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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/13

3:00 p.m., January 13, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	W. B. Tshishimbi
J. Anson	A. B. Diao, Temporary
	H. G. Schneider
B. de Maulde	A. Le Lorier
	J. Delgadillo, Temporary
	C. Dallara
M. Finaish	T. Alhaimus
	Jaafar A.
	J. Reddy, Temporary
T. Hirao	T. Yamashita
R. K. Joyce	J. R. N. Almeida, Temporary
G. Laske	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	A. S. Jayawardena
	J. E. Suraisry
J. J. Polak	
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	O. Kabbaj
F. Sangare	E. I. M. Mtei
	C. Portas, Temporary
	L. Vidvei
Zhang Z.	Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

Also Present

Asian Department: K. A. Al-Eyd. European Department: P. J. F. Nyberg. External Relations Department: H. O. Hartmann. Legal Department: J. G. Evans, Jr., Deputy General Counsel. Middle Eastern Department: G. Tomasson. Research Department: J. S. Smith. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. Wright, Deputy Secretary; A. P. Bhagwat. Treasurer's Department: H. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; M. N. Bhuiyan, O. Roncesvalles, M. A. Tareen. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, S. El-Khouri, H.-S. Lee, P. D. Péroz. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, H. Arias, M. Camara, L. E. J. Coene, G. Ercel, I. Fridriksson, G. Gomel, M. J. Kooymans, P. Leeahtam, W. Moerke, V. K. S. Nair, Y. Okubo, J. G. Pedersen, C. A. Salinas, D. I. S. Shaw, H. Suzuki, J. C. Williams, A. Yasseri, A. A. Yousef, Zhang X.

1. EIGHTH GENERAL REVIEW OF QUOTAS - DRAFT REPORT TO INTERIM COMMITTEE

The Executive Directors continued from the previous session (EBM/83/12, 1/13/83) their consideration of the draft (SM/82/249, Rev. 1, 1/7/83) of their report to the Interim Committee on the Eighth General Review of Quotas, revised in the light of the discussion at EBM/83/3 (1/4/83). They resumed their consideration of paragraph 11. They also had before them a sheet containing four possible versions of paragraph 11, prepared in the light of the morning's discussion (see Annex I). The four proposals had been suggested by the Managing Director, by the staff, by Mr. Malhotra, and by Mr. de Groote and Mr. Anson, respectively.

Paragraph 11

Mr. Hirao stated that he would prefer the staff version (version 2), but that he could accept the Managing Director's version (version 1), which was well balanced and objective. Versions 3 and 4 were unacceptable because they made specific references to a selective element and an equi-proportional element. Paragraph 11 was intended to define the method, while the various elements were to be described in the following paragraphs.

Mr. Zhang said that he would prefer Mr. Malhotra's version (version 3). If that was not acceptable, he would go along with the version of Mr. de Groote and Mr. Anson (version 4), with the last sentence of Mr. Malhotra's version added.

Mr. Laske remarked that he could accept either the Managing Director's version or the staff's version, perhaps with some slight clarifying addition at the end.

Mr. Sangare observed that he would support Mr. Malhotra's version. He could however accept that of Mr. de Groote and Mr. Anson, provided that the last sentence of Mr. Malhotra's version was added to it.

Mr. de Maulde said that he preferred Mr. de Groote's and Mr. Anson's version; if that was not the general choice, he would go along with the Managing Director's text.

Mr. Polak commented that he could accept the Managing Director's version, or Mr. Malhotra's, or Mr. de Groote's and Mr. Anson's. The staff's version seemed to him to be incorrect. The Board had not agreed that the whole of the increase should be distributed in proportion to each member's share in the total of calculated quotas. He had a slight preference for Mr. Malhotra's version, amended to say "and another part distributed in proportion to each member's share in the total of calculated quotas."

Mr. Diao stated that he would prefer Mr. Malhotra's version, followed by the Managing Director's.

