	*(8.26)*	*(8.28)*
% increase over present quotas								*(18.82)*	*(42.98)*	*(67.15)*
Developing countries	7,745.4	774	1,937	3,099	2,590	3,675	4,760	11,109.4	13,357.4	15,604.4
% share in Fund	*(26.53)*							*(30.45)*	*(30.51)*	*(30.55)*
% increase over present quotas								*(43.43)*	*(72.46)*	*(101.46)*
Of which										
(i) Major oil exporters	1,454	145	364	582	2,035	2,543	3,052	3,634	4,361	5,088
% share in Fund	*(4.98)*							*(9.96)*	*(9.96)*	*(9.96)*
% increase over present quotas								*(149.93)*	*(199.93)*	*(249.91)*
(ii) Other developing countries	6,291.4	629	1,573	2,517	555	1,132	1,708	7,475.4	8,996.4	10,516.4
% share in Fund	*(21.55)*							*(20.48)*	*(20.55)*	*(20.59)*
% increase over present quotas								*(18.82)*	*(43.00)*	*(67.15)*
	28,639.4	2,863	7,160	11,457	4,435	7,435	10,434	35,936.4	43,234.4	50,531.4
China	550							550	550	550
	(1.88)							*(1.51)*	*(1.26)*	*(1.08)*
Total	29,189.4							36,486.4	43,784.4	51,081.4
Percentage increase in Fund								*(25.00)*	*(50.00)*	*(75.00)*

1/ Special increases based on doubling of shares of major oil exporters and distributing the remainder to other groups proportionately to their shares in existing Fund.

Table D. Potential Quotas Based on Distribution of Various Sums Allocated to Different Groups as Special Increases[1/]

(In millions of SDRs)

		General Increases			Special Increases[2/]			Potential Quotas		
	Present quota (1)	15 per cent (2)	30 per cent (3)	45 per cent (4)	(5)	(6)	(7)	25 Per cent increase in Fund (1)+(2)+(5) (8)	50 Per cent increase in Fund (1)+(3)+(6) (9)	75 Per cent increase in Fund (1)+(4)+(7) (10)
Industrial countries	18,365	2,754	5,510	8,264	882	1,765	2,646	22,001	25,640	29,275
% share in Fund	*(62.92)*							*(60.30)*	*(58.56)*	*(57.31)*
% increase over present quotas								*(19.80)*	*(39.61)*	*(59.41)*
Other developed countries	2,529	379	759	1,138	73	146	220	2,981	3,434	3,887
% share in Fund	*(8.66)*							*(8.17)*	*(7.84)*	*(7.61)*
% increase over present quotas								*(17.87)*	*(35.78)*	*(53.70)*
Developing countries	7.745.4	1,162	2,324	3,485	2,045	4,092	6,138	10,952.4	14,161.4	17,368.4
% share in Fund	*(26.53)*							*(30.02)*	*(32.34)*	*(34.00)*
% increase over present quotas								*(41.40)*	*(82.84)*	*(124.24)*
Of which										
(i) Major oil exporters	1,454	218	436	654	859	1,720	2,579	2,531	3,610	4,687
% share in Fund	*(4.98)*							*(6.91)*	*(8.24)*	*(9.18)*
% increase over present quotas								*(74.07)*	*(148.28)*	*(222.35)*
(ii) Other developing countries	6,291.4	944	1,887	2,831	1,187	2,373	3,559	8,422.4	10,551.4	12,231.4
% share in Fund	*(21.55)*							*(23.08)*	*(24.06)*	*(23.95)*
% increase over present quotas								*(33.87)*	*(67.71)*	*(94.41)*
	28,639.4	4,295	8,593	12,887	3,000	6,003	9,004	35,934	43,235	50,530
China	550							550	550	550
	(1.88)							*(1.51)*	*(1.26)*	*(1.08)*
Total	29,189.4							36,484	43,785	51,080

1/ The table is a scaled down version of a proposal made by a Member of the Committee of the Whole at Meeting No. 6; the original proposal was (i) 50 per cent general increase; (ii) a distribution of SDR 2.5 billion to the major oil exporters; (iii) a distribution of SDR 3.5 billion to the other developing countries, and (iv) a distribution of SDR 3.5 billion to all members in proportion to their share in the total increments of calculated quotas as shown in Column 2 of Table 2 in EB/CQuota/74/3.

2/ Special increases have been distributed as follows:

Col.5: (a) SDR 789 million to major oil exporters, (b) SDR 1,106 million to other developing countries, and (c) the balance in proportion to each group's share in the total increments of calculated quotas as shown in column 2 of Table 2 in EB/CQuota/74/3.

Col.6: (a) SDR 1,579 million to major oil exporters, (b) SDR 2,212 million to other developing countries, and (c) the balance distributed as in the case of column 5.

Col.7: (a) SDR 2,370 million to major oil exporters, (b) SDR 3,317 million to other developing countries, and (c) the balance distributed as in the case of column 5.

MEMORANDUM

TO: Mr. Habermeier — September 25, 1974

FROM: J. J. Polak

SUBJECT: Quota Paper

I return the paper with my initials. Please note that pp. 5, 6 and 7 have been retyped. The changes made are needed on grounds of accuracy and clarity and, but only incidentally, to improve style.

I have discussed with Mr. Williams the desirability of making Tables C and D fully comparable with A and B (before or after the paper is sent to the MD).

Chron file only.

SUBJECT COPY

MEMORANDUM

TO: Mr. Habermeier September 20, 1974

FROM: J. J. Polak

SUBJECT: Quota Calculations

I have some rather major difficulties with the draft of September 18, although it may not take too much work to overcome. To begin with, I question the wisdom of the terminology used. The political issue raised by G-24 was that the share in quotas of the members of that group should increase or at least not deteriorate. In the paper this has been translated in an attempt to maintain the share of "less developed" countries. However, the oil producers are part of G-24 and part of the less developed countries and they should not, in my opinion, be separated from the less developed countries.

This is not just a point of classification; it will be extremely difficult to find a reallocation of quotas that gives 5 per cent more to the oil producers and takes nothing from the other less developed countries. Accordingly, I do not think the staff would be well advised to put up such proposals.

The presentation in Tables A, B and C is difficult to follow. It would be much clearer if one brought together in a first table the application of the formula for three different sizes of the Fund, all of which would show unacceptable results. One should then move to an alternative presentation under which there was an arbitrary increase, e.g., doubling of the share of the oil producers and no greater reduction in the share of the less developed countries than necessary to absorb the increase of the oil producers and the decrease of China on a proportionate basis. The latter is a variant halfway between Section II of Tables A, B and C and the present Table E. That Table suffers from the odd allocation of the gain on China to one particular group. Since there is no inherent differences between an addition of an absolute amount to the oil producers and an addition of a fixed percentage of their present quotas there would be no further need for the variant of Table E. The results of Table D have no attraction to me at all and I would omit this Table.

In addition to the above I would have the following more detailed comments.

SUBJECT COPY

Cover Note. Given our view that an increase of 70-100 per cent in the size of the Fund is economically justifiable, I do not think that the figures from Table B (and hence from Table A) should be dropped from Table 1.

Page 2. Delete first two complete sentences and substitute: "The smaller the desired overall increase in the size of the Fund, and the larger the desired changes in members' relative positions to reflect more faithfully the relative size of members in the world economy, the smaller would have to be the general increase in quotas."

Page 3. First incomplete paragraph, last sentence. Delete words after "'Less Developed' group."

Second paragraph, third sentence. After "oil facility," read "but the liquidity of the Fund would be better safeguarded if the Fund's holdings ...." etc.

Page 6. The wording of (i) and (ii) is obscure. I would replace (i) by "(i) in proportions determined by the aggregate excesses, for each group, of calculated quotas over present quotas" and omit (ii) altogether since it is not used anywhere.

Instead of the following sentence one might say "All of these approaches are illustrated in the calculations appended to this paper."

In one or other of the ensuing sentences, a reference should be given to the staff paper containing the simpler formulae, viz., SM/73/275, so that the Board can at least have the possibility of asking for one of these formulae to be tried out.

In one or other the point might be made in particular that this includes formulae that do not use national income which might be of particular value for distributing given totals among LDCs.

On page 7, the description of (c) has to be adjusted; the present (c) is inaccurate with respect to the present tables. I see no reason to use the expression "about double" to describe "double."

Paragraph 7(a). Delete last sentence which is more difficult to understand than the point is worth.

Page 8, paragraph (b), first sentence. It is misleading to say that the "methods" in question "lead to" a fall in the shares of industrial countries. They are made to lead to that result. Say "All Calculations other than those barring increases on the excess of calculated actual quotas involve a fall in the shares" etc. etc.

In the next sentence the first "different" should be "differential."

Paragraph (c) should read "The difference between the allocation of increases ... and the allocation under which the shares of other groups are reduced proportionately as a result ... (Appendix Table E) is comparatively small."

Office Memorandum

TO : Mr. Polak

DATE: September 18, 1974

FROM : J. Marcus Fleming

SUBJECT : Sixth Review of Quotas: Illustrative Calculations Draft of September 17, 1974

It is difficult to appreciate the effect of the various formulae without knowing how much of the industrial countries' share would go to the United States. However, given the probable insistence of the United States on maintaining its voting position, and bearing in mind the proliferation of special facilities for LDCs, I should be inclined to oppose any system such as D or F which gave the LDCs more than their present share of quotas. I have in mind both the undesirability of relying on borrowing and the undesirability of encouraging the Europeans to disinterest themselves in the Fund and to focus on mutual lending.

I would scrap Scheme D, for which I cannot see any rationale.

Cover Note. Given our view that an increase of 70-100 per cent in the size of the Fund is economically justifiable, I do not think that the figures from Table B (and hence from Table A) should be dropped from Table 1.

Page 2. Delete first two complete sentences and substitute: "The smaller the desired overall increase in the size of the Fund, and the larger the desired changes in members' relative positions to reflect more faithfully the relative size of members in the world economy, the smaller would have to be the general increase in quotas."

Page 3, first incomplete paragraph, last sentence. Delete words after "'Less Developed' group."

Second paragraph, third sentence. After "oil facility," read "but the liquidity of the Fund would be better safeguarded if the Fund's holdings ..." etc.

Page 6, first paragraph. The wording of (i) and (ii) is obscure. One might say

"(i) in proportions determined by the aggregate excesses, for each group, of calculated quotas over present quotas"

"(ii) in proportions determined by the aggregate excesses, for each group, of calculated quotas for the Sixth Review over calculated quotas for the Fifth Review."

Instead of the following sentence one might say "All of these approaches are illustrated in the calculations appended to this paper."

In one or other of the ensuing sentences, a reference should be given to the staff paper containing the simpler formulae, viz., SM/73/275, so that the Board can at least have the possibility of asking for one of these formulae to be tried out.

Insert

Page 7, paragraph (c). Delete first two lines and substitute "In several of the calculations (e.g., Tables A, B, and C, Method II, and Table E) it has been assumed ..."

Paragraph (d). Insert at the beginning of the sentence "In other calculations." After "allocations" insert "at least in part." After "existing quotas" insert "(e.g., Tables A, B, and C, Method I)." Before "or on the basis of absolute amounts" insert "on the basis of movements of calculated quotas (e.g., Table F)." After "on the basis of absolute amounts" insert "(e.g., Tables D, E, and F)."

Paragraph 7(a). Delete last sentence which is more difficult to understand than the point is worth.

Page 8, paragraph (b), first sentence. It is misleading to say that the "methods" in question "lead to" a fall in the shares of industrial countries. They are made to lead to that result. Say "All calculations other than those barring increases on the excess of calculated actual quotas involve a fall in the shares" etc. etc.

In the next sentence the first "different" should be "differential."

Paragraph (c) should read "The difference between the allocation of increases ... and the allocation under which the shares of other groups are reduced proportionately as a result ... (Appendix Table E) is comparatively small."

Office Memorandum

Mr. Polak

TO : Mr. Fleming

DATE: September 9, 1974

FROM : Esther Suss ES

SUBJECT : Quota Calculations

At your request, I have calculated two sets of quotas following the suggestions in Mr. Polak's memorandum of July 31, 1974. Scheme I: The calculated quotas were normalized on a Fund size of SDR 45 billion by adjusting according to groups, e.g., the calculated quotas of the developing countries were adjusted such that they had 27.15 per cent of SDR 45 billion, the U.S. quota was adjusted such that it was 23.15 per cent of SDR 45 billion, etc. Scheme II: The other approach was to adjust the calculated quotas to a sum of SDR 45 billion, but the adjustment was done over all members without any constraint being placed on the share in the total of calculated quotas that any group would have.

The special adjustment for each the oil exporters was made on the basis of each country's share in the total output of oil, defined as millions of barrels per day averaged for 1973 and forecasted for 1974. This information was obtained from the Current Studies Division. The total size of the Fund after the adjustment for the oil exporters becomes SDR 47 billion.

Table I gives the distribution by major country groups of the suggested quotas and 71 quotas obtained using these methods. The attached computer outputs give the calculated, 1971, and suggested quotas for each country, and the special increases that each country receives. It can be seen from Table I that using Scheme II (adjusting calculated quotas over all Fund members) results in the primary producing developed countries and the major oil exporters receiving a larger share of the total than when Scheme I is used. However, when Scheme I is used, 85 countries receive special increases, while only 64 countries receive special increases when Scheme II is used.

cc: Mr. Polak ✓
Mr. Rhomberg
Mr. Taplin

Table 1. Calculated Quotas and 1971 Quotas[1/]

(In millions of SDRs)

	1971 Quota (28,936.4)	Scheme I (47,000)	Scheme II (47,000)
Industrial countries	18,345.00 (63.40%)	29,147.77 (62.02%)	28,983.69 (61.67%)
United States	6,700.00 (23.15%)	10,417.50 (22.16%)	10,417.50 (22.16%)
Primary Producing developed countries	2,735.00 (9.45%)	3,634.74 (7.73%)	3,798.81 (8.08%)
Major oil exporters	1,494.00 (5.16%)	5,021.41 (10.68%)	5,183.38 (11.03%)
Other developing countries	6,362.40 (21.99%)	9,196.89 (19.57%)	9,034.77 (19.22%)

1/ All figures exclude China.

Scheme I

	Calculated quota	1971 Quota	Gross Excess	Special increase	Suggested quota	Special adjustment	Suggested quota	
UNITED STATES	10417.50	6700.00	0.00	0.00	10417.50			Industrial
UNITED KINGDOM	2588.65	2800.00	0.00	0.00	3500.00			
AUSTRIA	417.58	270.00	80.08	61.79	399.29			
BELGIUM & LUXEMBOURG	1413.87	650.00	601.37	464.04	1276.54			
CANADA	1797.78	1100.00	422.78	326.23	1701.23			
DENMARK	474.90	260.00	149.90	115.67	440.67			
FRANCE	2302.16	1500.00	427.16	329.61	2204.61			
GERMANY	3446.02	1600.00	1446.02	1115.79	3115.79			
ITALY	1648.46	1000.00	398.46	307.46	1557.46			
JAPAN	2240.62	1200.00	740.62	571.64	2071.64			
NETHERLANDS	1546.61	700.00	671.61	518.24	1393.24			
NORWAY	385.24	240.00	85.24	65.78	365.78			
SWEDEN	792.14	325.00	385.89	297.77	704.02			
AUSTRALIA	600.32	665.00	0.00	0.00	831.25			primary producing developed
FINLAND	304.40	190.00	66.90	51.62	289.12			
GREECE	207.46	138.00	34.96	26.98	199.48			
ICELAND	31.60	23.00	2.85	2.20	30.95			
IRELAND	187.29	121.00	36.04	27.81	179.06			
MALTA	17.24	16.00	0.00	0.00	20.00			
NEW ZEALAND	174.70	202.00	0.00	0.00	252.50			
PORTUGAL	171.91	117.00	25.66	19.80	166.05			
ROMANIA	227.34	190.00	0.00	0.00	237.50			
SOUTH AFRICA	417.52	320.00	17.52	13.52	413.52			
SPAIN	542.25	395.00	48.50	37.42	531.17			
TURKEY	122.30	151.00	0.00	0.00	188.75			
YUGOSLAVIA	306.23	207.00	47.48	36.64	295.39			
ALGERIA	386.42	130.00	223.92	143.83	306.33	65.65	371.98	oil 24 pc (additional)
BAHRAIN	30.50	10.00	18.00	11.56	24.06	4.50	28.56	
INDONESIA	247.83	260.00	0.00	0.00	325.00	89.9	414.90	
IRAN	504.13	192.00	264.13	169.67	409.67	386.60	796.27	
IRAQ	176.81	109.00	40.56	26.05	162.30	123.94	286.74	
KUWAIT	278.34	65.00	197.09	126.60	207.85	180.44	388.29	
LIBYA, ARAB REPUBLIC OF	270.10	24.00	240.10	154.23	184.23	121.36	305.59	
NIGERIA	330.89	135.00	162.14	104.15	272.90	139.99	412.89	
OMAN	47.95	7.00	39.20	25.18	33.93	19.36	53.29	
QATAR	26.36	20.00	1.36	0.88	25.88	34.68	60.56	
SAUDI ARABIA	524.91	134.00	357.41	229.58	397.08	504.00	901.08	
TRINIDAD & TOBAGO	104.25	63.00	25.50	16.38	95.13	10.60	105.72	
UNITED ARAB EMERATES	100.94	15.00	82.19	52.80	71.55	100.82	172.37	
VENEZUALA	469.91	330.00	57.41	36.88	449.38	204.20	653.58	
AFGHANISTAN	25.19	37.00	0.00	0.00	46.25			other develo[illegible]
ARGENTINA	397.94	440.00	0.00	0.00	550.00			
BAHAMAS	47.36	20.00	22.36	14.36	39.36			
BANGLADESH	154.11	125.00	0.00	0.00	156.25			
BARBADOS	23.36	13.00	7.11	4.56	20.81			
BOLIVIA	37.41	37.00	0.00	0.00	46.25			
BOTSWANA	14.82	5.00	8.57	5.51	11.76			
BRAZIL	657.01	440.00	107.01	68.73	618.73			
BURMA	53.71	60.00	0.00	0.00	75.00			
BURUNDI	13.95	19.00	0.00	0.00	23.75			
CAMEROON	55.55	35.00	11.80	7.58	51.33			
CENTRAL AFRICAN REPUBLIC	12.54	13.00	0.00	0.00	16.25			
CHAD	15.51	13.00	0.00	0.00	16.25			
CHILE	276.92	158.00	79.42	51.01	248.51			
COLOMBIA	178.90	157.00	0.00	0.00	196.25			
CONGO, PEOPLES REPUBLIC	21.95	13.00	5.70	3.66	19.91			
COSTA RICA	58.61	32.00	18.61	11.95	51.95			

