CONFIDENTIAL

COMMITTEE ON MEMBERSHIP - MOZAMBIQUE

Meeting 84/2
July 12, 1984

B. de Maulde, Chairman

Executive Directors	Alternate Executive Directors
	W. B. Tshishimbi
	D. C. Templeman, Temporary
M. Finaish	
	H. A. Arias, Temporary
	N. Coumbis
	E. I. M. Mtei
	Wang E.

J. C. Corr, Secretary
S. J. Fennell, Assistant

Also Present
IBRD: H. P. Crevier. African Department: R. J. Bhatia, Deputy Director; N. Abu-Zobaa, Buu Hoan, S. Schiavo-Campo. Exchange and Trade Relations Department: T. Hatayama. Legal Department: J. M. Ogoola. Secretary's Department: B. J. Owen. Treasurer's Department: M. N. Bhuiyan, M. A. Lumsden. Advisor to Executive Director: E. A. Ajayi. Assistants to Executive Directors: J. Bulloch, M. B. Chatah, M. Lundsager, A. A. Scholten.

1. MEMBERSHIP FOR MOZAMBIQUE

The members of the Committee resumed from the previous meeting (EB/CM/Mozambique Meeting 84/1, 7/12/84) their consideration of a staff paper on the calculation of a quota for Mozambique (EB/CM/Mozambique/84/1, 6/29/84).

The staff representative from the Treasurer's Department, in response to comments by Mr. Mtei at the previous meeting, stated that Zimbabwe's quota calculations had been based on data covering the period of the Sixth General Review of Quotas, not because of the particular economic circumstances in Zimbabwe but because that had been the procedure existing at the time. Quota calculations for members that had joined the Fund between December 1978 and the end of 1980--Zimbabwe, Dominica, Djibouti, St. Lucia, and St. Vincent--had been made using data covering the Sixth Review period. Zimbabwe's quota had been increased by 50 percent in accordance with the principles for increasing quotas under the Seventh General

Review of Quotas, after those quotas had come into effect. Furthermore, the staff had suggested that Zimbabwe's quota should be toward the upper end of the calculated range because the trade data might have been underestimated and the variability of its exports had been large relative to that of other members.

As for the additional calculations requested by the Chairman, the staff representative said that if the GDP figure for Mozambique were increased by 10 percent, the calculated quota range would be SDR 62.74 million-SDR 66.07 million; if GDP were increased by 25 percent, the range would be SDR 65.03 million-SDR 66.87 million. If gold made up approximately 17.5 percent of Mozambique's total reserves, the average for all Fund members in 1980, and if it were valued at SDR 35 per fine ounce while the remainder of its gold holdings was valued at market prices, Mozambique's reserves would total SDR 61.1 million, and the calculated quota range would be SDR 62.01 million-SDR 66.27 million. If all Mozambique's holdings of gold were valued at market prices, reserves would total SDR 197.3 million, and its calculated quota range would be SDR 65.95 million-SDR 71.71 million. Assuming both that the GDP figure was increased by 10 percent and that approximately 17.5 percent of Mozambique's total reserves were held in gold, the calculated quota range would be SDR 63.43 million-SDR 67.05 million. If the GDP figure were raised by 25 percent and gold reserves were valued at market prices, the calculated quota range would be SDR 65.70 million-SDR 68.27 million. Those figures ought not to be regarded as official because they were based on a procedure that was not in accord with the principles followed in connection with the Eighth General Review of Quotas, the decisions taken in that regard by the Executive Board, or the established method for calculating the quota of a member. Of course, the Committee could take a decision on the basis of all the information available to it.

The ratios of actual to calculated quotas for various African countries, the staff representative from the Treasurer's Department indicated, were: Botswana 0.31, Kenya 0.63, Madagascar 0.97, Malawi 0.96, Mauritius 0.83, Niger 0.55, Swaziland 0.63, Tanzania 1.01, and Zimbabwe 1.27. If the weighted average ratio of actual to calculated quotas of those African members were applied to the calculated quota range of Mozambique, a quota range of SDR 50.3 million-SDR 53.5 million would be obtained.

Mr. Tshishimbi asked what would be Mozambique's calculated quota range if the GDP figure were increased by 25 percent and the gold reserves valued at market prices.