Mr. Schneider remarked that his first preference was for the text of Mr. de Groote and Mr. Anson, but that he could go along with the Managing Director's version.

Mr. Dallara stated that he could support the version either of the Managing Director or of the staff, provided that the staff version was amended to take account of Mr. Polak's point. The easiest way of doing that might be to insert the words "at least part of" in the second sentence, which would then read: "After long deliberation, the Executive Board agrees that at least part of the increase should be distributed in proportion to each member's share in the total of calculated quotas."

Mr. Anson said that, perhaps rather naturally, he preferred the version by Mr. de Groote and himself. He could also accept the Managing Director's version, although the last sentence was rather complicated and might be simplified to read: "Most Directors also agree that a part of the overall increase should be distributed in proportion to each member's present quota."

Mr. Finaish indicated that he could go along with the staff's version, and possibly the Managing Director's.

Mr. Suraisry could accept Mr. Malhotra's version or the Managing Director's.

Mr. Portas observed that his preference would be for Mr. Malhotra's version, followed by the Managing Director's.

Mr. Prowse commented that his preference would be for the Managing Director's version, followed by that of Mr. de Groote and Mr. Anson, provided that the term "the selective increase" was replaced by the phrase "part of the total increase," and that the sentence continued, and part should be distributed in proportion to existing quotas. In the Managing Director's version, the final clause, namely, "each member's present quota should be increased by the same percentage" perhaps needed to be qualified; as it stood it gave the idea of an additional increase.

Mr. Reddy said that his first preference would be for Mr. Malhotra's version; he could also go along with that of Mr. de Groote and Mr. Anson.

Mr. Zhang inquired what was meant by "taking into account the various aims noted in paragraph 9 above" in the Managing Director's version. If aims were to be brought into the paragraph, it would be necessary to mention the desire to avoid changing the balance among groups, avoiding abrupt changes, and all the others.

The Chairman remarked that Mr. Zhang's point could be met by referring to the second element as "the element that is intended to assure a meaningful increase in quotas for each member" and going on to refer to avoiding abrupt changes in quota shares. There were two purposes in insisting on equiproportional increases: to assure a meaningful increase in quotas for each member and to avoid abrupt changes in quota shares.

Mr. Malhotra remarked that all the versions other than his own tended to treat equiproportional increases as incidental. He had thought that the main object of paragraph 11 was to describe the method to be used to distribute the increase in quotas. If that was so, it was surely impossible to say that the Executive Board agreed that the adjustment of present quotas better to reflect the economic position of member countries should be made in proportion to each member's share in the total of calculated quotas. The present text gave the impression that the Interim Committee's directive could be complied with by distributing the whole of the increase in proportion to each member's share in the total of calculated quotas.

The Chairman indicated that that was not the intention.

Mr. Joyce said that he would prefer either the Managing Director's version or that of the staff.

Mr. Salehkhou, however, said that he could go along with Mr. Malhotra's version.

The Secretary indicated that the Managing Director's version had found most acceptance, as either the first or the second choice of Executive Directors.

Mr. Anson suggested that the language of the first part of the second sentence might be "After long deliberation, the Executive Board agreed that the element in the increase that was intended to better reflect the relative economic position of member countries should be distributed in proportion to each member's share in the total of calculated quotas...."

Mr. Polak then suggested that the last line as previously amended by Mr. Anson could be fitted directly thereto, reading "and the element that is intended to assure a meaningful increase in quotas for each member (and to avoid abrupt changes in quota shares) should be distributed in proportion to each member's present quota."

Mr. Joyce remarked that Mr. Polak's suggestion would clearly meet the case if in fact there was no Director who insisted that there should be no equiproportional increase. Otherwise, it would still be necessary to refer to "most Directors."