Annex I

	Old quota	*1977 quota*	*excess*	*special increase*	*Suggested quota*
CYPRUS	44.41	26.00	11.91	7.65	40.15
DAHOMEY	16.48	13.00	0.23	0.15	16.40
DOMINICAN REPUBLIC	70.59	43.00	16.84	10.81	64.56
ECUADOR	63.13	33.00	21.86	14.06	55.31
EGYPT	252.32	188.00	17.32	11.13	246.13
EL SALVADOR	48.07	35.00	4.32	2.78	46.53
EQUATORIAL GUINEA	10.11	8.00	0.11	0.07	10.07
ETHIOPIA	37.47	27.00	3.72	2.39	36.14
FIJI	26.88	13.00	10.63	6.83	23.08
GABON	36.90	15.00	18.15	11.66	30.41
GAMBIA	6.07	7.00	0.00	0.00	8.75
GHANA	107.03	87.00	0.00	0.00	108.75
GUATEMALA	69.25	36.00	24.25	15.57	60.57
GUINEA REPUBLIC	18.31	24.00	0.00	0.00	30.00
GUYANA	29.15	20.00	4.15	2.67	27.67
HAITI	11.25	19.00	0.00	0.00	23.75
HONDURAS	42.47	25.00	11.22	7.21	38.46
INDIA	475.73	940.00	0.00	0.00	1175.00
ISRAEL	284.38	130.00	121.88	78.29	240.79
IVORY COAST	94.51	52.00	29.51	18.96	83.96
JAMAICA	460.97	370.00	0.00	0.00	462.50
JORDAN	37.66	23.00	8.91	5.72	34.47
KENYA	97.47	48.00	37.47	24.07	84.07
KHMER REPUBLIC	30.05	25.00	0.00	0.00	31.25
KOREA	379.77	80.00	279.77	179.71	279.71
LAOS	6.87	13.00	0.00	0.00	16.25
LEBANON	116.57	9.00	105.32	67.65	78.90
LESOTHO	7.06	5.00	0.81	0.52	6.77
LIBERIA	36.64	29.00	0.39	0.25	36.50
MALAGASY REPUBLIC	40.39	26.00	7.89	5.07	37.57
MALAWI	22.10	15.00	3.35	2.15	20.90
MALAYSIA	339.64	186.00	107.14	68.82	301.32
MALI REPUBLIC	15.95	22.00	0.00	0.00	27.50
MAURITANIA	21.29	13.00	5.04	3.23	19.48
MAURITIUS	23.42	22.00	0.00	0.00	27.50
MEXICO	460.97	370.00	0.00	0.00	462.50
MOROCCO	129.27	113.00	0.00	0.00	141.25
NEPAL	23.21	12.40	7.71	4.95	20.45
NICARAGUA	40.87	27.00	7.12	4.57	38.32
NIGER	14.29	13.00	0.00	0.00	16.25
PANAMA	61.25	36.00	16.25	10.44	55.44
PAKISTAN	175.05	235.00	0.00	0.00	293.75
PARAGUAY	18.63	19.00	0.00	0.00	23.75
PERU	180.90	123.00	27.15	17.44	171.19
PHILIPPINES	284.09	155.00	90.34	58.03	251.78
RWANDA	8.88	19.00	0.00	0.00	23.75
SENEGAL	46.70	34.00	4.20	2.70	45.20
SIERRA LEONE	34.30	25.00	3.05	1.96	33.21
SINGAPORE	376.29	37.00	330.04	212.00	258.25
SOMALIA	11.95	19.00	0.00	0.00	23.75
SRI LANKA	84.47	98.00	0.00	0.00	122.50
SUDAN	66.43	72.00	0.00	0.00	90.00
SWAZILAND	14.23	8.00	4.23	2.72	12.72
SYRIA	84.09	50.00	21.59	13.87	76.37
TANZANIA	74.07	42.00	21.57	13.85	66.35
THAILAND	263.60	134.00	96.10	61.73	229.23
TOGO	17.38	15.00	0.00	0.00	18.75
TUNISIA	64.56	48.00	4.56	2.93	62.93

adjustment 14.71 / Suggested quota 70.08

Scheme I

	Cal quota	1971 quota	Excess	Special Increase	Suggested quota
UGANDA	54.33	40.00	4.33	2.78	52.78
UPPER VOLTA	13.38	13.00	0.00	0.00	16.25
URUGUAY	54.81	69.00	0.00	0.00	86.25
VIET NAM	137.70	62.00	60.20	38.67	116.17
WESTERN SAMOA	3.10	2.00	0.60	0.38	2.88
YEMEN ARAB REPUBLIC	10.86	10.00	0.00	0.00	12.50
YEMEN PEOPLES REPUBLIC	52.88	29.00	16.63	10.69	46.94
ZAIRE	178.05	113.00	36.80	23.64	164.89
ZAMBIA	252.36	76.00	157.36	101.08	196.08

Scheme II. | Scheme I Industrial

	Cal Quota	1971 Quota	Excess	Special Increase	Suggested Quota	Special adjustment	"Suggested quota"	
UNITED STATES	6700,26	6700,00	0,00	0,00	10417,50			
UNITED KINGDOM	3334,92	2800,00	0,00	0,00	3500,00			
AUSTRIA	537,92	270,00	200,42	79,14	416,64			
BELGIUM & LUXEMBOURG	1821,34	650,00	1008,84	398,38	1210,88			
CANADA	2315,88	1100,00	940,88	371,55	1746,55			
DENMARK	611,76	260,00	286,76	113,24	438,24			
FRANCE	2965,62	1500,00	1090,62	430,68	2305,68			
GERMANY	4439,12	1600,00	2439,12	963,19	2963,19			
ITALY	2123,53	1000,00	873,53	344,95	1594,95			
JAPAN	2886,60	1200,00	1386,60	547,56	2047,56			
NETHERLANDS	1992,33	700,00	1117,33	441,22	1316,22			
NORWAY	496,27	240,00	196,27	77,50	377,50			
SWEDEN	1020,43	325,00	614,18	242,53	648,78			
AUSTRALIA	773,32	665,00	0,00	0,00	831,25			P.P. devel
FINLAND	392,13	190,00	154,63	61,06	298,56			
GREECE	267,25	138,00	94,75	37,41	209,91			
ICELAND	40,70	23,00	11,95	4,72	33,47			
IRELAND	241,27	121,00	90,02	35,55	186,80			
MALTA	22,20	16,00	2,20	0,87	20,87			
NEW ZEALAND	225,05	202,00	0,00	0,00	252,50			
PORTUGAL	221,45	117,00	75,20	29,70	175,95			
ROMANIA	292,86	190,00	55,36	21,86	259,36			
SOUTH AFRICA	537,84	320,00	137,84	54,43	454,43			
SPAIN	698,52	395,00	204,77	80,86	574,61			
TURKEY	157,54	151,00	0,00	0,00	188,75			
YUGOSLAVIA	394,48	207,00	135,73	53,60	312,35			
ALGERIA	300,13	130,00	137,63	168,15	330,65	65.65	396.30	oil exporters
BAHRAIN	23,69	10,00	11,19	13,67	26,17	4.50	30.67	
INDONESIA	192,49	260,00	0,00	0,00	325,00	89.90	414.90	
IRAN	391,56	192,00	151,56	185,16	425,16	386.60	811.60	
IRAQ	137,33	109,00	1,08	1,32	137,57	123.94	261.51	
KUWAIT	216,19	65,00	134,94	164,85	246,10	180.44	426.54	
LIBYA, ARAB REPUBLIC OF	209,79	24,00	179,79	219,64	249,64	121.36	371.00	
NIGERIA	257,00	135,00	88,25	107,82	276,57	139.99	416.56	
OMAN	37,24	7,00	28,49	34,81	43,56	19.36	62.92	
QATAR	20,48	20,00	0,00	0,00	25,00	34.68	59.68	
SAUDI ARABIA	407,70	134,00	240,20	293,45	460,95	504.00	964.95	
TRINIDAD & TOBAGO	80,97	63,00	2,22	2,72	81,47	10.60	92.07	
UNITED ARAB EMERATES	78,40	15,00	59,65	72,88	91,63	100.82	192.45	
VENEZUALA	364,99	330,00	0,00	0,00	412,50	204.20	616.70	
AFGHANISTAN	19,56	37,00	0,00	0,00	46,25			other develop
ARGENTINA	309,08	440,00	0,00	0,00	550,00			
BAHAMAS	36,78	20,00	11,78	14,39	39,39			
BANGLADESH	119,70	125,00	0,00	0,00	156,25			
BARBADOS	18,14	13,00	1,89	2,31	18,56			
BOLIVIA	29,05	37,00	0,00	0,00	46,25			
BOTSWANA	11,51	5,00	5,26	6,43	12,68			
BRAZIL	510,30	440,00	0,00	0,00	550,00			
BURMA	41,72	60,00	0,00	0,00	75,00			
BURUNDI	10,83	19,00	0,00	0,00	23,75			
CAMEROON	43,14	35,00	0,00	0,00	43,75			
CENTRAL AFRICAN REPUBLIC	9,74	13,00	0,00	0,00	16,25			
CHAD	12,05	13,00	0,00	0,00	16,25			
CHILE	215,08	158,00	17,58	21,48	218,98			
COLOMBIA	138,95	157,00	0,00	0,00	196,25			
CONGO, PEOPLES REPUBLIC	17,05	13,00	0,80	0,98	17,23			
COSTA RICA	45,52	32,00	5,52	6,75	46,75			

Scheme II

	Int. Quota	1971 Quota	Excess	Special increase	Suggested Quota
CYPRUS	34.49	26.00	1.99	2.43	34.93
DAHOMEY	12.80	13.00	0.00	0.00	16.25
DOMINICAN REPUBLIC	54.82	43.00	1.07	1.31	55.06
ECUADOR	49.04	33.00	7.79	9.51	50.76
EGYPT	195.98	188.00	0.00	0.00	235.00
EL SALVADOR	37.34	35.00	0.00	0.00	43.75
EQUATORIAL GUINEA	7.86	8.00	0.00	0.00	10.00
ETHIOPIA	29.10	27.00	0.00	0.00	33.75
FIJI	20.88	13.00	4.63	5.66	21.91
GABON	28.66	15.00	9.91	12.11	30.86
GAMBIA	4.72	7.00	0.00	0.00	8.75
GHANA	83.13	87.00	0.00	0.00	108.75
GUATEMALA	53.78	36.00	8.78	10.73	55.73
GUINEA REPUBLIC	14.22	24.00	0.00	0.00	30.00
GUYANA	22.64	20.00	0.00	0.00	25.00
HAITI	8.74	19.00	0.00	0.00	23.75
HONDURAS	32.99	25.00	1.74	2.12	33.37
INDIA	369.50	940.00	0.00	0.00	1175.00
ISRAEL	220.88	130.00	58.56	71.32	233.82
IVORY COAST	73.41	52.00	8.41	10.27	75.27
JAMAICA	358.04	370.00	0.00	0.00	462.50
JORDAN	29.25	23.00	0.50	0.61	29.36
KENYA	75.71	48.00	15.71	19.19	79.19
KHMER REPUBLIC	23.34	25.00	0.00	0.00	31.25
KOREA	294.97	80.00	194.97	238.19	338.19
LAOS	5.33	13.00	0.00	0.00	16.25
LEBANON	90.54	9.00	79.29	96.87	108.12
LESOTHO	5.48	5.00	0.00	0.00	6.25
LIBERIA	28.46	29.00	0.00	0.00	36.25
MALAGASY REPUBLIC	31.37	26.00	0.00	0.00	32.50
MALAWI	17.17	15.00	0.00	0.00	18.75
MALAYSIA	263.80	186.00	31.30	38.24	270.74
MALI REPUBLIC	12.39	22.00	0.00	0.00	27.50
MAURITANIA	16.53	13.00	0.28	0.34	16.59
MAURITIUS	18.19	22.00	0.00	0.00	27.50
MEXICO	358.04	370.00	0.00	0.00	462.50
MOROCCO	100.41	113.00	0.00	0.00	141.25
NEPAL	18.03	12.40	2.53	3.09	18.59
NICARAGUA	31.74	27.00	0.00	0.00	33.75
NIGER	11.10	13.00	0.00	0.00	16.25
PANAMA	47.57	36.00	2.57	3.14	48.14
PAKISTAN	135.97	235.00	0.00	0.00	293.75
PARAGUAY	14.47	19.00	0.00	0.00	23.75
PERU	140.51	123.00	0.00	0.00	153.75
PHILIPPINES	220.65	155.00	26.90	32.87	226.62
RWANDA	6.90	19.00	0.00	0.00	23.75
SENEGAL	36.27	34.00	0.00	0.00	42.50
SIERRA LEONE	26.64	25.00	0.00	0.00	31.25
SINGAPORE	292.26	37.00	246.01	300.55	346.80
SOMALIA	9.28	19.00	0.00	0.00	23.75
SRI LANKA	65.60	98.00	0.00	0.00	122.50
SUDAN	51.60	72.00	0.00	0.00	90.00
SWAZILAND	11.05	8.00	1.05	1.29	11.29
SYRIA	65.32	50.00	2.82	3.44	65.94
TANZANIA	57.53	42.00	5.03	6.15	58.65
THAILAND	204.74	134.00	37.24	45.50	213.00
TOGO	13.50	15.00	0.00	0.00	18.75
TUNISIA	50.14	48.00	0.00	0.00	60.00

adjustment 14.77 | Sug. quota 65.53

[illegible]	Cal. Quota	1971 Quota	Excess	Special Increase	Suggested Quota
UGANDA	42.19	40.00	0.00	0.00	50.00
UPPER VOLTA	10.39	13.00	0.00	0.00	16.25
URUGUAY	42.57	69.00	0.00	0.00	86.25
VIET NAM	106.95	62.00	29.45	35.98	113.48
WESTERN SAMOA	2.41	2.00	0.00	0.00	2.50
YEMEN ARAB REPUBLIC	8.43	10.00	0.00	0.00	12.50
YEMEN PEOPLES REPUBLIC	41.08	29.00	4.83	5.90	42.15
ZAIRE	138.29	113.00	0.00	0.00	141.25
ZAMBIA	196.01	76.00	101.01	123.40	218.40

Mr. Polak

September 3, 1974

MEMORANDUM

TO: Mr. Gold
Mr. Habermeier
Mr. Sturc

FROM: J. Marcus Fleming

SUBJECT: Quota Increases and SDR Substitution

The attached paper represents an elaboration of some hints which I let drop during the Board discussion of draft amendments on quota increases. It seems to me important that the possible role of the Substitution Account should be considered in this connection and this is also one of the reasons why I think that an amendment facilitating the setting up of a Substitution Account or Accounts is of considerable and somewhat urgent importance.

Attachment

cc: Mr. Polak

Quota Increases and SDR Substitution

The immobilization of gold poses a severe problem for the Fund in connection with the quota increase which one hopes will be authorized in 1974.

At present, 25 per cent of quota increases have to be subscribed in gold. The purpose of the gold position of the subscription is to provide the Fund with an asset which it can use at any time to replenish its holdings of currencies that it needs to facilitate drawings and that are currently scarce in the Fund. Under present circumstances and at the present gold price, countries would not be prepared to subscribe gold, nor would the Fund be prepared to use in replenishment any gold it might receive. The problem may be solved or alleviated by new arrangements with respect to the valuation of gold, but it is equally possible that the present difficulties regarding gold will persist beyond the time by which the next general quota increase should have been carried into effect.

Draft amendments have been prepared in respect of payments or changes in quotas, and it is hoped that these amendments might be brought into effect in time to facilitate the next quota increase. According to these amendments, the 25 per cent of quota increase now payable in gold only would be payable also in SDRs "or, as the Fund may prescribe, in the currencies of other members, provided that no payment by a member shall have the effect of raising the Fund's holdings of the currency of another member above seventy-five percent of its quota." It is also envisaged that "in special circumstances" the Fund may permit a member to pay more than 75 per cent of the increase in its own currency.

From the standpoint of the Fund's liquidity, payment of the 25 per cent in SDRs would be entirely satisfactory. SDRs can be used in replenishment under Article XXV, Section 7(d) almost as freely as was formerly the case with gold, and much more freely than it could now use gold, and indeed can themselves be used in drawings. Payment of the 25 per cent in currencies of which Fund holdings are less than 75 per cent of quota, whether this results from the prescription of the currencies of "other members" or from permission to the issuers of such currencies to pay in their own currencies, would be somewhat less satisfactory, since currencies that are in that position at the time of the quota subscription may not be usable for drawings at some later time (because the issuer is itself in payments difficulty) whereas SDRs would be usable at all times. The payment of subscriptions, beyond 75 per cent, in the subscriber's own currency might be very unsatisfactory indeed in the case of countries whose currencies are seldom drawable. The importance of these liquidity considerations is currently enhanced by the fact that the Fund's gold holdings, accumulated mainly as a result of past quota increases, are at present virtually unusable.

At this point it is useful to consider some quantitative aspects of the problem. If there was a quota increase of 60 per cent, a quarter of the subscription would amount to SDR 4.3 billion. Of this, less than SDR 1.7 billion could (at present) be made in currencies of which the Fund holds less than 75 per cent of quota, since that is the total amount of net creditor positions.

At present, countries outside the General Account hold SDRs to the amount of some SDR 8.8 billion. If all of these could be mobilized for the payment of subscriptions, they would be amply sufficient to pay the remaining SDR 2.6 billion required, on the assumptions described above, if SDR 1.7 billion were paid in creditor currencies, or even sufficient to pay the whole SDR 4.3 billion required if creditor currencies were not prescribed by the Fund.

