

WORKING SET

ROOM C-120

11

CONFIDENTIAL

COMMITTEE ON MEMBERSHIP - KIRIBATI AND TONGA

Meeting 85/1
3:00 p.m., April 25, 1985

R. K. Joyce, Chairman

Executive Directors

J. E. Ismael
P. Pérez
C. R. Rye
A. K. Sengupta

Alternate Executive Directors

T. A. Clark

S. J. Fennell, Secretary

Also Present

IBRD: H. P. Crevier, Secretary's Department. Asian Department:
P. R. Narvekar, Deputy Director; C. M. Browne, J. Thornton.
Legal Department: J. K. Oh. Secretary's Department: R. S. Franklin.
Treasurer's Department: D. Williams, Deputy Treasurer; S. I. Fawzi,
M. A. Lumsden, O. Roncesvalles. Advisor to Executive Director:
K. A. Hansen. Assistants to Executive Directors: G. D. Hodgson,
A. J. Tregilgas.

1. MEMBERSHIP FOR KIRIBATI

Members of the Committee considered a staff paper relating to the calculation of a quota for Kiribati (EB/CM/Kiribati and Tonga/85/1, 3/29/85), in which the staff recommended an initial quota for Kiribati of SDR 2.75 million and a reserve asset payment equivalent to 22.7 percent of the initial quota.

Mr. Rye remarked that, as far as he had been able to determine, the proposals in the staff paper were acceptable to the Kiribati authorities. Indeed, they had already begun to use the figure for the proposed quota in certain of their budget calculations. Although higher numbers could have been produced by strict application of the formulas, the staff's recommended quota seemed reasonable, particularly given the drastic change in the economic circumstances of Kiribati following the exhaustion of phosphate deposits in 1979.

The staff representative from the Asian Department, in response to a query by the Chairman, noted that the Parliament in Kiribati met for only two short periods during the year, and the time for the first session of

the Parliament was rapidly approaching. It was to be hoped that the Committee could reach agreement on an initial quota for Kiribati before the first session of the Parliament so that the required domestic legislation could be approved and Kiribati could become a Fund member in time for the authorities to attend the 1985 Annual Meetings in Seoul.

Mr. Sengupta, noting that he had no difficulty with the recommended initial quota, asked for clarification of the steps that had led the staff to propose the particular figure of SDR 2.75 million. The quota formulas had produced a range for initial quota of SDR 5.69-5.99 million; while he understood that, for countries approximately the size of Kiribati, actual quotas were normally lower than calculated quotas, he wondered what specific variables, if any, the staff took into account in determining where the quota for a particular country should fall in relation to the quotas of countries of similar economic size.

The staff representative from the Treasurer's Department replied that the calculations for an initial quota for Kiribati had been made on the basis of formulas agreed during the Eighth General Review of Quotas. However, the range of SDR 5.69-5.99 million produced by the formulas contained a large distorting element of nearly SDR 3 million that had nothing to do with the variables themselves but was related to the fact that the formula had a nonlinear multiplicative ratio, which was abnormally high in the case of Kiribati because GDP was low in relation to current export receipts. Furthermore, the calculated quotas under the Eighth General Review substantially exceeded the actual quotas resulting from that review; therefore, the calculated quotas served to provide an indication of members' relative economic positions rather than absolute orders of magnitude for their quotas. Having recognized those distortions in Kiribati's calculated quota, the staff had also considered developments relating specifically to the Kiribati economy in the comparisons between it and other economies of similar size and characteristics. With a small economy, Kiribati had been compared with a number of countries that had shares in actual quotas exceeding their shares in calculated quotas, but the staff felt that, on the basis of developments in the Kiribati economy in recent years, it would not be justified in setting an initial quota share for Kiribati in excess of its share in calculated quotas.

Mr. Sengupta, observing differences among the formulas with respect to the effect of variability of exports, remarked that the phosphate mines had shut down in 1979, so that the variability of exports due to phosphates had been nonexistent from 1980 onward. Indeed, after 1980, the variability had been due entirely to variations in copra prices--since the volume of copra production had been steady--and, in that respect, the variability component would seem to be important in the calculation of quota for Kiribati.

The Chairman commented that, after considering the factors taken into account by the staff in recommending an initial quota, it was in the end up to the Committee to determine the initial quota that it wished to recommend to the Executive Board for approval. He noted that the Committee was free to make recommendations without creating a precedent.

Mr. Clark stated that he could support the proposed figure in the quota paper and would limit himself to a technical question relating to Table 12 on page 21. The actual quotas listed in column 1 of that table were all shown in increments of SDR 0.5 million. Footnote 1 of the table suggested that the numbers reflected "the rounding procedures of the Eighth Review under which the quotas of the then 17 smallest Fund members, i.e., those with quotas below SDR 10 million, after being increased in the manner agreed under the review, were then rounded up to the next multiple of SDR 0.5 million." He asked why that procedure had not been followed in the case of Kiribati.

The staff representative from the Treasurer's Department responded that the staff had considered the issue raised by Mr. Clark but had felt uncomfortable about equating the recommended quota for Kiribati with that of either Seychelles or Bhutan. In general, the rounding-up procedure did not benefit small members uniformly and thereby introduced distorting effects in those countries' quota structure. More specifically, rounding up the recommended quota for Kiribati to the next multiple of SDR 0.5 million would, in the staff's view, produce an inappropriately large initial quota.

Mr. Pérez and Mr. Ismael expressed their support for the proposed initial quota for Kiribati.

The staff representative from the World Bank, at the request of the Chairman, noted that Kiribati had also applied for membership in the World Bank, and it was expected that the formalities of joining the two institutions would be completed at the same time. In passing, he noted that the subscription share required for Kiribati to join the World Bank was calculated at 44 percent of whatever quota was agreed in the Fund. In that regard, the Bank had no difficulty with the recommendation in the Fund staff paper.

The Chairman remarked that there appeared to be a consensus among the Committee in favor of recommending an initial quota for Kiribati of SDR 2.75 million and a reserve asset payment equivalent to 22.7 percent of initial quota to be paid within six months after Kiribati had accepted membership in the Fund. Once the authorities in Kiribati had indicated that they could accept the recommended quota and the other terms and conditions for membership, the report of the Committee, together with a draft resolution for transmittal to the Board of Governors, would be submitted to the Executive Board for approval. A draft of the report would be circulated to Committee members in due course.

The Committee then concluded its discussion and adjourned at 3:35 p.m.

APPROVED: March 19, 1986