Mr. Hirao stated that he had no objection at all to introducing the phrase "the element that is intended to assure a meaningful increase in quotas for each member." There was no need to refer to an equiproportional increase because, even in its pure form, Method 3 by its very nature included some equiproportional increase.

Mr. Laske commented that the point about avoiding abrupt changes had already been included toward the end of paragraph 9. He doubted whether the repetition was necessary.

After further discussion it was agreed that the sentence should read "After long deliberation, the Executive Board agreed that the element in the increase that is intended to better reflect the relative economic positions of member countries should be distributed in proportion to each member's share in the total of calculated quotas, and the element that it intended to assure a meaningful increase in quotas for each member, and to avoid abrupt changes in quota shares, should be distributed in proportion to each member's present quota."

The paragraph was renumbered paragraph 10.

Paragraph 12

Mr. Prowse suggested the deletion of the word "yet" in the first line. The implication of "yet" was that in a given period of time consensus would be reached. It might be better to avoid that implication.

Mr. Lovato suggested that the references to equiproportional and selective increases should be reversed, in order to correspond with the order in paragraph 11.

Mr. Suraisry and Mr. Joyce suggested that the whole of the second half of the paragraph, referring to the tables and the document containing individual quota calculations, should be placed in a footnote.

Mr. Vidvei agreed, asking that International Financial Statistics should be spelled out in full.

Mr. Laske commented that the term "adjustment coefficient" appeared in the tables annexed to the report, but that it was nowhere defined in the report itself. He wondered whether it would not be possible to insert the words "the adjustment coefficient" in parentheses after the clause "the tables also show for each calculation the extent to which quota shares are adjusted toward shares in calculated quotas."

Mr. de Maulde stated that he could agree with all the proposed changes.

Mr. Malhotra suggested that the existing footnote might not be necessary. He had no objection to the definition of the adjustment coefficient.

Mr. Finaish, however, said that it would be preferable to retain the footnote.

It was agreed to retain the present footnote in parentheses.

The paragraph was renumbered paragraph 11.

Paragraph 13

Mr. Hirao referred to the Chairman's summing up of the meeting on December 21, 1982 (EB/CQuota/Meeting 82/19), where he had described the attitude of Executive Directors to the amount of adjustment they desired. He had mentioned that between the largest adjustment coefficient of 32 per cent--using Method 3--and the lowest figure of 8 per cent in a Fund size of SDR 90 billion, there was a zone for compromise and rapprochement. That description should be reflected in the Directors' message to the members of the Interim Committee. The opening words of paragraph 13 should therefore be "Some Executive Directors stressed..." rather than "A few Executive Directors stressed...." Second, at the end of the paragraph it would be fair to say that "an intermediate position is held by other Directors who feel that 60-80 per cent of the overall increase should be devoted to effecting selective increases in quotas." It was necessary to change the figures from the existing 50-70 per cent because the Chairman's summing up and Table 2 of SM/82/249, Revision 1, implied that the intermediate position taken by a number of Directors was that between 62 per cent and 78 per cent of the overall increase should be devoted to effecting selective increases for an adjustment coefficient of 20-25 per cent and a Fund size of SDR 90 billion. Third, in Table 2 on page 12, a column should be inserted showing an apportionment of overall increase into equiproportional/selective increases of 20/80, which would be column (8). An option with a 25 per cent adjustment coefficient based on a 22/78 apportionment had caused considerable interest during the earlier discussion. If the report was to reflect the debates correctly, the additional column would be essential.

Making other suggestions for changes in language, Mr. Hirao asked that in the first sentence of paragraph 13, after the phrase "in calculated quotas," there should be inserted the words "and in view of the limited degree of adjustment under this method." The sentence reading, "This would imply that there would not be an equiproportional increase in quotas" was redundant; he would like to replace it by a sentence reading, "Each member will receive some increase in quota under this method."

Mr. Laske supported all the changes proposed by Mr. Hirao.