The staff representative from the Treasurer's Department replied that, although the quota range would be somewhat higher, the difference would not be substantial. In addition, it was not the practice of the Fund to calculate quotas based on the market price of gold. Some members, such as the United States and South Africa, had gold holdings that constituted much larger proportions of their reserves than those of Mozambique. If Mozambique's quota were to be based on its gold valued at market prices, the quotas of other members would also have to be recalculated.

Mr. Wang stated that he could understand Mr. Mtei's concern. The economic situation in Mozambique in 1980 had been rather weak in comparison with previous years. Furthermore, gold reserves played a different and specific role in Mozambique. Did the staff consider that it would be appropriate to adjust upward the quota of Mozambique, based on the additional calculations?

Mr. Mtei remarked that the countries in Table 11, with which Mozambique had been compared, did not hold a substantial proportion of their reserves in gold. It would therefore be reasonable, in quota calculation, to treat Mozambique as if it held the same proportion of its reserves in international currencies as the other countries.

Mr. Templeman stated that his chair did not believe that the Fund should reopen the question of how gold was valued in determining quota calculations, and that it would not be in keeping with Fund policies to value gold at market prices for the purpose of setting quotas.

It would seem unusual and unscientific to use theoretical figures in calculating a country's quota, Mr. Templeman observed. It would, therefore, be unwise to use theoretical figures for Mozambique's GDP. Other countries could request that the Fund recalculate their quotas based on higher GDP figures because of adverse developments, such as a drought, a hurricane, a poor business cycle, or poor terms of trade in a particular year. Furthermore, countries could claim a different composition of reserves so that their quota could be increased. As it turned out, the calculated quota range for Mozambique under the various assumptions showed little fluctuation.

Finally, he was troubled by what seemed to be an "African adjustment" to the quota, Mr. Templeman commented. There were no grounds for concluding that countries with geographic proximity ought to have quotas that were somewhat similar.

Mr. Mtei recalled that the Committee on Membership for St. Christopher and Nevis had compared that country with others in the Caribbean. It was not unusual to compare countries that were neighbors, particularly when the Fund had little knowledge of the economy of the country applying for membership.

The Chairman agreed with Mr. Templeman that there were limits to the use of hypothetical figures; the Committee was bound by established Fund policies. Nevertheless, it had been the practice for membership committees to exercise judgment in taking into consideration all the circumstances of a country.

The staff representative from the Treasurer's Department stated that theoretical figures had never been used to determine a country's quota. When only incomplete figures had been available, the staff had used estimates based on certain principles, which had always been explained in the quota paper. In making its decision, however, the Committee could take account of all relevant factors, as the Chairman had noted.

There was a large component of gold in Mozambique's reserves, the staff representative continued. Nevertheless, the choice of composition of reserves was entirely at the discretion of the member, and the Fund did not encourage or discourage a particular combination of reserves. It was conceivable that the authorities had intended to maintain a high proportion of gold in reserves. Other countries, such as Liberia, had currencies in circulation that were major reserve currencies, but the staff did not consider them part of the country's reserves when calculating the quota. The definition of reserves used in the staff paper had been in accordance with the standard principles followed in the Fund, as the Mozambican authorities were aware.

The countries included in Table 11 had been chosen for a variety of reasons that were clearly elaborated in the quota paper, the staff representative from the Treasurer's Department stated. The same principles had been followed in the case of St. Christopher and Nevis. The Committee on Membership for St. Christopher and Nevis in its discussion had referred primarily to the economies of other Caribbean countries, and it had proposed a lower quota for the country than that suggested by the staff.

Mr. Finaish remarked that, while it was not appropriate to base the calculation of a quota on theoretical figures, there was room for judgment in determining a country's quota. Certain factors had to be considered by the Committee. If a country's quota was based purely on a formula, there would be no need for a committee on membership. It was relevant to compare the size of a country's quota with that of comparable countries in the region. He supported an upward adjustment of the quota for Mozambique on the basis of the arguments put forward by other speakers.

The Chairman, in response to a question by Mr. Coumbis, explained that some committees had accepted the staff recommendation, others had proposed a higher or lower figure. If the Committee decided on a different quota for Mozambique than the staff had suggested, it would not be setting a precedent.