There are, however, a number of difficulties about this solution.

(a) The withdrawal of half the SDRs at present held by participants into the holdings of the General Account could be regarded as a serious setback to the program of making the SDR the principal reserve asset and encouraging its use.

(b) Serious reconstitution problems could be severe for many countries and though these could be relieved by purchases from the General Account in exchange for acceptable currencies under Article XXV, Section 7(e), this could be done only to a limited extent in currencies of which Fund holdings fall short of 75 per cent of quota, and at some cost in terms of Fund liquidity.

(c) On the admittedly inexact assumption that all members get quota increases equiproportional to present quotas, there would be 43 members whose holdings of SDRs would be insufficient to enable them to pay 25 per cent of their subscriptions with SDRs now in their possession. The total shortfall of the SDR holdings below what would be necessary for this purpose would amount to SDR 349 million (see Appendix).

There are various conceivable techniques, some of them requiring amendment, whereby these countries might be enabled to pay 25 per cent of their subscription in SDRs.

(a) Replenishment with SDRs

The Fund could replenish with SDRs its holdings of currencies of which it held less than 75 per cent of quota; the recipients of the SDRs could use these SDRs, if necessary, to pay their own subscriptions, or could transfer them, in exchange for convertible currency, to members requiring SDRs for subscription purposes. The latter operation would require the modification of present provisions regarding the need to use SDRs (Article XXV, Section 3), albeit a modification that is contemplated in currency proposals for Amendment of the Articles. However, the net outcome of such a replenishment operation-cum-subscription would be precisely the sum as if the member had been allowed to make his subscription directly in currency of which the Fund holds less than 75 per cent of quota; it is subject to the same limitations in quantity and the same disadvantages to Fund liquidity as have been described above.

(b) Reverse designation

Under this arrangement members having a relatively large stock of SDRs might be designated to supply SDRs in exchange for convertible currency to members in need of SDRs for the purpose of making quota subscriptions. This would be an operation analogous to the specification of an SDA participant to provide SDRs to another participant to enable the latter to pay interest, charges, or assessments (Articls XXV, Section 5) or to fulfill its

reconstitution obligation (Schedule G.1.(a)(iv)). It would require an amendment to the Articles of Agreement. Such an arrangement might possibly be objected to by countries that did not wish to be obliged to hold a higher proportion of reserves in the form of currency.

(c) <u>A substitution facility</u>

A Substitution Account could be set up to which members could sell reserve currencies in exchange for SDRs created for the purpose, at least to the extent necessary to enable them to make quota subscriptions in SDRs. Or, what comes to the same thing, the General Account could sell to the Substitution Account for SDRs created for the purpose any currencies which it received in subscriptions. Some of the modalities of a Subscription Account are described in Annex 7 of the Outline. The organ there envisaged is, of course, designed to assist in the implementation of asset settlement, as well as to facilitate the substitution of SDRs for currencies in national reserve holdings for a variety of reasons. What is suggested here is a restricted scheme for a particular purpose, which could, however, serve as an experimental pilot operation for a wider use of the Account.

Agreement regarding the interest and denomination of the claims reserve centers that would arise from the Account's operation should not be so difficult to reach as was once feared in view of the arrangements now in force with respect to the valuation of, and the interest payable on, SDRs.

Apart from its value as an experiment in the operation of a Substitution Account, this solution is preferable to subscription in SDRs supplemented by reverse designation, as described above, in that it obviates a decline in the importance of the SDR in national reserves, and preferable to subscription in currencies in that it better preserves the liquidity of the Fund.

"Gold" Portion of Hypothetical Increases[1/]

and SDR Holdings of Fund Members[2/]

(In millions of SDR)

Country	Hypothetical Quota Increase (1)	SDR Holdings (2)	Net Shortfall (1)-(2)
United States	1005	1819	--
United Kingdom	420	594	--
Austria	41	86	--
Belgium	98	548	--
Denmark	39	87	--
France	225	124	101
Germany	240	1563	--
Italy	150	344	--
Luxembourg	3	7	--
Netherlands	105	403	--
Norway	36	88	--
Sweden	49	107	--
Canada	165	469	--
Japan	180	426	--
Finland	29	68	--
Greece	21	27	--
Iceland	3	6	--
Ireland	18	40	--
Malta	2	5	--
Portugal	18	**	18
Romania	29	6	23
Spain	59	129	--
Turkey	23	291	--
Yugoslavia	31	41	--
Australia	100	185	--
New Zealand	30	58	--
South Africa	48	1	47
Argentina	66	75	--
Bahamas	3	*	3
Barbados	2	3	--
Bolivia	6	3	3
Brazil	66	157	--
Chile	24	3	21
Colombia	24	25	--
Costa Rica	5	4	1

1/ Increase assumed to be 60 per cent of present quota, except for China.
2/ Holdings as of June 30, 1974.
* Participants that have not received allocations.
** Non-participant in the Special Drawing account.

Country	Hypothetical Quota Increase (1)	SDR holding (2)	Net Shortfall (1)-(2)
Dominican Republic	6	7	--
Ecuador	5	6	--
El Salvador	5	4	1
Guatemala	5	12	--
Guyana	3	4	--
Haiti	3	2	1
Honduras	4	5	--
Jamaica	8	6	2
Mexico	56	128	--
Nicaragua	4	5	--
Panama	5	2	3
Paraguay	3	7	--
Peru	18	37	--
Trinidad and Tobago	9	7	2
Uruguay	10	11	--
Venezuela	50	118	--
Bahrain	2	--	2
Cyprus	4	11	--
Egypt	28	30	--
Iran	29	37	--
Iraq	16	20	--
Israel	20	28	--
Jordan	3	8	--
Kuwait	10	**	10
Lebanon	1	**	1
Oman	1	1	--
Qatar	3	**	3
Saudi Arabia	20	**	20
Syrian Arab Republic	8	8	--
United Arab Emirates	2	**	2
Yemen Arab Republic	2	2	--
Yemen, People's D.R.	4	3	1
Afghanistan	6	5	1
Bangladesh	19	*	19
Burma	9	10	--
China	1/	*	--
Fiji	2	1	1
India	141	243	--
Indonesia	39	48	--
Khmer Republic	4	--	4
Korea	12	26	--
Laos	2	1	1
Malaysia	28	61	--
Nepal	2	2	--

1/ See footnote 1/ page 1.
* Participants that have not received allocations.
** Non-participant in the Special Drawing account.

Country	Hypothetical Quota Increase (1)	SDR holding (2)	Net Shortfall (1)-(2)
Pakistan	35	24	11
Philippines	23	24	--
Singapore	6	**	6
Sri Lanka	15	13	2
Thailand	20	29	--
Viet-Nam	9	20	--
Western Samoa	0.3	0.2	0.1
Algeria	20	42	--
Botswana	1	2	--
Burundi	3	4	--
Cameroon	5	11	--
Central African Republic	2	1	1
Chad	2	2	--
Congo	2	2	--
Dahomey	2	4	--
Equatorial Guinea	1	2	--
Ethiopia	4	**	4
Gabon	2	5	--
Gambia	1	2	--
Ghana	13	10	3
Guinea	4	3	1
Ivory Coast	8	15	--
Kenya	7	17	--
Lesotho	1	1	--
Liberia	4	3	1
Libyan Arab Republic	4	**	4
Malagasy Republic	4	--	4
Malawi	2	5	--
Mali	3	2	1
Mauritania	2	2	--
Mauritius	3	2	1
Morocco	17	16	1
Niger	2	4	--
Nigeria	20	46	--
Rwanda	3	2	1
Senegal	5	5	--
Sierra Leone	4	5	--
Somalia	3	5	--
Sudan	11	22	--
Swaziland	1	1	--
Tanzania	6	2	4
Togo	2	5	--
Tunisia	7	8	--

** Non-participant in the Special Drawing account.

Country	Hypothetical Quota Increase	SDR holding	Net Shortfall
	(1)	(2)	(1)-(2)
Uganda	6	4	2
Upper Volta	2	4	--
Zaire	17	6	11
Zambia	11	12	--
		Total Net Shortfall	349

Mr Polak

[handwritten initials]

Mr. Fleming August 9, 1974

W. O. Habermeier

Meeting of the Committee of the Whole

I attach a redraft of the statement for Mr. Dale. If you agree with it would you initial it and please pass it on immediately to the Acting Managing Director. By way of comment, please note the following:

1. I agree that the note can be a joint one but I would hope very much that this applies also to the notes prepared by Research on quota matters. I am noting this because of the note by Mr. Polak on the simplified formula which was sent to the Managing Director without it being shown or discussed in any way with this Department.

2. Something should be said by the Chairman on the discussion about calculations. I agree it is not necessary to make a negative comment on the simplified formula. Nevertheless, the fact remains that no Executive Director asked for further development of formulas.

3. New language appears on the shares of countries in the Fund which follows a suggestion by Mr. Gold totone down this matter.

I agree that we should not offer further papers of our own to the Board on the economic arguments for the expansion of Fund quotas but for completeness sake it is necessary to touch on the matter, and have, therefore, added a statement that we do not intend to issue a further paper on this at this time.

cc: Mr. Gold
Mr. Polak (upon return) ✓

INTERNATIONAL MONETARY FUND

August 9, 1974

TO : Mr. Dale

FROM: W.O. Habermeier and J. Marcus Fleming

We have put a bracket around the last sentence of the penultimate paragraph as its inclusion or otherwise might depend on the course of the remaining discussion on the size of the Fund.

cc: Mr. Gold

Office Memorandum

TO : The Acting Managing Director

DATE: August 9, 1974

FROM : W. O. Habermeier and J. Marcus Fleming

SUBJECT : Quotas - Meeting of the Committee of the Whole

Today's meeting of the Committee of the Whole will be the third concerned with the quota calculations and the size of the Fund under the current Review. The Chairman did not sum up the discussion at the first meeting of the Committee as he felt that views would be clarified only after the Executive Directors discussed more thoroughly the size of the Fund. We feel that it would now be desirable to attempt to obtain guidance from the Directors on the next steps in the quota review. To this end it would also seem useful to sum up all three meetings of the Committee of the Whole. You might care to consider something along the following lines.

"The last three meetings of the Committee of the Whole have been interrelated. At the discussion on the quota calculations questions were raised as to the appropriate size of the Fund, and the discussion on the size of the Fund was influenced, among other things, by considerations regarding the distribution of quotas among members.

Members of the Committee have seemed to have found the new quota calculations useful. While it was recognized that considerable difficulties would be encountered in making quota calculations for 126 countries on the basis of forecasts, members stressed the need to have the latest available data taken into account in the quota discussions.

The discussions so far held on the size of the Fund have shown considerable differences of opinion on the economic justification for quota increases at this time and on what would therefore constitute a reasonable increase in the size of the Fund in the context of the Sixth General Review. On the distribution of quotas, some specific views were advanced as to what might be the shares of particular countries or groups of countries in the Fund but again it seems to me that the discussion on this will need to continue in some detail.

As a next step in the Committee's discussions, it might be useful for the staff, taking into account suggestions made in this Committee, to attempt a quantification, in a purely illustrative manner, of various approaches on quota distribution within the context of different hypotheses on the size of the Fund. I would presume that for this illustrative exercise that the staff could work with assumed increases in the Fund size of, say, 35, 50 and 75 per cent over the present total. [Of course, members will also want to pursue further their discussion on the economic arguments justifying an increase in quotas, but I do not propose that the staff issue another paper on this matter at this stage.]

I would also suggest that a further meeting of the Committee be held soon after the Board recess in early September."

MEMORANDUM

TO: Mr. Habermeier
Mr. Fleming

July 31, 1974

FROM: J. J. Polak

SUBJECT: Quotas

Thinking further about the various ideas put forward at yesterday's meeting with the Managing Director I would see merit in the following approach towards a tentative calculation. One of its characteristics is that the special adjustment for the oil countries is made separately at the end.

1. Take a round starting figure, e.g., SDR 45 billion.

2. Set aside for all developing countries, including the oil countries, the same percentage of the total as they have now.

3. Distribute this amount in such a manner that no quotas are reduced, there is a general 25 per cent increase, and any excess is distributed on the basis of the simplified formula.

4. Apply the same formula to the developed primary producing countries, in the sense that they would get special increases in the same proportion of each country's excess of its calculated quota over 125 per cent of its present quota as is used for the LDCs.

5. Give the U.S. the same ratio of SDR 45 billion as it has of present quotas.

6. This would leave as a residual the amount available for the other industrial countries. It would be for consideration whether one tried some tentative distribution of this amount or would leave it to these countries to sort this out.

7. Now apply a special addition for the oil exporters. This would raise the total somewhat above the starting point of SDR 45 billion and would reduce somewhat the percentages of the U.S. and the nonoil producing LDCs. Some rough amount (SDR 2 billion?) could be set for this adjustment, which would be distributed to all oil exporters in proportion to their estimated oil exports for 1974, or perhaps their estimated reserves at the end of 1974.

RRR
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SUBJECT COPY

Office Memorandum

TO : Mr. Polak

DATE: July 29, 1974

FROM : E. Suss

SUBJECT : Quotas

Please find attached a table indicating the distribution of calculated quotas obtained using the array of formulas and the single formula. It has been assumed that no quota would be decreased; therefore if the calculated quota was less than the 1971 quota, it was set equal to the 1971 quota.

Also attached is a table showing the distribution of general and selective quota increases in 1958-59, 1964-65, and 1969-70. It appears that in percentage terms that special increases have become more dominant from the Third Review to the Fifth Review.

cc: Mr. Fleming
Mr. Taplin

Calculated Quotas

(In millions of SDRs)

	Array of Formulas[1/] (51,055.93)	Single Formula[2/] (51,011.18)
Developed Countries:	40,629.17 (79.58%)	39,771.91 (77.97%)
Industrial Countries:	36,370.92 (71.24%)	34,995.5 (68.60%)
G-10 Members:	34,953.58 (68.46%)	33,152.22 (64.99%)
United States:	11,954.98 (23.42%)	7,504.27 (14.71%)
Others:	4,258.25 (8.34%)	4,776.41 (9.36%)
Developing Countries:	10,426.76 (20.42%)	11,239.27 (22.03%)
Major oil exporters:	2,833.78 (5.55%)	2,973.87 (5.83%)
Others:	7,592.98 (14.87%)	8,265.40 (16.20%)

1/ Defined as the calculated quota obtained from the array of formulas, if that is larger than the 1971 quota; otherwise equal to the 1971 quota.
2/ Defined as the calculated quota obtained from the single formula, if that is larger than the 1971 quota; otherwise equal to the 1971 quota.

Quota Increases at General Reviews

(Billions of U.S. dollars)

1959 – Fund Size	$ 9.2		
1st Resolution	4.4	(General)	48%
2nd Resolution	.04	)	
3rd Resolution	.52	)	10.87%
4th Resolution	.44	)	
	$ 5.04		

1965 – Fund Size	$15.88		
1st Resolution	3.83	(General)	24%
2nd Resolution	.8~~8~~7	)	
Compensatory Financing	.49	)	8.~~63~~56%
	$ 5.~~20~~19		

1970 – Fund Size	$21.2		
1st Resolution	5.30	(General)	25%
2nd Resolution	2.60		12.26%
	$ 7.90		

Ratio of General Increases to Special

1959: 4.42

1965: 2.~~78~~80

1970: 2.04

Office Memorandum

TO : Mr. Polak

DATE: July 26, 1974

FROM : J. Marcus Fleming

SUBJECT : <u>A Simplified Approach to Quota Calculations</u>

There is one passage in your note to the Managing Director which I find hard to swallow, namely, on p. 10 where it is stated that a quota formula including population "would result in a major restructuring of quotas for individual countries." This seems very odd in view of the fact that, as shown in SM/73/275, the addition of population to trade and export variation substantially <u>reduces</u> the percentage deviation of calculated from current quotas. I have therefore asked Ms. Suss to redo the exercise in your note on the basis of equation number (5) of Table 2 of SM/73/275.

Office Memorandum

TO : The Managing Director DATE: July 25, 1974

FROM : R. J. Familton

SUBJECT : Quota Calculations

Not surprisingly, several Executive Directors and a few member countries have already raised questions about the formulas and the data used in the two papers that have been issued presenting results of various quota calculations. Mr. Mora, for example, mentioned to me that his Spanish authorities feel that Spain's quota should be equal to half of that of Italy. Mr. Smit considers that South Africa's quota should be very close to Brazil's. Mr. Amuzegar and the Israeli authorities have raised questions about the trade data used in the calculations for Iran and Israel, and Messrs. Bueso and Cross have also asked that certain data used in the calculations be made available to them. Such initial enquiries are the tip of the iceberg and it is likely that on Friday Executive Directors will raise further questions about calculation techniques and the data used, because of the interest of their countries in those techniques which will yield a calculated quota closest to what they aspire, both absolutely and relatively to the quotas of other members and constituencies.

I agree with Mr. Polak that in the light of further discussion by the Committee of the Whole we may want to consider an alternative set of calculations and, as suggested in Mr. Polak's note of July 17, without using numerous and somewhat complicated formulas. The need for some supplementary quota calculations was also noted in EB/CQuota/74/2 (p. 2), which is to be discussed tomorrow. However, we have reservations about the formula suggested in the note attached to Mr. Polak's note, and would wish to consider futher what alternative formulas or formula might be used for additional calculations.

cc: The Deputy Managing Director
Mr. Gold
Mr. Polak
Mr. Del Canto
Mr. Gunter
Mr. Toure
Mr. Tun Thin
Mr. Whittome

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EB/CQuota/74/4

Mr. J.J. Polak

Room 9-320

#11

July 25, 1974

To: Members of the Committee of the Whole on Review of Quotas

From: The Secretary

Subject: Sixth General Review of Quotas - The Size of the Fund

The attached paper on the size of the Fund in conjunction with general reviews of quotas has been prepared by the staff for discussion by the Committee at a date to be announced.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

The Size of the Fund in Conjunction with General Reviews of Quotas

Prepared by the Research and Treasurer's Departments

Approved by J. J. Polak and R. J. Familton

July 25, 1974

A general review of quotas provides an occasion not only to consider the distribution of quotas but also to assess the size of the Fund in the light of developments in the world economy and the Fund's experience in providing balance of payments support. The economic considerations advanced in the assessment of the appropriate size of the Fund during the Fourth and Fifth Reviews are reviewed in the first part of this paper. The second part is devoted to a discussion of the considerations believed to be pertinent to such an assessment as they might apply to the current Review.