Mr. de Maulde stated that he liked paragraph 13. His own tally would have led him to write, "A very few Executive Directors" as the first words.

Mr. Lovato, Mr. Vidvei, and Mr. Polak supported the changes put forward by Mr. Hirao.

The Chairman, commenting on Mr. Hirao's proposal that the figures "50-70 per cent" should read "60-80 per cent" at the end of the paragraph, remarked that the proportion of any increase to be devoted to a selective increase in quotas would depend on the ultimate size of the Fund. Mr. Hirao's proposal to change the proportion from 50-70 per cent to 60-80 per cent would be presuming that the ultimate size of the Fund would be SDR 90 billion. From Table 3, it was evident that if the size of the Fund were SDR 100 billion with an adjustment coefficient of between 20 per cent and 25 per cent, the proportion to be devoted to a selective increase would be between 50 per cent and 66 per cent, figures that would fit nicely into the range 50-70 per cent. In choosing the figures 50-70 per cent, the staff had had no intention at all of reducing the adjustment coefficient.

Mr. Laske suggested that instead of having precise numbers, it might be possible to say "significantly more than 50 per cent of the overall increase."

Mr. Dallara said that he could support Mr. Hirao's proposal to change the figures to 60-80 per cent, but he would like to add a phrase reading, "keeping in mind that such views depend in part on the size of the Fund." As to Mr. Hirao's earlier proposal, namely, to insert the words "in view of the limited degree of adjustment under this method" in the third line of paragraph 13, there might be some room for interpretation of the word "limited." He wondered whether the Executive Directors to whose position the paragraph referred could accept the insertion of the clause "what they considered to be" so that the sentence would read, "and in view of what they considered to be the limited degree of adjustment under this method."

Mr. de Maulde said that he could agree with Mr. Laske and Mr. Dallara, preferably saying "50 per cent or more" rather than "significantly more than 50 per cent."

Mr. Prowse supported all Mr. Hirao's proposals. He was also happy with Mr. de Maulde's suggestion. On page 7, in line 4, he would prefer to substitute the word "more" for the word "better," since the Interim Committee itself had used the word "more." He did, however, have some difficulty with the linkages between the various parts of the paragraph, and particularly with the use of the conjunctional phrases "on the other hand" and "however."

Mr. Malhotra remarked that he could agree with Mr. Hirao's proposals, insofar as they were intended either to represent the views of the group described, or to be matters of fact. On the other hand, he had a problem with several other aspects of the paragraph. In the first place, the position of a number of Executive Directors who had wanted a minimum of 75 per cent equiproportionality appeared to have been diluted twice over. There had been an admirable statement of their position in the previous draft, and he did not understand why it should have been altered. The present text said that, "a number of Directors believe that a significant part, of the order of two thirds to three quarters, of the overall increase in quotas should be distributed as an equiproportional increase in quotas." The position of the group of Directors who favored a 75 per cent equiproportional element ought to be more fully spelled out. He would therefore suggest deleting the words "two thirds to" in that sentence. He recalled that in the tables produced with the previous paper, there had only been columns for an apportionment of 50/50 and 75/25 in the ratio of equiproportionality to selectivity, and he had therefore asked for an intermediate column, 66.7/33.3, to be inserted. However, he had not wished to dilute the position of as many as seven Executive Directors, who represented 21 per cent of the votes. In line 6 on page 7--of paragraph 13--he would like to insert a sentence reading: "They noted that under all alternative calculations the share of the non-oil developing countries, taken as a group, declined, and believed that a large equiproportional component would help to minimize the deterioration in their relative position."

As to the last sentence in paragraph 13, Mr. Malhotra said that those who believed that 75 per cent of the distribution of the increase should be equiproportional did not like the views of those Directors who preferred 50-80 per cent of the increase distributed on a selective basis being described as "an intermediate position." That might give the impression that that view was the more reasonable one. He would prefer simply to say that "other Directors feel that 50 per cent or more of the overall increase should be devoted to effecting selective increases in quotas."