The staff representative from the Treasurer's Department, responding to a question from Mr. Mtei, explained that the staff had not examined the composition of reserves in those countries that had been compared with Mozambique. In the illustrative calculations requested by the Chairman at the previous meeting, the staff had taken a global average of the proportion of gold in total reserves of members. Some members did not want the Fund to make public the composition of their reserves, and the staff thus had to operate within certain restrictions when discussing the reserve composition of individual members. It would take some time to calculate the proportion of gold in total reserves of those members included in Table 11, but the staff could make those calculations, if necessary.

The Chairman remarked that there were a number of factors to be considered by Committee members. If account were taken of the fact that GDP might be underestimated and that the reserve composition of Mozambique was unusual, the calculated quota range would increase by between SDR 2 million and SDR 6 million. However, it should be kept in mind that the calculated quota range in the staff paper had been based on official figures provided by the Mozambican authorities. If Mozambique's actual quota were SDR 56 million, as proposed by the staff, the ratio of actual to original calculated quota would be 0.86, using the upper end of the calculated quota range, and 0.89, taking the midpoint of the calculated quota range. The ratio of actual to calculated quota for Mozambique's neighbors was approximately 1.0. On the basis of those considerations, a quota of about SDR 61 million might be appropriate for Mozambique. He suggested that Committee members should decide on a quota for Mozambique of somewhere between SDR 56 million and SDR 62 million.

Mr. Mtei remarked that the calculated quota range was between SDR 61.32 million and SDR 65.25 million. Because Mozambique's GDP might have been underestimated and because of the unfortunate historical accident that had forced Mozambique to maintain its reserves in gold, Committee members should focus on the calculated quota range put forward by the staff. The appropriate quota should be at least the midpoint of the calculated quota range, as the staff had recommended for St. Christopher and Nevis, rather than a smaller figure than the midpoint, as it was proposing for Mozambique.

The staff representative from the Treasurer's Department explained that the calculated quota range, derived from the established formula, served only as a starting point. The objective was to fit Mozambique's quota into the structure of existing Fund quotas; therefore, Table 11 had been included in the staff paper for purposes of comparison. The calculated quotas of some groups of countries of particular size and characteristics bore a strong relationship with their actual quotas. For other groups of countries of different size and characteristics, actual quotas bore little relationship to calculated quotas.

Under the Eignth General Review of Quotas, the ratio of actual to calculated quotas for all non-oil developing countries was 0.59 on average, the staff representative from the Treasurer's Department stated. About 30 members had actual quotas above their calculated quotas, but about 90 developing countries had actual quotas below their calculated quotas. It would therefore be inappropriate to apply in a mechanical way the ratios of actual to calculated quotas of a few selected countries to Mozambique. However, if the Committee believed that other considerations, including those referred to in the staff paper, were important, it could recommend a higher quota than that proposed by the staff.

Mr. Tshishimbi said that he arrived at an appropriate quota range of between SDR 60 million and SDR 65 million by following another approach. It was evident from Table 11 that a number of countries had macroeconomic indicators similar to those of Mozambique, but their ratios of actual to calculated quotas differed considerably. Madagascar, on the other hand, had economic indicators similar to those of Mozambique and was a close neighbor. If Madgascar's ratio of actual to calculated quota of 0.97 were applied to Mozambique's quota range, an appropriate quota would appear to be about SDR 63 million, a figure that would be consistent with the structure of Fund quotas and that would take into consideration the special circumstances of Mozambique mentioned by Mr. Mtei.

Mr. Templeman remarked that the staff's proposal of SDR 56 million was already quite generous. Only four of the countries included in Table 11 had actual quotas that were higher than the top end of the calculated quota range. Eight countries had actual quotas that were at least SDR 27 million below the lower end of the calculated quota range. In comparison, a quota of SDR 56 million for Mozambique was high and he could therefore accept the staff proposal.

Mr. Coumbis stated that, taking into account the questions relating to Mozambique's GDP and reserves, as well as an appropriate relationship between actual and calculated quota, he could support a quota of about SDR 61 million for Mozambique.

Mr. Finaish commented that he could support a quota for Mozambique of about SDR 60 million-61 million.

Mr. Arias indicated that he could go along with the consensus of the Committee.

Mr. Wang stated that he would support a quota for Mozambique of SDR 63 million.