Considerations advanced in past Reviews

For the Fourth Review, the staff prepared a paper[1] reviewing: the size of the Fund relative to selected variables measuring the scale of the world economy; Fund policy regarding waivers; the role of the Fund in providing balance of payments support; and the ability of the Fund to provide needed resources without recourse to borrowing. The salient points were:

(a) In 1963, international trade and national income were four times as large as they were at the time of Bretton Woods. Trade had increased by 160 per cent from 1947 to 1963, whereas the size of the Fund had doubled. About half of the latter increase was attributable to the initial quotas of members joining the Fund after 1947 and to the subsequent quota increases of such members. Quotas of countries that were members at the beginning of 1947 had increased, in the aggregate, by only 48 per cent. Trade was only one of the elements entering into the consideration of the need for additional liquidity. Fluctuations in the value of trade supplied another element, and they had been smaller in the post-war period than might have been expected at Bretton Woods. On the other hand, short-term capital movements had become a more important feature of the international monetary system and also influenced potential demand for Fund resources.

(b) Another element shaping demand for Fund resources as well as the ability of the Fund to meet that demand was the shift in relative positions of the major countries since Bretton Woods. The countries of

1/ SM/64/26, "General and Selective Quota Increases."

continental Europe and Japan had grown rapidly and the Fund's holdings of their currencies did not reflect their economic size. The United States, the largest potential creditor in the Fund, had become the largest potential borrower as well.

(c) The Fund's experience with waivers was cited as an additional consideration for judging the adequacy of Fund quotas. Waivers were associated with the bulk of stand-by arrangements and of drawings not associated with stand-bys, and were being used much more intensively than had been contemplated at Bretton Woods. The staff concluded that the extensive use of waivers, reflecting the use of the Fund's resources for substantial amounts for relatively short periods rather than at a rate of one tranche a year for several years, was a response to demonstrated needs rather than an arbitrary application of tranche policy.

(d) When the staff was preparing SM/64/26, the then recently negotiated support package for Italy consisting of $225 million in Fund resources and $1 billion of resources under parallel arrangements with the United States was fresh in mind. Arrangements of members with governments and banks parallel to Fund drawings or stand-by arrangements had been frequent. Although in some instances countries preferred package deals which gave them more, or longer-term, financing than they could have obtained from the Fund, another factor leading to the use of joint arrangements was that the Fund would have been unable to provide all the resources required without employing waivers on an unprecedented scale.

(e) There were several indications that the Fund's holdings of particular currencies, especially those of continental European countries, were generally not adequate in the 1960-64 period to meet potential drawings. The General Arrangement to Borrow (GAB) concluded in 1962 was a means of obtaining access to some of the needed currencies.

The liquidity of the Fund was bolstered by the resources available through the GAB. For GAB participants, other than the United Kingdom, the sum of their existing quotas and GAB commitments suggested a possible target to be attained through selective quota increases, namely, 50 per cent of quotas calculated for 1961 by using the Bretton Woods formula. The application of that reference point to all Fund members' quotas led to suggestions for selective increases totaling about $5 billion, which would have yielded a one-third increase in the size of the Fund. In addition to these selective increases, the staff recommended a 50 per cent general increase in quotas. The outcome of the Fourth Review was a 25 per cent general increase plus $870 million in special increases, together resulting in an increase of the Fund's size of about 31 per cent.

The types of consideration associated with the Fourth Review were also associated with the Fifth Review. The latter review was complicated, however, by the deliberations that were proceeding in parallel regarding the first allocation of SDRs. Whereas during the Fourth Review the adequacy of Fund quotas was examined relative to potential needs for

total liquidity, during the Fifth Review a sharper distinction was drawn between conditional and unconditional liquidity. In accordance with the amendments to the Articles of Agreement establishing the Special Drawing facility, allocations of SDRs were designed to adjust the level of global reserves, whereas quota adjustments were a means of altering global conditional liquidity.

The considerations that were part of the Fifth Review are summarized below:

(a) Although a sharp distinction was drawn between conditional and unconditional liquidity, it was recognized that the one could to some extent serve the same purpose as the other so that the need for one was not entirely independent of the availability of the other. In analyzing the role of each type of liquidity in the adjustment process within a framework of internationally agreed policies, the staff concluded that a "due relationship" between reserves and conditional liquidity needed to be maintained.1/

(b) In SM/69/98, the staff noted that in the period preceding the Fifth Review, there had been a tendency for the supply of conditional liquidity to increase in relation to reserves, presumably having in mind that the ratio of aggregate Fund quotas to total reserves was substantially higher during the 1966-68 period than at any time prior to the Fourth Review (see Chart 1). The staff thought that the tendency reflected a slowdown or cessation in reserve growth, rather than accelerated growth in the supply of conditional liquidity. In terms of the ratio of quotas to imports--which was advanced as an appropriate indicator of the relative supply of conditional liquidity--the supply of conditional liquidity had tended to decline, as seen in Chart 2. When the ratio of Fund quotas to imports was calculated at the time of the Fifth Review for the 44 members that were members of the Fund in 1948, the decline was even sharper--from about 18 per cent to roughly 12 per cent, respectively.

(c) Although quota formulas have been used primarily as a starting point for negotiating the distribution of quotas, the sum of total calculated quotas has also been used to indicate the growth in the scale of the world economy. At the Fifth Review, the growth in the magnitudes of the components of the revised Bretton Woods formula between 1962 and 1967 yielded an increase of 52 per cent in total calculated Fund quotas, from SDR 19.3 billion to SDR 29.4 billion. (The rates of growth of selected variables are presented in Chart 3.) Furthermore, there had also been substantial increases in financial transactions not reflected in the formula.

(d) The staff noted and discussed the apparent tendency toward an increasing proportionate use of credit tranches. To the extent that this

1/ See SM/69/98, "Relationships Between Conditional and Unconditional Liquidity," as well as Annual Report, 1969, particularly p. 30.

tendency reflected a scale increase in the economic magnitudes underlying countries' recourse to the Fund, it was another indication of the need for a general quota increase.

(e) An increase in Fund quotas would provide the Fund with more resources and thereby enable it to provide assistance on a more substantial scale. Fund drawings would accordingly be more attractive to member countries, relative to alternatives, such as financing from other sources without policy conditionality but on shorter term (for example, swaps), or adjustment of payments deficits in ways that were detrimental to the interest of the international community (for example, through restrictions). The staff pointed out that since 1961 there had been a rapid growth in swap facilities available to major trading countries, and these had entailed a substantial diminution in the size of facilities available in the Fund relative to the swap facilities. In association with the gold tranche drawings of Canada, France, and Denmark in 1968 and early 1969, and the drawing in the credit tranches of the United Kingdom in 1968, recourse to swap facilities or Treasury credits had exceeded the size of their respective quotas.

In the Fifth Review, unlike the Fourth the staff did not offer a recommendation on an appropriate increase in the size of the Fund. Executive Directors mentioned that in light of the results of the Fourth Review it would be difficult to have a general increase in quotas of less than 25 per cent. An increase of 30 per cent, plus or minus 3 per cent, was suggested by the G-10 countries. As shown in Chart 3, the outcome of the Fifth Review was 35.5 per cent increase in the size of the Fund to the figure of SDR 28.9 billion, consisting of a 25 per cent general increase in quotas (except for China and the United Kingdom), accompanied by $2.6 billion in special increases.

Considerations for the Sixth Review

The Fund should be large enough to ensure that it has a sufficient supply of drawable currencies to enable it without undue recourse to borrowing to meet appropriate potential demands on its resources. This depends partly on the distribution of quotas among potential drawers and among potential holders of creditor positions, but mainly on the need for conditional assistance of the types provided by the Fund.

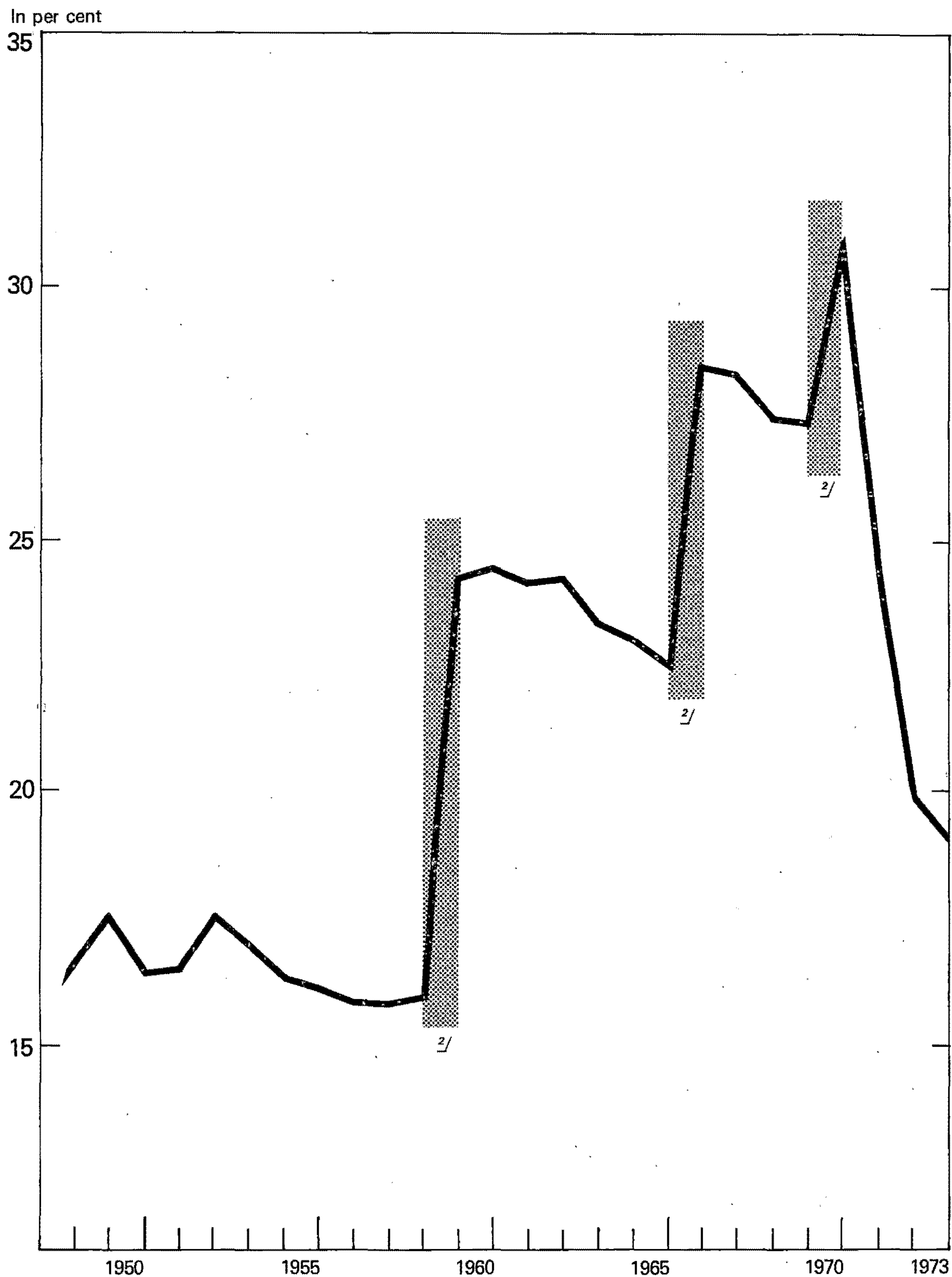
In reviewing the relative merits of obtaining resources through borrowing and quota increases, respectively, it was stated in the 1964 Annual Report that:

> "There is much to be said for the view that the Fund should conduct its financial operations as much as possible with resources on which it can count permanently without question." (p. 38)

In the special circumstances surrounding the setting up of the oil facility it was considered that it should be financed as far as possible by borrowing. As far as regular and permanent facilities are concerned, however, the judgment cited above would seem to hold.

CHART 1

AGGREGATE FUND QUOTAS AS PER CENT OF TOTAL RESERVES, 1948-73[1/]

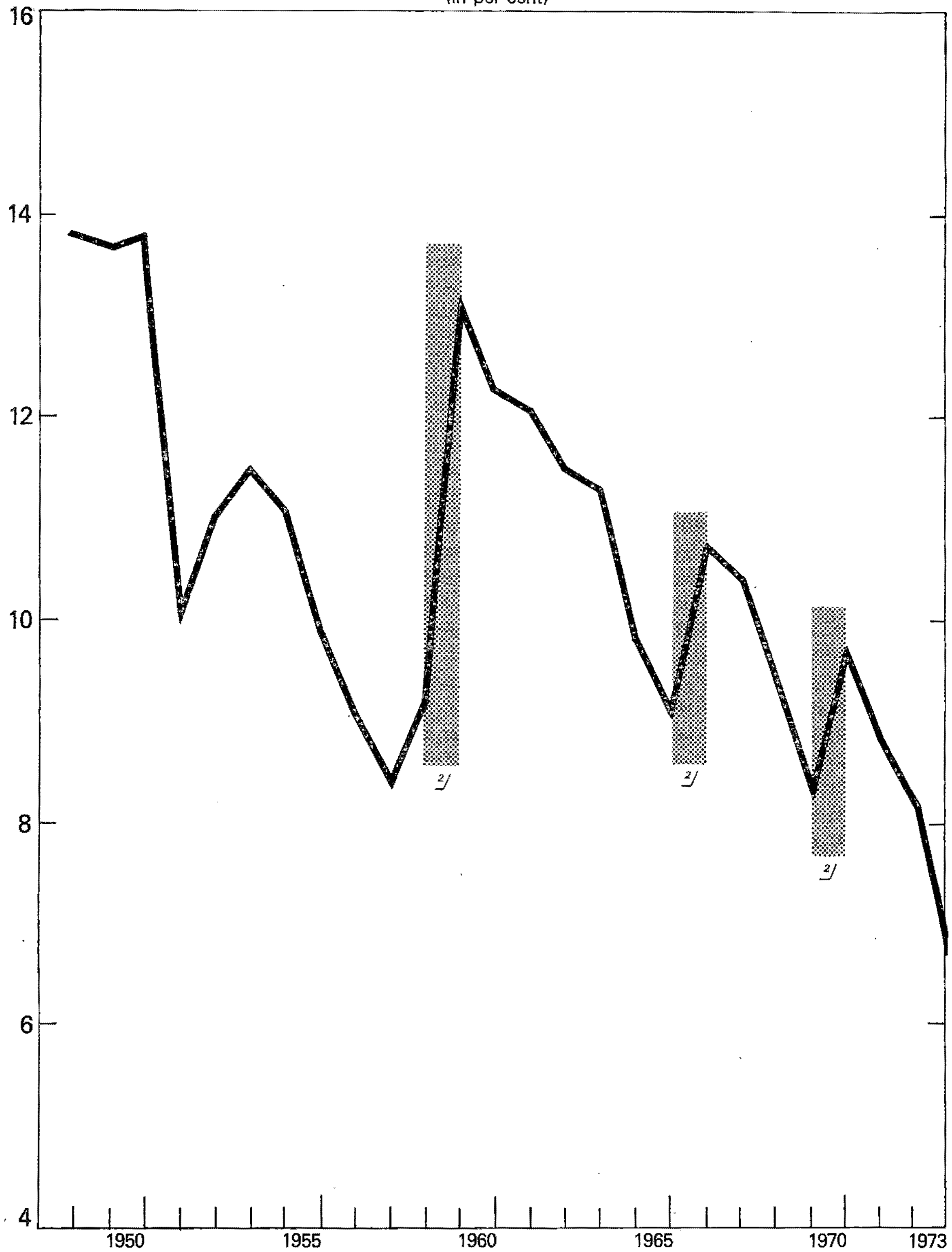


Source: *International Financial Statistics.*
1/ Quotas and Reserves at end of year.
2/ General increase in quotas.

CHART 2

AGGREGATE FUND QUOTAS AS PER CENT OF GLOBAL IMPORTS, 1948-73 1/

(In per cent)



Source: *International Financial Statistics.*

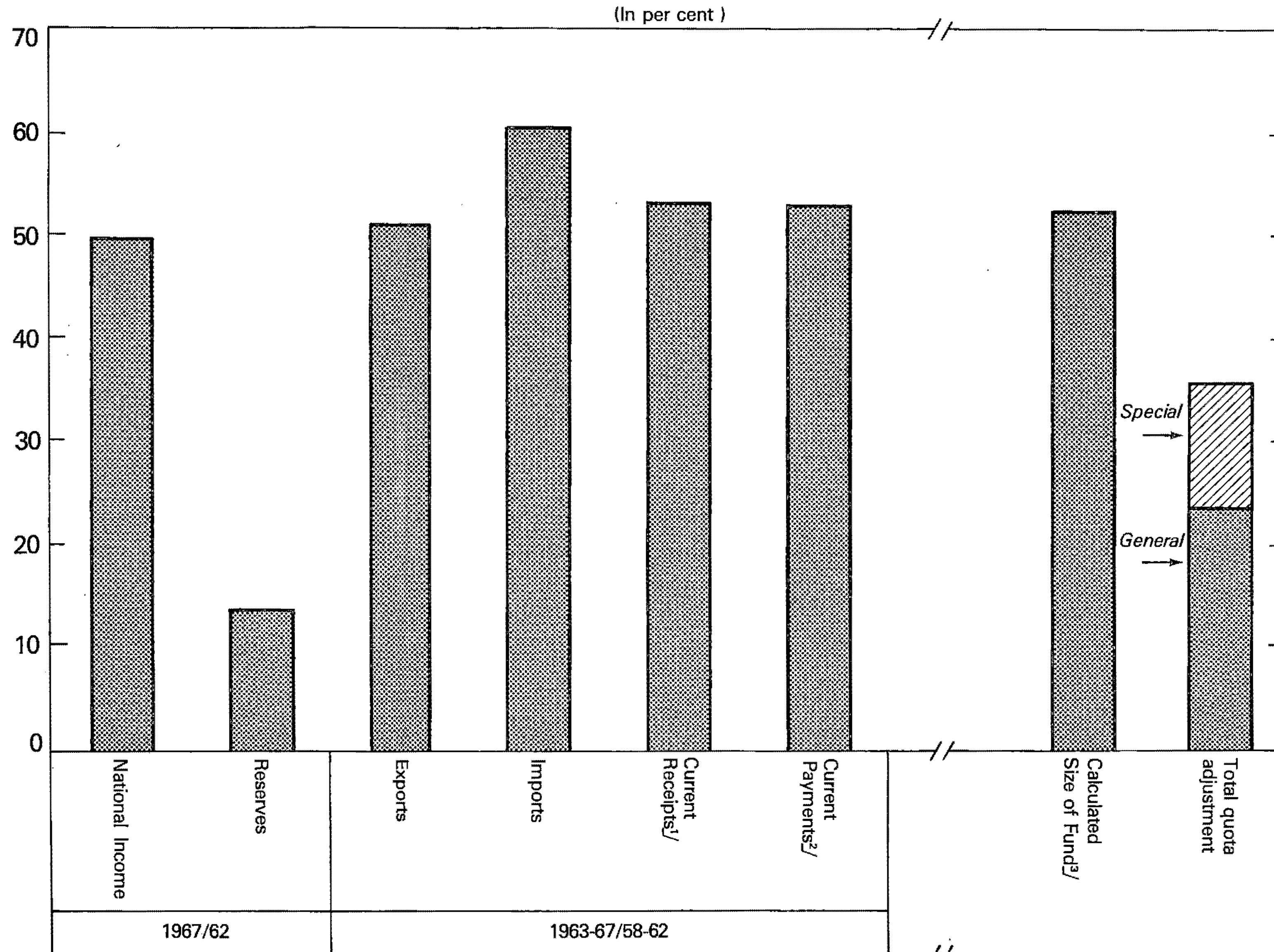
1/ Quotas at end of year as percentage of imports in calendar.