Mr. Kaubaj said that he would support Mr. Malhotra's position on paragraph 13. If a range had to be inserted he would prefer 66.7/33.3 rather than 50-70; Mr. Malhotra's figures seemed to be a more balanced representation of the views of the Executive Board. He would also delete the words "intermediate position" as suggested by Mr. Malhotra.

Mr. Anson suggested that instead of the clause "what they considered" which had been inserted in Mr. Hirao's addition in line 3, it would be simpler to delete the word "limited." The sentence would be shorter, and the meaning would be the same. He could accept the remainder of Mr. Hirao's proposals together with Mr. Malhotra's emendation of those sentences which expressed Mr. Malhotra's point of view. As to the last sentence of the paragraph, with its reference to an "intermediate position," he agreed with Mr. Malhotra that the sentence was unfortunately placed. The sentence did not describe an intermediate position between the two views in the immediately preceding passage, which referred to those who thought it important to look at the position of groups and those who thought it important to look at the position of individual members. The Directors who felt that 50-70 per cent of the overall increase should be devoted to effecting selective increases in quotas fell intermediately between the two sets of Directors mentioned at the beginning of the paragraph, namely, between those who thought it appropriate to make the whole distribution in the form of selective adjustments and those who wished to see two thirds to three quarters take the form of an equiproportional increase. The most readable way of dealing with the matter would be to have a paragraph containing the arguments about groups and individual members, followed by a paragraph dealing entirely with figures. Alternatively, the whole sentence referring to the "intermediate position" could be shifted to become the fourth sentence in the paragraph. As to the figure itself, "50 per cent or more, depending on the size of the Fund" was probably the fairest description.

Mr. Hirao felt that it would be desirable to keep the word "limited."

Mr. Joyce remarked that he could accept Mr. Hirao's language, with or without Mr. Dallara's modification. It was essential to keep the adjective "limited" in describing the degree of adjustment, and he could agree with Mr. Anson regarding the reordering of the paragraph. He had no difficulty with what Mr. Malhotra had said provided that the sentence regarding the need for quota increases to be based on members' individual positions was retained. In the last sentence, the phrase "more than 50 per cent" was probably more satisfactory than "50-70 per cent." At the top of page 7, however, he would like to avoid attributing the wish "to ensure that each member receives a meaningful increase in its quota" to the Directors interested in making two thirds to three quarters of the overall increase equiproportional. No doubt those Directors so wished; but it seemed likely that all other Directors did so as well. It might be better to place the clause toward the end of the paragraph.

Mr. Zhang commented that in the second line of paragraph 13 it seemed likely that the adjective "many" snould read "a significant number of" members. In the penultimate line, the phrase "50 per cent or more, depending upon the size of the Fund" was rather different from 50-70 per cent of the overall increase. In order to know what was meant by the 50 per cent or more, it would also be necessary to know the intended size of the Fund.

The Deputy Treasurer explained that paragraph 7 had finished with the sentence "in the course of discussion, most Directors had indicated that an increase in Fund quotas to SDR 100 billion would be acceptable." It was picking up on that conclusion that the staff had indicated that a number of Directors noted that a reasonable adjustment coefficient would be between 20 per cent and 25 per cent, implying selective increases falling between 50 per cent and 70 per cent of the overall increase.

Mr. de Maulde remarked that, while he had been happy with the staff version, both Mr. Hirao and Mr. Malhotra had a right to elaborate on the wording describing the position of the groups they represented. He would therefore accept all that had been said by Mr. Hirao and Mr. Malhotra, on the understanding that the views would be attributed to Directors in those groups. As to the question of the intermediate groups, mentioned at the end of the paragraph, neither Mr. Hirao nor Mr. Malhotra had authority to change the sentence. He would therefore keep it as it was. To satisfy Mr. Malhotra he would make the opening words read, "However, between these two groups, an arithmetically intermediate position was held by other Directors...."