The Chairman observed that the Committee members were approaching a consensus on a quota for Mozambique of about SDR 61 million. Was that figure acceptable?

Mr. Templeman reiterated his support for the staff proposal of a quota of SDR 56 million. The ratio of actual to calculated quotas for all the non-oil developing countries was 0.59; it seemed rather generous, therefore, to decide on a quota for Mozambique that would give a ratio of actual to calculated quota of 0.95.

Mr. Tshishimbi stated that he could understand the concern expressed by Mr. Templeman, but the ratio for all non-oil developing countries might be biased by those countries that had deliberately chosen to have lower quotas. The ratio of actual to calculated quotas of the countries in Table 11 varied considerably, from 0.18 for the Yemen Arab Republic to 1.7 for Burma.

The staff representative from the Treasurer's Department remarked that it was difficult to make a judgment on an appropriate quota for Mozambique. The staff had tried to find the best way to fit Mozambique's quota into the structure of present quotas. On the basis of the average ratio of actual to calculated quotas of different groups of countries, Mozambique's quota had been on the low side. The staff had, therefore, used the median ratio of actual to calculated quotas for one group of countries in determining that a quota of between SDR 54.4 million and SDR 58.9 million would be appropriate.

The Chairman commented that the special circumstances of Mozambique clearly made it difficult to come to an easy conclusion. The Committee members would have to exercise judgment. No Committee member advocated a quota for Mozambique of less than SDR 56 million, while some members could accept a quota of SDR 63 million. He invited the Committee Secretary to indicate what procedure the Committee should follow.

The Committee Secretary remarked that membership committees had usually come to a consensus. The Fund's Rules prescribed that there should be no formal voting in committees.

The Chairman suggested that the Committee adjourn for 20 minutes, in order that Committee members could consult with their authorities.

The Committee members accepted the Chairman's suggestion and, after a short adjournment, resumed their discussion.

The Chairman suggested that Committee members should consider the consequences of the UN sanctions against Rhodesia on Mozambique's transport activity, as indicated in Table 3 of the staff report; rail freight had declined from 12.2 million tons in 1975 to 5.6 million tons in 1980, and port handling had declined from 10.5 million tons to 5.2 million tons in the same period. Further, the number of Mozambican workers in South Africa had declined from 120,000 prior to independence to about 40,000 at present. Current receipts, which had a large weight in the quota calculation, had been depressed by those disturbances.

The staff representative from the African Department stated that, if the decline in the number of Mozambican miners working in South Africa and the decline in transport activity arising from external factors had not occurred, current receipts would clearly have been higher, although it was not easy to determine precisely by how much.

The staff representative from the Treasurer's Department commented that current payments and current receipts had significant weight in the quota calculations. Although current receipts had definitely declined since independence, that development was not a cyclical phenomenon. While the adverse factors referred to might be peculiar to Mozambique, they had affected the economy for a considerable period. It was difficult to speculate on the economic outcome if the circumstances had been different.

The staff representative from the African Department remarked that the Governor of the Central Bank and various government officials had indicated that they expected a gradual increase in the volume of freight traffic and in the number of miners working in South Africa.

Mr. Templeman stated that the quota proposed for Mozambique by the staff of SDR 56 million would give a ratio of actual to calculated quota that was much higher than that of other non-oil less developed countries. He could not accept, therefore, a quota for Mozambique that was higher than the staff proposal. It might be necessary for the Executive Board to make the final decision.

The Chairman remarked that, with the exception of one Committee member, Committee members favored a quota for Mozambique of between SDR 60 million and SDR 63 million, with a possible consensus on SDR 61 million. The Committee would have to meet at a future date to take a final decision on an appropriate quota for Mozambique.

Mr. Mtei inquired whether at the next meeting of the Committee the staff could provide figures that would indicate what Mozambique's quota would have been at present if it had joined the Fund at the time of its independence in 1975.

The staff representative from the Treasurer's Department indicated that it would be difficult to make such a calculation because the data relating to Mozambique for that period were not available, and because, prior to the Eighth General Review of Quotas, there had been ten formulas for determining quotas. More important, it would be inappropriate for the purpose of calculating its quota to assume that Mozambique had joined the Fund in 1975. No such procedure had been used in making quota calculations on any occasion in the past.

The Committee members agreed to resume the discussion at a future date.

APPROVED: November 20, 1984