2/ General increase in quotas.

CHART

RATES OF GROWTH OF VARIABLES USED IN QUOTA CALCULATIONS FOR THE FIFTH GENERAL REVIEW OF QUOTAS AND OF FUND SIZE

(In per cent)



1/ Exports, current invisible receipts and private transfers.
2/ Imports, current invisible payment and private transfers.
3/ Bretton Woods Formula, revised.

Source: EB/CQuota/74/2, Table 6.

Given the relationship of drawing rights to quotas and given the desire to minimize borrowing, the distribution of quotas among members has a bearing on the size of the Fund. The more closely the relative quotas of members correspond, on the drawing side, to their relative potential needs for Fund financing and, on the drawee side, to their relative capacity to provide resources to the Fund, the smaller will be the size of the Fund that would be needed to meet a given potential need for Fund resources. Any improvement in these respects, even if achieved through selective quota increases, will reduce the extent to which aggregate quotas require to be increased.

The need for the types of conditional liquidity provided by drawing facilities in the Fund depends in part on general factors affecting the need for international liquidity in general, such as are considered in relation to the need for reserve creation, and in part on the factors that influence the balance between conditional and unconditional liquidity.

With these general considerations in mind, the following points seem pertinent to arriving at a judgment on the appropriate size of the Fund in the present Review:

(a) Foreign trade, current account transactions, and national income are probably, among the available macroeconomic variables, those most indicative of the scale of the world economy and most pertinent to the appropriate size of the Fund.

Ideally, it might seem desirable to compare, for each of these variables, the magnitude that is likely to prevail over the 1974-78 period with that which has prevailed from 1969 to 1973. Forecasting so far ahead, particularly where value aggregates are concerned, is, however, scarcely practicable. It therefore seems inevitable, as in past Reviews, to calculate an appropriate size for the Fund on the basis of the past growth of these variables.

In view of the acceleration that has taken place in the growth of these value aggregates, however, it would seem particularly important on the present occasion that the interval of comparison should be as recent as possible, even if it means foregoing the use of five-year averages.

As can be seen from Chart 4, both world trade and current transactions have almost doubled, over the five-year interval from 1968 to 1973, while world income has increased from 1967 to 1972 by 70 per cent.

In past Reviews it has been customary to discuss the appropriate size of the Fund in the context of trade comparisons relating to successive quinquennial periods. As seen in Chart 4, the growth in world trade and current account transactions from 1963-67 to 1968-72 was of the order of 70 per cent. The use of such quinquennial periods has the advantage of smoothing out any abnormalities in the results for particular years

and is very suitable for considering the relative adequacy of different national quotas. It is, however, less satisfactory in considering the growth of aggregate quotas since it pushes the comparisons so far back in time. As against this it may be argued that comparisons based on the years 1968 and 1973 are strongly affected by the global inflation of recent years and that it can reasonably be hoped that the rate of inflation will decline. This argument, however, cannot be carried too far. The comparisons in question omit the year of maximum inflation (1974), and however restrained the demand policies of countries may be from now on substantial price increases are "built in" for some time to come and are likely to expand the value of international transactions.

(b) The year 1973 saw a continuation of the upward trend in global payments imbalances that began in 1967 (see Chart 5). Even larger imbalances are expected to emerge in 1974, stemming from differential price movements in international trade attributable to the rise in the price of oil and the higher prices for foods, agricultural products, and raw materials.

(c) There has been a sharp decline in the use of Fund resources since 1969, although recent developments suggest that this has been reversed. Drawings reached a high of SDR 3.6 billion in 1968 and declined in every subsequent year except 1971. By the end of 1973, total credit tranche use had declined to about SDR 550 million, as against a high of SDR 4.1 billion in February 1970 (annual data are shown in Chart 6). Moreover, between these two years the number of members with drawings outstanding in the credit tranches fell from 35 to 25. There has been no recourse to the GAB since February 1970.

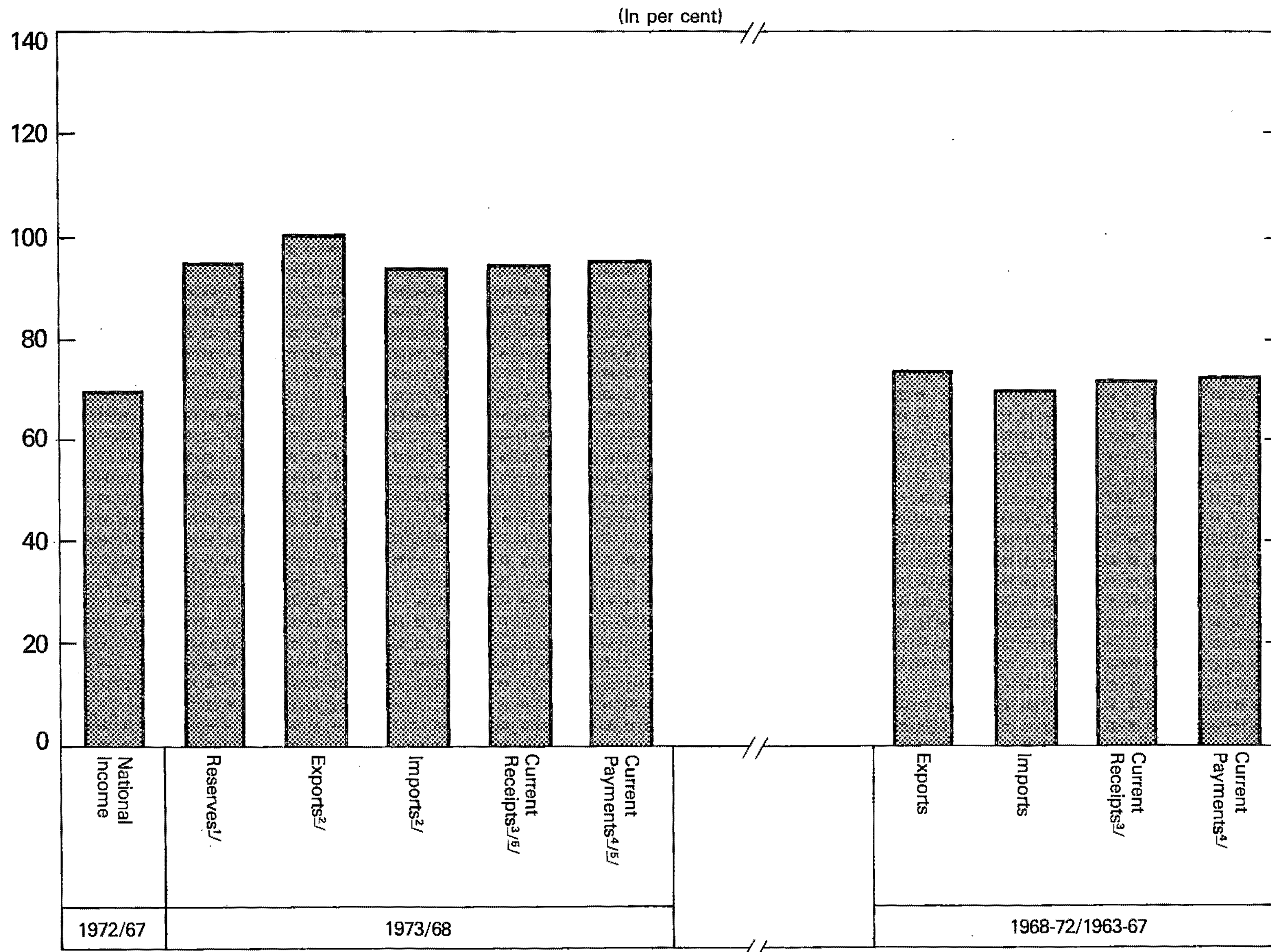
The reduced demand for Fund resources and other assistance reflects in a large measure the sharp rise in global reserves during the 1970-72 period which enabled Fund members as a whole to restore credit tranche positions and to establish access to private sources of finance, and subsequently put many countries in a position to finance deficits, to a much larger extent than in the past, from owned assets and borrowing from private sources.

(d) The demand for Fund resources is likely to increase, even if there were a reversal of the trend in imbalances noted in paragraph (b) above, particularly if countries deplete their reserves and other resources in financing deficits in 1974 and turn to sources of conditional financing. Although the oil facility is to be financed by borrowing, recourse to the Fund to meet deficits over and above those to be met by that facility may tax the Fund's liquidity to a considerable extent. Strain on the Fund's liquidity will be all the more likely, to the extent that there is a pronounced shift in the geographical distribution of imbalances, with widespread deficits among members that may not have ready access to alternative sources of financing, or that may have already used up such access, and with surpluses accruing largely to members with relatively small quotas.

.T 4

GROWTH IN SELECTED VARIABLES ASSOCIATED WITH THE SIXTH GENERAL REVIEW OF QUOTAS

(In per cent)



Sources: EB/CQuota/74/2, Table 6, *International Financial Statistics,* and IMF Data Fund.

1/ End of year

2/ For total world, as defined in *International Financial Statistics.*

3/ Exports, current invisible receipts and private transfers.

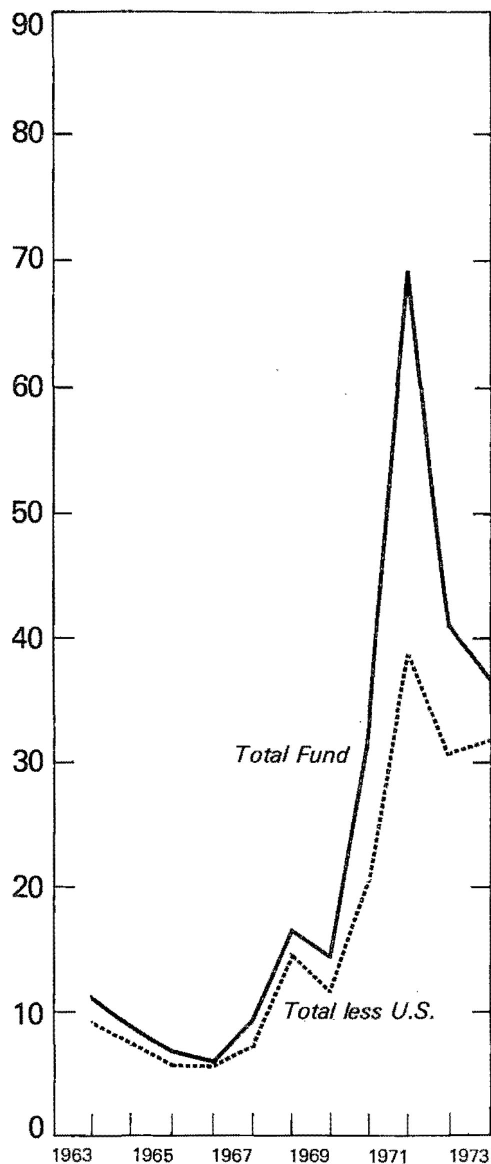
4/ Imports, current invisible payments and private transfers.

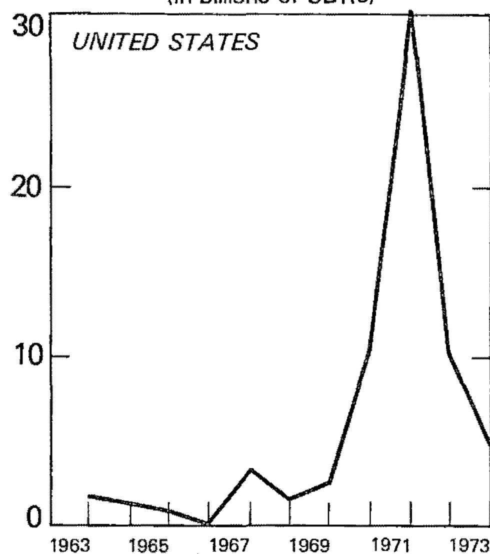
5/ For 51 Fund members.

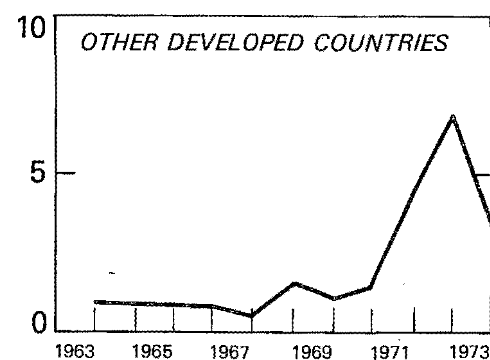
CHART 5

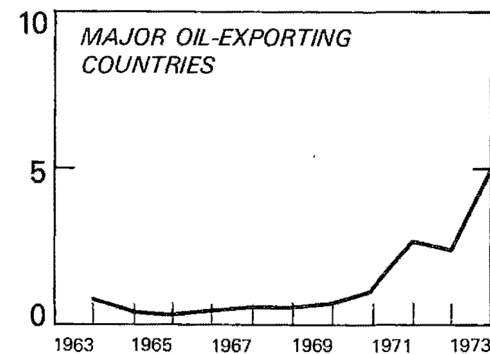
OVERALL BALANCE OF PAYMENTS DISEQUILIBRIUM[1/] OF FUND MEMBERS, 1963-73

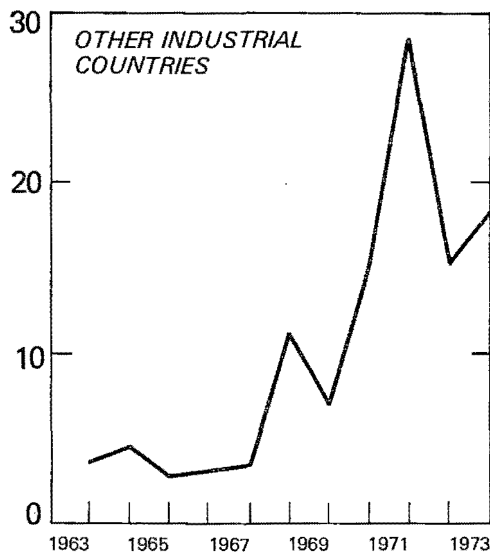
(In billions of SDRs)

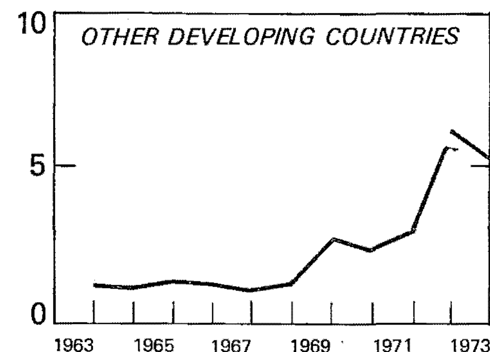












1/ Sum of absolute overall balance. For industrial and other developed countries, balance of payments definition; for developing countries, changes in reserves. In both cases net of SDR allocation.

Source: IMF Data Fund

CHART 6

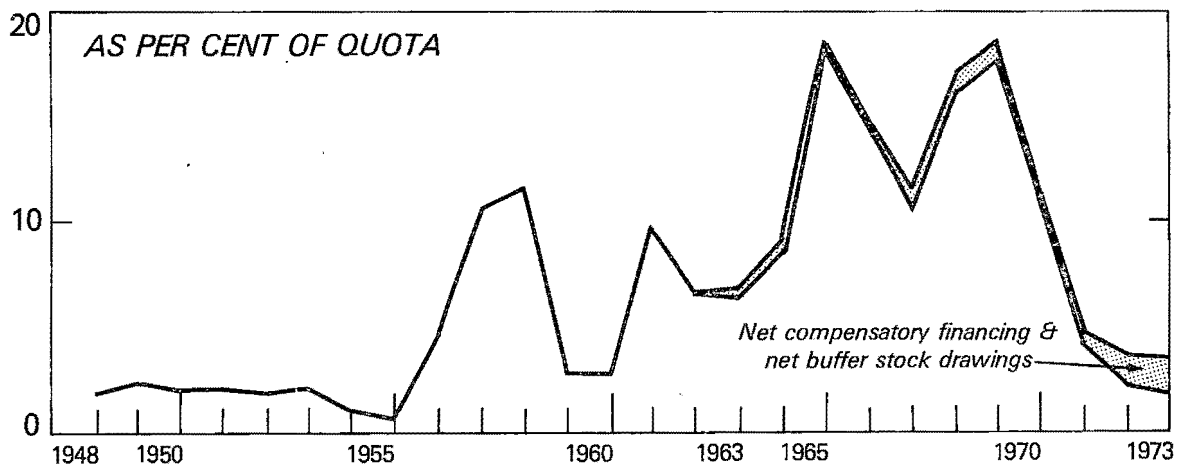
TOTAL FUND CREDIT USE, 1948-73

IN BILLIONS OF SDRs

4
3
2
1
0

Net compensatory financing & net buffer stock drawings

1948 1950 1955 1960 1963 1965 1970 1973



Source: IMF Data Fund

(e) Some of the factors, mentioned at (c) above, that have tended to provide members with an alternative to the use of the Fund may no longer be operative in the period ahead. As discussed in the draft of Chapter II of the Annual Report, the excess of reserves, which may have amounted to SDR 20-30 billion at the beginning of 1973, has by now been largely absorbed by the realignment of exchange rates in early 1973, the effects of subsequent inflation on real reserves, and the reduced balance of payments deficit of the United States. The expansion of the private international market for short- and medium-term credit may well be slowed down by official measures to safeguard the solvency and liquidity of the banks engaging in it, or by actions undertaken in prudence by the banks themselves. Even apart from this the borrowing capacity of many Fund members may be impaired by the adverse payments impact of the oil price increases and by the downward tendency of other primary commodity prices.

(f) There will be additional demands on the Fund's liquidity as the result of the establishment of the extended facility. The decision to be taken by the Executive Directors on July 26 specifies its general features. An indication of possible use of the facility may be given on the basis of the following assumptions: (i) that four additional countries would use the facility each year over a period of three years; (ii) that the average size of their quotas is SDR 75 million which is about the average of the existing quotas of developing countries that are not major oil producers; (iii) that each country draws the maximum of 150 per cent of quota over the three-year period in equal annual installments; and (iv) that repurchases are made in equal quarterly installments during the fifth through eighth years. On these assumptions the total maximum amount of purchases outstanding would be SDR 1.8 billion by the end of the fifth year. In the light of experience of the past decade with regard to countries that might be entitled to use the extended facility, the number of countries and the average amount of use assumed above and hence the estimate of SDR 1.8 billion may prove to be on the high side. However, looking ahead for the next five years, prudent financial management would entail the provision of some extra margin for potential drawings under the extended facility.

(g) To strike an appropriate balance between conditional and unconditional liquidity is particularly difficult at the present time, when there is considerable uncertainty as to the effective value of global reserves (related to the gold component of these reserves) and, partly as a consequence of this, as to the degree of adequacy of these reserves.

Chart 1 provides an indicator of the balance between conditional and unconditional liquidity, viz., the ratio of quotas to reserves. In 1967, that ratio stood at 28.3 per cent. The potential size of the Fund stemming from the Fifth Review was about SDR 28.9 billion or 37 per cent of reserves at the end of 1969, the year when that Review was completed. The near doubling of reserves since then has had the effect of reducing the ratio to about 19 per cent at present.

In considering this ratio, it should be borne in mind that in present circumstances, when some of the disciple previously exercised by the par value system of exchange policies and domestic financial policies has been relaxed, considerable importance should be attached to the increased leverage over members' policies which the Fund could achieve through a substantial increase in quotas.

Concluding Remarks

An assessment of the appropriate size of the Fund is based on quantitative indicators and judgment. The data show that during the five-year period since 1967, there has been a strong upward trend in the scale of the world economy, and the growth in several of the variables (particularly trade) suggests that an increase in the size of the Fund of from 70 to 100 per cent might be appropriate. The Fund is shrinking in real terms and still more in relation to trade: in many countries quotas have become clearly inadequate to potential requirements. Despite this, owing to the plethora of international liquidity that developed over the years 1970-72, together with the improved organization of international markets for short- and medium-term capital, use of Fund resources has dropped off to a point where the level of total use of Fund credit is comparable with that of the early 1960s. Recent developments, however, including the disturbed state of international payments, the need to avoid excessive reliance on the expansion of international banking credit, and the gradual absorption of the overhang of excess reserves as a result of trade expansion and world inflation, point to the likelihood of an increased need and demand for conditional liquidity over the next few years.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

Mr. J.J. Polak

Room 9-320

#11

July 25, 1974

To: Senior Staff

From: The Secretary's Department

Subject: Executive Board Meeting 74/90, July 23, 1974*

Annual Report, 1974

Staff Representatives: Schwartz, Blackwell, Humphreys
Discussion: 3 hours

The Executive Directors resumed discussion of Chapter 1 of the Annual Report and suggested changes.

** ** ** ** **

Decision taken since previous Board Meeting to be recorded in Meeting 74/90

Executive Board Travel (EBAP/74/192)

* Précis for limited distribution; not basis for official action.

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EB/CQuota/74/3

Mr. J.J. Polak
Room 9-320
#11

July 18, 1974

To: Members of the Committee of the Whole
on Review of Quotas

From: The Acting Secretary

Subject: Sixth General Review of Quotas - Quota Calculations II

Attached is the second of two related papers on quota calculations prepared by the staff; it presents quota calculations using the incremental approach. The previous paper (EB/CQuota/74/2) presented calculations on the basis of formulas used in the past.

These papers have been tentatively scheduled for discussion by the Committee of the Whole on Friday, July 26, 1974.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Sixth General Review of Quotas - Quota Calculations II
(the Incremental Approach)

Prepared by the Treasurer's Department and the
Research Department

Approved by R. J. Familton and J. J. Polak

July 17, 1974

As requested by the Executive Directors at the First Meeting of the Committee of the Whole (April 15, 1974), quota calculations using the incremental approach have been made and the results are presented in this memorandum.

The calculations are updated versions of those EB/CQuota/74/1 (April 11, 1974), except that they reflect the use of a larger number of formulas and a somewhat more elaborate procedure for deriving a single set of incremental calculated quotas.

As explained in EB/CQuota/74/1 (page 2), certain technical problems arise in the application of the concept of increments to the nonlinear multiplicative factor, which exists in some of the quota formulas, including the Bretton Woods formula.[1/] These problems have been avoided by defining the calculated increment in quota as the difference between the calculations made for the current Review using data ending in 1972 (see EB/CQuota/74/2) and those made under the Fifth General Review using data ending in 1967 (see SM/69/58). Calculated increments in quotas derived in this manner under different formula schemes were each adjusted, for comparability, to sum to SDR 20.1 billion, which is the difference between the total of calculated quotas based on the Bretton Woods formula, reduced, Set I for the current Review and for the Fifth General Review.[2/]

1/ The quota formulas are essentially of two types - linear, in which all the variables are additive, and nonlinear, which contain the multiplicative factor (the weighted sum of the variables multiplied by 1 plus the ratio of exports to national income). The concept of increment cannot be applied to the nonlinear term without changing the structure of the formulas.

2/ The calculations cover 109 members for which quota calculations were made in connection with the Fifth General Review. Members not included are China, and those listed on page 2, footnote 2, which joined the Fund since that Review.

A set of thirty-two calculated increments in quotas resulted for each member from the use of sixteen formulas and Set I and Set II data.[1] Ten of these calculations were selected based on five formulas and Set I and Set II data in line with the calculations presented in Table 4 of EB/CQuota/74/2. These formulas are: the Bretton Woods formula, reduced, Schemes III, IV, M4, and M7. The procedure followed in deriving a single calculation for each member is the same as was adopted for determining special increases in quotasunder the Fifth General Review and in EB/CQuota/74/2 (page 8), i.e., the higher of the two averages of calculations based on the Bretton Woods formula, reduced using Set I and Set II data, and the average of the lowest two calculations based on Schemes III, IV, M4, and M7 using Set I and Set II data. Calculated increments in quotas were then added to existing quotas to arrive at the calculated incremental quotas.

A summary of the calculations, classified according to different groups of members, is given in Table I. For purposes of comparison, existing quotas and calculated quotas based on the absolute approach (Column C in Table 4, EB/CQuota/74/2) are also shown in Table I. Three points can be made regarding this table:

(i) The total size of the Fund on the basis of the single calculated quota presented in Table 1, is SDR 741 million smaller than results from the calculations presented in EB/CQuota/74/2 (Column C of Table 4), because calculations for the 15 members that joined the Fund since the Fifth Review could not be made on an incremental basis, owing to the lack of data.[2] For comparative purposes, these members have been excluded from the calculations based on the absolute approach.

(ii) After taking into account the adjustments noted in (i), the total size of the Fund using the incremental approach is about SDR 2 billion smaller than the size calculated under the absolute approach. As explained in EB/CQuota/74/1, this difference results from the fact that the starting points for the two types of calculations are different. For the incremental approach, the starting point is the existing quota, and the major industrial countries generally have smaller existing quotas than had been calculated, while the opposite is the case for most of the less developed countries.[3] The amounts calculated for the major

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1/ The details of these calculations on an absolute basis and the data used for making the calculations are to be found in SM/69/58 (May 8, 1969), and EB/CQuota/74/2 (July 15, 1974).

2/ These members are: Bahamas, Bahrain, Bangladesh, Barbados, Equatorial Guinea, Fiji, Khmer Republic, Oman, Qatar, Romania, Swaziland, United Arab Emirates, Western Samoa, Yemen Arab Republic, and the People's Democratic Republic of Yemen. Quotas calculated at the time of their membership were based on Set I data only, except for the Bahamas.

3/ For a discussion on this point, see A Note on the Incremental Approach to Quota Calculations (EB/CQuota/74/1), pp. 7-10.

industrial countries (G-10) on the basis of the incremental approach are smaller, by about SDR 3.6 billion, than the amounts calculated under the absolute approach, whereas the amounts calculated for the less developed countries are larger by about SDR 1.6 billion.

(iii) The difference between the two types of calculations for the other developed countries is small because the differences between the existing quotas and the quotas calculated for these countries in the previous review were relatively small, and positive and negative differences tend to cancel out the net effect on their share.

Table 1. Comparison of Shares of Different Groups of Members in Calculated Quotas Based on Incremental and Absolute Approaches

(In millions of SDRs)

Groups	Existing quotas (1)	Calculated increases[1/] (2)	Calculated Quotas: Incremental approach[1/] (1) + (2) (3)	Calculated Quotas: Absolute approach (4)
Group of Ten	17,595	15,297	32,892	36,519
(Per cent of total)	(62.5)	(71.4)	(66.4)	(70.7)
Other developed countries	3,315	2,339	5,656	5,660
(Per cent of total)	(11.8)	(10.9)	(11.4)	(11.0)
Less developed countries	7,234	3,786	11,021	9,456
(Per cent of total)	(25.7)	(17.7)	(22.2)	(18.3)
All countries[2/]	28,144	21,423	49,567	51,635

1/ Negative increases in quotas were treated as zeros for the purpose of computing the shares in columns 2 and 3; all countries with negative increments are less developed countries (see Appendix I).
2/ Excluding 15 members which joined the Fund since the Fifth Review.

As was shown in EB/CQuota/74/1, the use of the incremental approach to calculate quotas results in a relative shift in the structure of calculated quotas towards the less developed countries, as compared with the calculations based on the absolute approach. However, in terms of the total calculated increases in quotas (SDR 21,423 million), the proportionate share of the less developed countries (17.7 per cent) is

considerably less than their share (25.7) in the total of existing quotas.[1]

The relative structure of quotas by groups of countries which results from the incremental calculations, presented in Table 1, is little different from the structure resulting from calculations based on 1967 data as presented in EB/CQuota/74/1, notwithstanding the addition of fourteen members to the group of less developed countries in the present calculations. On the basis of the present calculations, the share of the developing countries in the total Fund is 22.2 per cent (compared with 22 per cent on the basis of the 1967 data), while that of the major industrial countries (G-10) is 66.4 per cent (compared with 66.5 per cent based on the 1967 data.[2] This stability in the calculated quota structure between the two calculations reflects the weight that existing quotas carry in the incremental calculations. Inasmuch as the incremental approach tends to maintain discrepancies between actual quotas and calculated quotas of the preceding Review, the share of the less developed countries in the total size of the Fund is maintained under this approach better than under the absolute approach, even though both approaches yield considerably smaller shares for these countries than their existing share in the Fund.

The quotas of individual members, calculated on the basis of the incremental approach, are presented in Table 2 and the details of the calculations are given in Appendix I. For the purpose of comparison, calculated quotas based on the absolute approach, i.e., those appearing in Column C of Table 4 in EB/CQuota/74/2, are also shown. As explained earlier, the calculated total size of the Fund is about SDR 2 billion smaller under the incremental approach than under the absolute approach (see Table 1). If it were desired to adjust the incremental calculated quotas to yield a size equal to that under the absolute approach, changes would be needed in the individual quotas. Such adjustments in the final calculated quotas have not, however, been made in view of the fact that the total increment in quotas at which each formula calculation was normalized under the incremental approach was not determined arbitrarily but was derived from the results of calculations under the absolute approach.

With regard to the calculated quotas for individual countries, it can be seen from Table 2 that, for nine of the ten largest industrial countries (the exception being the United Kingdom), calculated quotas are substantially smaller using the incremental approach as compared with the absolute approach. The calculated quota for the United Kingdom

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1/ The calculated increase in the Fund under the incremental approach is about SDR 3 billion smaller than the excess of calculated over the present quotas under the absolute approach (compare Column 2 in Table 1 with the last column of Table 5 in EB/CQuota/74/2). The less developed countries' share in the excess of calculated quotas amounted to only 13.2 per cent of the total.

2/ See Column 3 of Table 1 above and Column 5 of Table 1B in EB/CQuota/74/1.

Table 2. A Comparison Between Calculated Quotas Based on Incremental Approach and Absolute Approach

(In millions of SDRs)

Fund Members[1]	Existing Quota (1)	Calculated Increase (2)	Calculated Quota Incremental (3)	Calculated Quota Absolute (4)	Difference Col. 3 - Col. 4 (5)
United States	6,700	4,021	10,721	12,512	-1,791
United Kingdom	2,800	1,082	3,882	3,364	+518
Germany	1,600	2,519	4,119	4,910	-791
France	1,500	1,505	3,005	3,230	-225
Japan	1,200	2,222	3,422	3,744	-322
Canada	1,100	1,012	2,112	2,334	-222
Italy	1,000	937	1,937	2,154	-217
India	940	54	994	618	+376
Netherlands	700	849	1,549	1,705	-156
Belgium and Luxembourg	670	819	1,489	1,641	-152
Australia	665	354	1,019	872	+147
Argentina	440	129	569	361	+208
Brazil	440	450	890	722	+168
Spain	395	383	778	808	-30
Mexico	370	202	572	534	+38
Venezuela	330	113	443	393	+50
Sweden	325	331	656	927	-271
South Africa	320	220	540	566	-26
Austria	270	235	505	504	+1
Denmark	260	210	470	537	-67
Indonesia	260	36	296	189	+107
Norway	240	157	397	440	-43
Pakistan	235	-27	235	131	+104[2]
Yugoslavia	207	173	380	365	+15
New Zealand	202	47	249	214	+35
Iran	192	235	427	434	-7
Finland	190	141	331	365	-34
Egypt	188	27	215	176	+39
Malaysia	186	61	247	248	-1
Chile	158	91	249	219	+30

1/ The calculations cover 109 members for which quota calculations were made in connection with the Fifth General Review. Members not included are China, and those listed on page 2, footnote 2, which joined the Fund since the Review.

2/ Increments in the calculated quotas are negative for these members; the difference shown in this column therefore represents the difference between the actual quotas and the calculated quotas based on absolute approach.

Table 2 (continued). A Comparison Between Calculated Quotas Based on Incremental Approach and Absolute Approach

(In millions of SDRs)

Fund Members[1/]	Existing Quota (1)	Calculated Increase (2)	Calculated Quota: Incremental (3)	Calculated Quota: Absolute (4)	Difference Col. 3 - Col. 4 (5)
Colombia	157	48	205	155	+50
Philippines	155	54	209	201	+8
Turkey	151	100	251	242	+9
Greece	138	104	242	231	+11
Nigeria	135	140	275	262	+13
Thailand	134	50	184	176	+8
Saudi Arabia	134	348	482	486	-4
Israel	130	123	253	232	21
Algeria	130	88	218	240	-22
Peru	123	37	160	157	+3
Ireland	121	79	200	199	+1
Portugal	117	113	230	257	-27
Morocco	113	47	160	125	+35
Zaire	113	71	184	149	+35
Iraq	109	64	173	164	+9
Sri Lanka	98	--	98	58	+40
Ghana	87	19	106	72	+34
Korea	80	145	225	226	-1
Zambia	76	117	193	194	-1
Sudan	72	4	76	50	+26
Uruguay	69	7	76	44	+32
Kuwait	65	170	235	263	-28
Trinidad and Tobago	63	11	74	68	+6
Viet-Nam	62	32	94	97	-3
Burma	60	-3	60	39	+21[2/]
Jamaica	53	24	77	74	+3
Ivory Coast	52	24	76	82	-6
Syrian Arab Republic	50	16	66	55	+11
Kenya	48	25	73	74	-1
Tunisia	48	17	65	52	+13

1/ The calculations cover 109 members for which quota calculations were made in connection with the Fifth General Review. Members not included are China, and those listed on page 2, footnote 2, which joined the Fund since the Review.

2/ Increments in the calculated quotas are negative for these members; the difference shown in this column therefore represents the difference between the actual quotas and the calculated quotas based on absolute approach.

Table 2 (continued). A Comparison Between Calculated Quotas Based on Incremental Approach and Absolute Approach

(In millions of SDRs)

Fund Members[1/]	Existing Quota (1)	Calculated Increase (2)	Calculated Quota Incremental (3)	Calculated Quota Absolute (4)	Difference Col. 3 - Col. 4 (5)
Dominican Republic	43	12	55	50	+5
Tanzania	42	15	57	52	+5
Uganda	40	15	55	43	+12
Afghanistan	37	-0.5	37	23	+14[2/]
Singapore	37	130	167	209	-42
Bolivia	37	8	45	29	+16
Panama	36	36	72	61	+11
Guatemala	36	19	55	53	+2
El Salvador	35	5	40	35	+5
Cameroon	35	12	47	39	+8
Senegal	34	7	41	35	+6
Ecuador	33	17	50	44	+6
Costa Rica	32	15	47	37	+10
Liberia	29	3	32	32	--
Ethiopia	27	9	36	33	+3
Nicaragua	27	6	33	29	+4
Malagasy Republic	26	8	34	33	+1
Cyprus	26	14	40	31	+9
Sierra Leone	25	2	27	23	+4
Honduras	25	10	35	30	+5
Libya	24	211	235	295	-60
Guinea	24	1	25	13	+12
Jordan	23	7	30	26	+4
Iceland	23	15	38	37	+1
Mauritius	22	-1	22	17	+5[2/]
Mali	22	7	29	13	+16
Guyana	20	3	23	19	+4
Haiti	19	2	21	10	+11
Rwanda	19	3	22	7	+15
Somalia	19	1	20	8	+12

1/ The calculations cover 109 members for which quota calculations were made in connection with the Fifth General Review. Members not included are China, and those listed on page 2, footnote 2, which joined the Fund since the Review.

2/ Increments in the calculated quotas are negative for these members; the difference shown in this column therefore represents the difference between the actual quotas and the calculated quotas based on absolute approach.

Table 2 (concluded). A Comparison Between Calculated Quotas Based on Incremental Approach and Absolute Approach

(In millions of SDRs)

Fund Members 1/	Existing Quota (1)	Calculated Increase (2)	Calculated Quota: Incremental (3)	Calculated Quota: Absolute (4)	Difference Col. 3 - Col. 4 (5)
Paraguay	19	4	23	15	+8
Burundi	19	5	24	9	+15
Malta	16	9	25	24	+1
Togo	15	5	20	12	+8
Malawi	15	6	21	15	+6
Gabon	15	17	32	31	+1
Dahomey	13	5	18	12	+6
Central African Republic	13	4	17	10	+7
Congo, People's Rep. of the	13	4	17	15	+2
Chad	13	6	19	12	+7
Mauritania	13	7	20	16	+4
Niger	13	5	18	12	+6
Laos	13	1	14	4	+10
Upper Volta	13	4	17	9	+8
Nepal	12	9	21	18	+3
Lebanon	9	37	46	97	-51
Gambia, The	7	1	8	4	+4
Lesotho	5	1	6	3	+3
Botswana	5	7	12	10	+2

1/ The calculations cover 109 members for which quota calculations were made in connection with the Fifth General Review. Members not included are China, and those listed on page 2, footnote 2, which joined the Fund since the Review.

under the incremental approach is over SDR 1 billion higher than the present quota, and about SDR 0.5 billion higher than the quota calculated under the absolute approach. The largest reductions in the calculated increases in quotas are experienced by the United States (SDR 1.8 billion) and Germany (SDR 791 million); the reductions in the calculated quotas of Canada, France, Japan, Italy, and Sweden range from SDR 217 million to SDR 322 million under the incremental approach. On the other hand, the calculated increases in quotas for Australia, New Zealand, Greece, Turkey, and Yugoslavia are greater under the incremental than under the absolute approach. Among the less developed countries, the calculated quota of India under the incremental approach is SDR 376 million larger than under the absolute approach. The incremental calculated quotas of Argentina, Brazil, Indonesia, and Pakistan are also appreciably larger than quotas calculated under the absolute approach.

In the case of four members--Afghanistan, Burma, Pakistan, and Mauritius--the calculated increments are negative, and have been treated as zeros so that the calculated incremental quotas are the same as existing quotas. For five other members--The Gambia, Guinea, Laos, Lesotho, and Sri Lanka--the calculated increments amount to less than SDR 1 million, and for 19 other members, the calculated increments amount to less than 25 per cent of their existing quotas. The calculated quotas of most of these countries under the absolute approach are less than their present quotas.

Two broad conclusions might be drawn from the above analysis. First, the dampening effect of the incremental approach on the calculated quotas of the main industrial countries, inter alia, has implications for the Fund's liquidity in that it tends to yield proportionately lower calculated quotas for certain creditor countries (based on data ending in 1972).

Second, while incremental quota calculations have a less marked effect on the relative shares of different groups of members than the calculations under the absolute approach, these calculated shares nonetheless do not correspond to the actual shares of these groups in the present Fund. The changes in relative shares under the incremental approach largely depends on the relationship between the calculated and actual quotas determined at the time of the last quota review, rather than on changes in relative economic positions since 1967.

CALCULATED INCREASES IN QUOTAS UNDER INCREMENTAL APPROACH

COLUMN A - INCREMENTS IN QUOTAS CALCULATED ACCORDING TO THE REVISED BRETTON WOODS FORMULA REDUCED TO YIELD AN INCREASE IN THE FUND OF SDR 20.1 BILLIONS.

COLUMN B - INCREMENTS IN QUOTAS DERIVED FROM THE AVERAGE OF THE LOWEST TWO CALCULATED ACCORDING TO FOUR REWEIGHTED AND MODIFIED FORMULAS (SCHEMES III, IV, M4, AND M7) EACH ADJUSTED TO YIELD AN INCREASE OF SDR 20.1 BILLIONS.

SET I CALCULATIONS - BASED ON IMPORTS, EXPORTS AND VARIABILITY OF EXPORTS

SET II CALCULATIONS - BASED ON IMPORTS AND EXPORTS OF GOODS AND SERVICES, AND PRIVATE TRANSFERS AND VARIABILITY OF RECEIPTS ON GOODS, SERVICES, AND PRIVATE TRANSFERS.

COLUMN C - REPRESENTS THE HIGHER OF THE AVERAGES OF SET I AND SET II CALCULATIONS IN A AND B.

(IN MILLIONS OF SDRS)

		CALCULATED INCREMENTS IN QUOTAS				
		A		B		C
	PRESENT	B.W. REDUCED		AVG. OF LOWEST TWO		HIGHER OF TWO
FUND MEMBERS[1]	QUOTA	SET I	SET II	SET I	SET II	AVERAGES(A OR B)
UNITED STATES	6700.	4134.3	3908.0	3078.1	2699.5	4021.2
UNITED KINGDOM	2800.	931.7	950.3	1100.6	1062.9	1081.7
GERMANY	1600.	2537.7	2501.2	2296.4	2286.7	2519.5
FRANCE	1500.	1425.9	1426.6	1458.1	1552.1	1505.1
JAPAN	1200.	2324.6	2118.6	1899.3	1666.5	2221.6
CANADA	1100.	971.7	1027.0	1025.2	999.2	1012.2
ITALY	1000.	897.9	902.4	941.3	932.2	936.7
INDIA	940.	58.1	49.2	20.0	7.7	53.7
NETHERLANDS	700.	692.0	683.0	877.7	820.9	849.3
BELGIUM & LUXEMB.	670.	598.0	591.9	807.1	831.1	819.1
AUSTRALIA	665.	357.4	351.0	199.6	198.6	354.2
BRAZIL	440.	470.5	429.2	340.5	294.1	449.9
ARGENTINA	440.	121.8	118.8	131.3	126.9	129.1
SPAIN	395.	373.7	391.5	283.0	351.7	382.6
MEXICO	370.	191.4	211.7	172.1	209.0	201.6
VENEZUELA	330.	106.5	98.5	120.8	104.8	112.8
SWEDEN	325.	313.1	326.7	287.4	374.6	331.0
SOUTH AFRICA	320.	133.1	203.7	122.6	317.8	220.2
AUSTRIA	270.	217.6	234.9	216.6	253.1	234.9
DENMARK	260.	180.2	184.3	209.7	210.9	210.3
INDONESIA	260.	37.4	34.6	47.0	-3.2	36.0
NORWAY	240.	147.6	167.0	140.3	144.1	157.3
PAKISTAN	235.	-58.8	-46.2	-31.2	-23.3	-27.3
YUGOSLAVIA	207.	150.7	161.7	154.8	191.1	172.9
NEW ZEALAND	202.	46.9	46.9	43.3	49.4	46.9
IRAN	192.	185.1	214.1	226.4	244.5	235.4
FINLAND	190.	118.0	117.1	143.0	139.2	141.1
EGYPT	188.	30.8	23.1	25.1	27.8	26.9
MALAYSIA	186.	53.3	54.1	64.5	57.8	61.2
CHILE	158.	78.2	72.7	100.1	82.2	91.2
COLOMBIA	157.	43.8	50.6	44.9	51.4	48.1
PHILIPPINES	155.	45.4	48.3	50.2	57.8	54.0
TURKEY	151.	98.0	102.0	49.1	80.0	100.0
GREECE	138.	106.7	100.7	88.9	100.4	103.7
NIGERIA	135.	103.8	110.4	138.5	142.0	140.3
THAILAND	134.	46.7	49.5	47.2	52.3	49.8
SAUDI ARABIA	134.	238.3	277.3	345.4	350.0	347.7
ISRAEL	130.	85.8	140.1	82.8	163.4	123.1
ALGERIA	130.	66.8	47.9	120.5	54.8	87.6
PERU	123.	31.4	42.3	27.2	47.2	37.2
IRELAND	121.	81.5	76.6	70.9	73.6	79.1
PORTUGAL	117.	99.0	126.3	72.2	129.9	112.7
MOROCCO	113.	28.2	42.2	25.7	69.1	47.4
ZAIRE	113.	35.7	56.4	57.3	84.0	70.7
IRAQ	109.	49.6	55.7	60.4	67.8	64.1
SRI-LANKA	98.	0.9	-0.8	1.3	-3.3	0.0
GHANA	87.	8.7	5.2	24.7	12.4	18.5
KOREA	80.	143.5	138.4	155.9	134.5	145.2
ZAMBIA	76.	59.5	66.4	116.9	117.5	117.2
SUDAN	72.	3.8	4.0	-3.3	0.4	3.9

[1] Excluding 15 members which joined the Fund since the Fifth Review. These members are: the Bahamas, Bahrain, Bangladesh, Barbados, Equatorial Guinea, Fiji, Khmer Republic, Oman, Qatar, Romania, Swaziland, United Arab Emirates, Western Samoa, Yemen Arab Republic, and the People's Democratic Republic of Yemen.

CALCULATED INCREASES IN QUOTAS UNDER INCREMENTAL APPROACH

(IN MILLIONS OF SDRS)

FUND MEMBERS[1]	PRESENT QUOTA	CALCULATED INCREMENTS IN QUOTAS A B.W. REDUCED SET I	A B.W. REDUCED SET II	B AVG. OF LOWEST TWO SET I	B AVG. OF LOWEST TWO SET II	C HIGHER OF TWO AVERAGES(A OR B)
URUGUAY	69.	6.5	8.1	2.0	5.0	7.3
KUWAIT	65.	134.7	160.3	164.2	176.8	170.5
TRINIDAD & TOBAGO	63.	10.7	12.2	8.5	8.3	11.4
VIET-NAM	62.	16.6	29.7	14.0	49.4	31.7
BURMA	60.	-4.8	-4.9	-2.1	-3.6	-2.8
JAMAICA	53.	22.0	21.9	30.8	17.3	24.0
IVORY COAST	52.	18.0	23.7	22.2	26.0	24.1
SYRIAN ARAB REP.	50.	16.4	16.2	10.2	13.0	16.3
KENYA	48.	24.3	19.2	32.4	18.5	25.4
TUNISIA	48.	17.7	17.0	9.3	4.0	17.3
DOMINICAN REP.	43.	12.6	12.3	9.3	9.1	12.5
TANZANIA	42.	17.2	13.7	18.0	12.7	15.4
UGANDA	40.	12.8	12.2	16.2	14.0	15.1
BOLIVIA	37.	6.9	7.9	7.5	8.0	7.8
AFGHANISTAN	37.	0.4	-1.2	-0.7	-2.9	-0.4
SINGAPORE	37.	131.7	123.8	140.3	120.6	130.5
GUATEMALA	36.	14.6	15.4	19.9	19.0	19.4
PANAMA	36.	31.6	39.7	7.2	11.6	35.6
EL SALVADOR	35.	4.3	5.4	3.2	5.8	4.9
CAMEROON	35.	11.3	11.6	15.2	9.5	12.4
SENEGAL	34.	4.5	8.9	3.0	7.1	6.7
ECUADOR	33.	16.1	16.1	19.7	13.5	16.6
COSTA RICA	32.	14.0	13.8	15.4	14.0	14.7
LIBERIA	29.	2.8	3.4	1.0	2.2	3.1
ETHIOPIA	27.	8.6	8.6	6.4	7.4	8.6
NICARAGUA	27.	6.2	6.7	4.5	4.4	6.4
CYPRUS	26.	13.2	14.2	8.0	7.9	13.7
MALAGASY REPUBLIC	26.	5.7	7.5	7.1	9.7	8.4
SIERRA LEONE	25.	2.5	1.6	1.4	-0.8	2.1
HONDURAS	25.	7.5	8.1	10.0	9.9	9.9
LIBYA	24.	196.3	226.6	174.8	193.4	211.4
GUINEA	24.	0.8	0.9	-1.4	-1.1	0.9
ICELAND	23.	7.6	8.6	14.7	14.8	14.8
JORDAN	23.	3.6	6.0	4.8	8.4	6.6
MALI	22.	2.6	4.5	4.6	8.5	6.6
MAURITIUS	22.	0.1	-1.5	-4.0	-6.7	-0.7
GUYANA	20.	3.4	2.7	3.5	0.3	3.0
HAITI	19.	2.2	1.7	0.5	-0.3	2.0
PARAGUAY	19.	3.8	4.3	3.8	4.3	4.1
BURUNDI	19.	2.4	2.3	5.5	5.0	5.2
RWANDA	19.	2.4	2.4	3.4	3.1	3.3
SOMALIA	19.	1.1	1.3	1.0	1.7	1.4
MALTA	16.	8.9	8.5	6.2	-5.2	8.7
TOGO	15.	3.9	3.7	5.2	3.8	4.5
MALAWI	15.	4.9	4.8	6.5	5.9	6.2
GABON	15.	8.4	14.5	16.0	17.8	16.9
DAHOMEY	13.	4.4	4.9	5.2	4.9	5.1
CONGO PEOPLE REPUBL	13.	2.9	3.2	4.0	4.6	4.3
CHAD	13.	3.1	5.0	4.2	7.0	5.6
UPPER VOLTA	13.	3.3	4.0	3.9	4.5	4.2
MAURITANIA	13.	5.5	7.4	4.8	4.5	6.5
NIGER	13.	3.6	5.4	3.4	7.2	5.3
CENTRAL AFR. REP.	13.	2.0	3.7	3.0	5.9	4.4
LAOS	13.	0.5	0.3	1.0	0.6	0.8
NEPAL	12.	5.1	5.2	8.4	8.6	8.5
LEBANON	9.	28.8	44.5	25.2	49.5	37.4
GAMBIA	7.	0.7	0.5	0.6	0.1	0.6
LESOTHO	5.	0.7	0.4	0.7	-1.0	0.5
BOTSWANA	5.	4.8	6.0	7.0	7.5	7.2

[1] Excluding 15 members which joined the Fund since the Fifth Review. These members are: the Bahamas, Bahrain, Bangladesh, Barbados, Equatorial Guinea, Fiji, Khmer Republic, Oman, Qatar, Romania, Swaziland, United Arab Emirates, Western Samoa, Yemen Arab Republic, and the People's Democratic Republic of Yemen.

MEMORANDUM

TO: Managing Director July 17, 1974

FROM: J. J. Polak

SUBJECT: A Simplified Approach to Quota Calculations

The quota calculations underlying the Fifth Quinquennial Review may be considered to have suffered from two weaknesses:

1) they were based on a wide array of formulas, from which a member could select the combination most favorable to it, subject to important constraints;

2) while some of these formulas included reserves and others not, all included national income, which is a variable of dubious relevance and one that raises serious difficulties of measurement.

An attempt was therefore made in the attached paper to test to what extent 1971 quotas would have been different if a single much simpler formula had been used. It was found that if the 1971 exercise were repeated with a formula based on imports and export variability only, the results would have been, for all but the G-10 countries:1/

	Number of Countries
No difference	41
0 to 5 per cent difference	31
6 to 10 per cent difference	18
11 to 15 per cent difference	5
Larger difference 2/	4
	99

The simpler formula points up one major difference: it would produce a substantially lower figure for the United States. It has of course always been recognized that formulas based on trade variables do not provide a

1/ The quotas for the G-10 countries were not set by a formula, but by negotiations.

2/ Three out of four of these were related to the fact that the 1971 quota increases for these countries included an adjustment under the compensatory financing decision.

SUBJECT COPY

satisfactory quota for the United States; the same conclusion was drawn in setting weights for the U.S. dollars in the basket. In the original Bretton Woods formula and in many formulas derived from it since, this problem has been met by using national income in the formula with considerable weight. The question may be asked whether it is still necessary to use an initial formula approach to the quota for the United States (which in any event is decided by negotiation), and hence whether a single simple formula might not be used instead of an array of more complicated formulas.

We may want to decide in the light of further Board discussion on quotas whether and when something along these lines should be put to the Board.

Att:

cc: Deputy Managing Director
Mr. Gold
Mr. Familton
Mr. Del Canto
Mr. Gunter
Mr. Toure
Mr. Tun Whin
Mr. Whittome

SUBJECT COPY

A Note on the Calculation of Fund Quotas

Introduction

In SM/73/275[1] the staff attempted to determine by econometric methods formulas that would not only be simpler than those employed until now, but would also approximate the present quota distribution more closely than those which have been used in the past. All of the statistical formulas presented in that study did in fact approximate the distribution of the 1971 quotas more closely than did the results of the calculations done for the Fifth General Review.[2] In the light of these findings, this paper selects one simple formula from that study and, using the same methodology applied for the Fifth General Review, computes a set of suggested quotas. These suggested quotas are then compared with the quotas suggested in 1971 and the differences between them are analyzed.

Methodology of quota determination

The following procedure was used to obtain suggested quotas for Fund members during the Fifth Review:

For each member, a quota (Q_c) was computed.[3] This calculated quota was compared to the actual 1967 quota (Q_{67}) and if it was larger than the 1967 quota, an excess (E) was calculated as the difference, $E = (Q_c - Q_{67})$. The total excess (E_T) of calculated over 1967 quotas was obtained by summing all positive differences. The suggested quota (Q_s) was then computed for each member as:

1/ SM/73/275, "Statistical Formulas Explaining Present Fund Quotas."
2/ SM/73/275, p. 11.
3/ The calculation of Q_c was a complicated and involved choice among an array of formulas. See SM/73/274, p. 13.

$$Q_s = 1.25Q_{67} \qquad \text{if } Q_c < Q_{67}$$

$$= 1.25Q_{67} + \frac{E}{E_T} \times \$5,000 \qquad \text{if } Q_c > Q_{67}$$

The general increase of 25 per cent and the amount of aggregate special increases of $5,000 million were determined through negotiations. The suggested quotas,(with a few exceptions, notably the G-10 countries[1]) became the 1971 quotas.

In an attempt at simplification, the present paper selects one formula from SM/73/275; it alone is used to compute the calculated quotas. A set of suggested quotas is then obtained by applying the previously described methodology.

The formula that has been selected to calculate quotas is:[2]

$Q_c = 0.1350$ (Imports) + 1.1270 (Variability of Exports).

This is the simplest of all the formulas put forth in SM/73/275. The coefficients were estimated using standard regression techniques for a sample of 109 countries; the sum of the 1971 quotas of these countries is $28.2 billion, and the coefficients are adjusted such that the calculated quotas sum to this same total.

Using this formula, a set of suggested quotas (Q_s) are calculated following the procedure described above. The total excess of calculated over 1967 quotas (E_T) is $8783.7 million, of which $2288.3 million are distributed as special increases. The amount of aggregate special increases was determined by imposing

1/ Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, United Kingdom, and the United States.
2/ SM/73/275, Table 2, p. 8.

the constraint that the sum of the suggested quotas be $28.2 billion. Thus, the suggested quotas (Q_s) are given by:

$$Q_s = 1.25Q_{67} \qquad \text{if} \quad Q_c < Q_{67}$$

$$= 1.25Q_{67} + \frac{Q_c - Q_{67}}{8783.7} \times 2288.3 \qquad \text{if} \quad Q_c > Q_{67}$$

These suggested quotas were then rounded according to the procedure adopted at the Fifth General Review.[1/]

The results of these calculations for all members except the G-10 countries are given in Table 1. Column (1), which is labeled "1971 Quota," shows the "suggested quota" put forth at the Fifth General Review, except that the quotas given for Cameroon, the Ivory Coast, Lebanon, and Libya were adjusted under the Compensatory Financing Decision.[2/] Column (2) shows the suggested quotas obtained using the single formula.

A comparison of the results obtained using this single formula with those obtained using the combination of formulas yields several observations. First, columns (3) and (4) show that, after rounding, the quotas of 41 members are identical with their quotas obtained in the 1969 Quota Review. Second, the number of countries receiving special increases does not differ significantly; using this single formula, 74 countries receive special increases, while the outcome of the Fifth General Review resulted in 73 countries receiving special increases. The countries that receive special increases when the single formula is used, but did not receive special increases at the Fifth General Review are: Botswana, Costa Rica, Mauritania, Sudan, and Egypt, while the countries that

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1/ Committee of the Whole on Review of Quotas, Meeting 69/9, December 19, 1969, p. 16. The rounding procedure is: Quotas up to $250 million are rounded to the next higher $1 million, quotas between $250 and $1,000 million are rounded to the next higher $5 million, and quotas in excess of $1,000 million are rounded to the next high $10 million. (This added $123 million to the total).

2/ Executive Board Decision No. 1477-(63/8), February 27, 1963.

Table 1. 1971 Quotas and New Suggested Quotas

Country	1971 Quota 1/	Suggested Quota 2/	Rounded Quota 3/	Percentage Error 4/
Afghanistan	37	36	37	0.000
Algeria	130	117	118	-9.231
Argentina	440	437	440	0.000
Australia	665	666	670	0.752
Austria	270	259	260	-3.704
Bolivia	37	36	37	0.000
Botswana	5	3	4	-20.000
Brazil	440	437	440	0.000
Burma	60	60	61	1.667
Burundi	19	18	19	0.000
Cameroon	28	26	27	-3.571
Central African Republic	13	12	13	0.000
Chad	13	12	13	0.000
Chile	158	158	159	0.633
Colombia	157	156	157	0.000
Congo, People's Republic	13	13	14	7.692
Costa Rica	32	32	33	3.125
Cyprus	26	26	27	3.846
Dahomey	13	12	13	0.000
Denmark	260	270	275	5.769
Dominican Republic	43	43	44	2.326
Ecuador	33	32	33	0.000
Egypt, Arab Republic of	188	195	196	4.255
El Salvador	35	34	35	0.000
Ethiopia	27	25	26	-3.704
Finland	190	191	192	1.053
Gabon	15	13	14	-6.667
Gambia	7	6	7	0.000
Ghana	87	86	87	0.000
Greece	138	141	142	2.899
Guatemala	36	34	35	-2.778
Guinea	24	23	24	0.000
Guyana	20	19	20	0.000
Haiti	19	18	19	0.000
Honduras	25	24	25	0.000

Table 1 (Continued). 1971 Quotas and New Suggested Quotas

Country	1971 Quota 1/	Suggested Quota 2/	Rounded Quota 3/	Percentage Error 4/
Iceland	23	21	22	-4.348
India	940	937	940	0.000
Indonesia	260	258	260	0.000
Iran	192	176	177	-7.813
Iraq	109	104	105	-3.670
Ireland	121	122	123	1.653
Israel	130	120	121	-6.923
Ivory Coast	42	33	34	-19.048
Jamaica	53	50	51	-3.774
Jordan	23	22	23	0.000
Kenya	48	42	43	-10.417
Korea	80	74	75	-6.250
Kuwait	65	72	73	12.308
Laos	13	12	13	0.000
Lebanon	35	26	27	-22.857
Lesotho	5	4	5	0.000
Liberia	29	26	27	-6.897
Libyan Arab Republic	62	41	42	-32.258
Malagasy Republic	26	25	26	0.000
Malawi	15	13	14	6.667
Malaysia	186	179	180	-3.226
Mali	22	21	22	0.000
Malta	16	13	14	-12.500
Mauritania	13	12	13	0.000
Mauritius	22	21	22	0.000
Mexico	370	337	340	-8.108
Morocco	113	112	113	0.000
Nepal	14	12	13	-7.143
New Zealand	202	207	208	2.970
Nicaragua	27	26	27	0.000
Niger	13	12	13	0.000
Nigeria	135	134	135	0.000
Norway	240	239	240	0.000
Pakistan	235	235	236	0.426
Panama	36	36	37	2.778

Table 1 (Concluded). 1971 Quotas and New Suggested Quotas

Country	1971 Quota 1/	Suggested Quota 2/	Rounded Quota 3/	Percentage Error 4/
Paraguay	19	18	19	0.000
Peru	123	119	120	-2.439
Philippines	155	153	154	-0.645
Portugal	117	109	110	-5.983
Rwanda	19	18	19	0.000
Saudi Arabia	134	116	117	-12.687
Senegal	34	33	34	0.000
Sierra Leone	25	21	22	-12.000
Singapore	62	53	54	-12.903
Somalia	19	18	19	0.000
South Africa	320	302	305	-4.688
Spain	395	365	370	-6.329
Sri Lanka	98	97	98	0.000
Sudan	72	71	72	0.000
Syrian Arab Republic	50	51	52	4.000
Tanzania	42	40	41	-2.381
Thailand	134	132	133	-0.746
Togo	15	13	14	-6.667
Trinidad and Tobago	63	62	63	0.000
Tunisia	48	46	47	-2.083
Turkey	151	138	139	-7.947
Uganda	40	40	41	2.500
Upper Volta	13	12	13	0.000
Uruguay	69	68	69	0.000
Venezuela	330	312	315	-4.545
Viet-Nam	62	56	57	-8.065
Yugoslavia	207	205	206	-0.483
Zaire	113	112	113	0.000
Zambia	76	69	70	-7.895

1/ The quotas given are the 1971 quotas which are identical to the suggested quotas obtained for members at the Fifth General Review, with the exception of Cameroon, the Ivory Coast, Lebanon and Libya, whose calculated quotas are given and are not equal to their 1971 quotas.

2/ These are the suggested quotas obtained from using the single formula.

3/ These are the suggested quotas rounded according to the procedure used at the Fifth General Review.

4/ The percentage error is defined as (Rounded quota - 1971 quota)/1971 quota * 100.

received special increases at the Fifth General Review, but not when the single formula is used are: Mexico, Nepal, the United States, and Zaire.

Although the quotas of the G-10 countries were not determined by the formula, it is interesting to compare the calculated quotas of these countries obtained from the single formula and the array of formulas. The calculated and suggested quotas of the G-10 countries obtain from the single formula and the array of formulas are given in Table 2. For seven of these 10 countries, the single formula yields higher calculated quotas and for two (France and Japan) the result is slightly lower. The major difference is for the United States. This is as might have been expected; a formula containing only trade variables, while it may be reasonably satisfactory for other countries, cannot properly reflect the economic weight of the United States or the role of the dollar.

The average percentage error[1/] between the new quotas obtained using the single formula and the "1971 quotas" is 6.1 per cent. The average percentage error associated with major country groups is:

Industrial countries (other than G-10):	4.9 per cent;
Other developed countries:	5.3 per cent;
Developing countries:	
Major oil exporters:	11.7 per cent;
Others:	5.5 per cent.

The distribution of rounded quotas under the simple formula and the 1971 quotas by major country groups is given in Table 3. In this table it is assumed that the G-10 countries would have received the same quotas, whichever formula was used for all other countries. It can be seen that the distribution

1/ The average percentage error is defined as the square root of the sum of squared percentage deviations of the rounded quotas from the "1971 quotas," adjusted for the number of observations.

Table 2. Alternative Calculations Quota for G-10 Members

(In millions of U.S. dollars)

Country	1971 Quota	Calculated Quota		Suggested Quota	
		Single formula	Array of formulas	Single formula	Array of formulas
Belgium/Luxembourg	674	1,049	801	710	720
Canada	1,100	1,445	1,316	1,109	1,196
France	1,500	1,754	1,805	1,432	1,617
Germany	1,600	2,557	2,448	1,854	2,083
Italy	1,000	1,324	1,238	963	1,069
Japan	1,200	1,490	1,524	1,106	1,281
Netherlands	700	1,139	861	811	810
Sweden	325	666	590	396	453
United Kingdom	2,800	2,419	2,229	3,050	3,050
United States	6,700	4,685	8,496	6,450	8,012

July 9, 1974

Table 3. Distribution of Quotas by Major Country Groups

	1971 Quota 1/	(In per cent)	Rounded Quota 2/
United States & United Kingdom	33.7		33.7
Other Industrial Countries	31.4		31.5
Other Developed Countries	9.0		9.0
Developing Countries			
Major oil exporters	5.2		5.1
Others	20.7		20.7

1/ See footnote 1, Table 1.
2/ See footnote 3, Table 1.

of the new quotas is not significantly different from the distribution of the 1971 quotas. The industrial countries' share in the total of quotas is increased by 0.1 per cent when the single formula is used, while the share of the major oil exporting countries is reduced by 0.1 per cent.

Conclusions

It appears from the results presented that a single formula based on imports and the variability of exports could have been used for the Fifth General Review in place of the array of formulas with only slight effects on the resulting quotas or the structure of Fund quotas. The formula that has been suggested is a simple one and the variables included in it are generally available for countries and have a high degree of reliability. The formula does not use data on national income, which is a highly controversial variable,[1/] or population, which would result in a major restructuring of quotas for individual countries (although the distribution for major groups would not be affected greatly).

One major difference that results form using the single formula rather than the array of formulas is that the United States would not qualify for a special increase and that its suggested quota under this formula is much lower than its 1971 quota. It is not surprising to find that the United States quota should be higher than indicated by a formula applicable to all countries.

1/ The main argument against using national income as a variable is that it is not an accurate measure of economic size. This is because (1) developing countries tend to have large nonmonetarized sectors, (2) the choice of a conversion rate is difficult when there has been an exchange rate change, and (3) the effects of inflation are not taken into account. For a more detailed discussion see SM/73/274.

QUOTAS

Office Memorandum

TO : Mr. Polak

DATE: July 16, 1974

FROM : Esther Suss ES

SUBJECT : Sample Quota Calculations for the Sixth Review

The results of calculating two sets of "suggested" quotas using the single formula and the array of formulas from the Fifth Review are given below. The calculations were normalized on a Fund size of 50.1 billion SDRs, with a 25 per cent general increase and aggregate special increases of 14,325.75 million SDRs assumed.

I. Distribution of "Suggested" and 1971 Quotas:

	Single Formula (50,286)		Array of Formulas (50,251)		1971 Quotas (28,619.4)	
Developed Countries:	38,419	76.40%	38,891	77.39%	21,080	73.66%
Industrial:	33,665	66.95%	34,495	68.65%	18,345	64.10%
G-10	32,005	63.65%	33,115	65.90%	17,575	61.41%
Others:	4,754	9.45%	4,396	8.75%	2,735	9.56%
Developing Countries:	11,867	23.60%	11,360	22.61%	7,539.4	26.34%
Oil exporters:	2,923	5.81%	2,795	5.56%	1,484	5.19%
Others:	8,944	17.79%	8,565	17.04%	6,055.4	21.16%

II. Frequency Distribution of Errors:

The percentage error is defined as: (Quota(array) - Quota(single))/Quota(array)*100.

0 - 5%: 48 countries, of which 29 are zero.
5.001 - 10%: 20 countries,
10.001 - 15%: 23 countries,
15.001 - 20%: 14 countries,
20.001 - 25%: 12 countries, and
greater than 25%: 7 countries.

III. Number of Countries Receiving Special Increases:

Using the array of formulas, 84 countries receive a special increase, while using the single formula results in 93 countries receiving special increases. The countries that do not get special increases using the array are given below. An * next to the country indicates that it does not get a special increase when the single formula is used also.

New Zealand
Argentina *
Bolivia *
Colombia *
El Salvador
Guyana
Haiti *
Paraguay *
Uruguay *
Egypt *
Yemen, Arab Rep. *
Afghanistan *
Bangladesh *

Burma *
India *
Indonesia *
Khmyer Rep.
Laos *
Pakistan *
Sri Lanka *
Western Samoa
Burundi *
Central African Rep. *
Chad *
Dahomey *
Equitorial Guinea

Gambia *
Ghana
Guinea Rep. *
Lesotho
Malawi
Mali *
Mauritius *
Niger *
Rwanda *
Sierra Leone
Somalia *
Sudan *
Togo *
Upper Volta *

In addition, Morocco does not receive a special increase when the single formula is used, but does when the array of formulas is used.

The United States receives a special increase under both sets of calculations, but its share in the aggregate falls from 23.35% when the array of formulas is used to 3.62% when the single formula is used.

cc: Mr. Taplin

Office Memorandum

QUOTAS

TO : Mr. Polak

DATE: July 16, 1974

FROM : R. J. Familton RJF

SUBJECT : The Size of the Fund

I offer the following comments on the draft paper, most of which relate to the second part.

In the first part, which could perhaps be edited down to a slightly shorter version, for example by eliminating references to the staff "noting" or "pointing out" various points, I would suggest including in paragraph (c) on page 5 after the second paragraph "from SDR 20.7 billion to SDR 29.4 billion". This gives a calculated increase of 42 per cent, not 53 per cent. Similarly, in the last paragraph on page 6 I would suggest inserting after "the Fund", "to the figure of SDR 28.9 billion". In the last line of the middle paragraph on page 3 we make the figure 30.5 per cent, not 33 per cent.

The second part leaves me with the feeling that possibly more emphasis might be given to the fact that while the Fund's liquidity may appear adequate now and even for the next 12 months or so, there is no assurance that this will remain the case over a somewhat longer period. In this connection, I would suggest expanding the second sentence of the first paragraph on page 7 to bring in the point that there may be a pronounced shift in the structure of imbalances and that the Fund's liquidity, measured in terms of the Fund's own holdings, may come under strain because of widespread deficits among members that may not have ready access to alternative sources of financing, especially if cost considerations carry weight, whereas the surpluses may largely accrue to members with relatively small quotas.

I suggest rounding off the paper with a final paragraph briefly mentioning some aspects of a quota review which have not been explored, i.e., use of quotas and SDR allocations, voting and so on, and summarizing the main points so as to hint at the direction in which the review might proceed. Completing the paper with a comment about increased leverage over a member's policies could be regarded as somewhat provocative.

More detailed comments are as follows:

1. It might help the argument if the quotation from the 1964 Annual Report were supported by some reasons, in particular that undue reliance on borrowing may not only delay transactions but also lessen the degree of assurance members have about access to Fund assistance.

2. I find the argument in the third paragraph on page 7 rather difficult. The inference appears to be that some members have relatively larger quotas than their potential drawing needs while some others have quotas that are small relative to their capacity to provide resources to the Fund.

3. In the last line of the first paragraph on page 8 the words "factors special to the Fund" raise the question as to what precisely the staff has in mind. It might be helpful to exemplify some of these factors, for instance that the Fund is the only ready alternative source of finance for some members.

4. The word "national" should be inserted in the first line of paragraph (a). Would it not be worthwhile to refer to changes in the size and distribution of current account imbalances?

5. In paragraph (b) of page 9 it might be helpful to include a few figures about the numbers of members who have drawn on the Fund and which have drawings outstanding, particularly in the credit tranches. Value figures are, of course, very much affected by the inclusion of one or two major countries. I am having some figures prepared and will send them along separately.

6. In the last paragraph of page 9 I would suggest adding a reference to the fact that a considerable number of countries have been able to establish access to other financing as well as restore their credit tranche positions.

7. On page 10, paragraph (c), in the 7th line I suggest substituting "depleted" for "exhausted". Further down, in the first line of the last sentence, I would insert "to be" before "financed by borrowing...". The statement in the first sentence of the last paragraph on page 10 is, of course, true but I wonder a bit about the repetition of the figure of SDR 2 1/4 billion as this is very high, at least for the near future. I would prefer to add a sentence to the effect that "while this figure may appear somewhat high, prudent financial management would entail the provision of a generous margin for potential drawings under the facility."