Mr. Anson commented that the sentence in question followed a description of two categories, those who thought it important to look at the position of groups, and those who thought it important to look at the position of individual members. Directors who felt that 50-70 per cent of the overall increase should be devoted to effecting selective increases in quotas did not come between those two groups; they were intermediate in respect of those who wanted more equiproportionality and those who wanted more selectivity. Some reordering of the paragraph was therefore neccessary.

The Chairman commented that in view of the positions revealed during the discussion, the opening words of paragraph 13 should no longer be "A few Executive Directors" but "A number of Excecutive Directors." Similarly, in the second line "many members" should become "a significant number of members."

Replying to a question by Mr. Zhang, the Chairman remarked that the purpose of the paragraph was to explain that there were some who wanted a large proportion of selectivity, others who wanted at least 75 per cent equiproportionality, and a third group, including some of those favoring a large proportion of selectivity, who could as a compromise move toward a position in between.

The Deputy Treasurer remarked that the center group could certainly be described as "many Executive Directors."

Mr. Kabbaj suggested that, as in the paragraph dealing with quotas, it might be necessary to say that, in the course of the discussion, "many Directors had indicated," and then give a range of figures to cover a very large group.

Mr. Prowse observed that if Mr. Hirao's position could be described as zero equiproportionality and Mr. Malhotra's as 75 per cent equiproportionality, the intermediate group could be described as wanting 50 per cent or more selectivity, or 50 per cent or less of equiproportional increases. There would then be a gap, with no mention of those who would like between 50 per cent and 75 per cent equiproportionality.

Mr. de Maulde said that he could agree with Mr. Prowse on grounds of arithmetic but not on grounds of practicality. The purpose of the report was to help Ministers to reach a compromise; it might therefore be best to retain some vagueness in the expression of conditions or tendencies.

Mr. Anson suggested that the language might be, "However, between these two views, many Directors have indicated that they favor, or can accept, in the light of the Executive Board discussions, an equiproportional element of 50 per cent or a lower figure, going for some to 20 per cent of the overall increase, depending on the size of the Fund."

Mr. Dallara said that he liked Mr. Anson's version.

Mr. Vidvei remarked that he agreed that there were a number of Directors who wished to have both an equiproportional and a selective increase. But it might be useful to add at the end a sentence indicating that there had been a movement in the Executive Board toward a willingness to compromise by those on the flanks.

Mr. Zhang said that he liked Mr. Anson's language. However, he would not like to leave the impression that the intermediate group was fixed on an equiproportional element of 20-50 per cent.

Mr. Hirao said that he would still have preferred to see reference to a narrow range of equiproportionality, but that he could go along with Mr. Anson's version.

Mr. Dallara, Mr. Lovato, Mr. Laske, Mr. Joyce, Mr. Polak, and Mr. Schneider remarked that they could all go along with 20-50 per cent equiproportionality.

Mr. de Maulde stated that he could not go as low as 20 per cent equiproportionality. He could go for 25-50 per cent, although more precisely he would prefer 33.3 per cent equiproportionality.

After some discussion, Mr. Suraisry and Mr. de Maulde said that they could be included in an intermediate group "who felt that the share of the overall increase to be devoted to an equiproportional increase should be between 25 per cent and 50 per cent, depending on the size of the Fund.

Mr. Malhotra remarked that he understood that with a given element devoted to equiproportionality, there was a trade-off between the size of the Fund and the share in quotas for developing countries. But he would not like the impression to be created that if the size of the Fund were to be smaller, the selective increase should be larger, for that would be open to serious question. While he liked Mr. Anson's language, he did not believe that the group referred to in that language should be said to be the only one making a compromise. His own position too was an attempt at a compromise.

Mr. Joyce observed that those who had started by feeling that the entire exercise ought to be selective had made a compromise by agreeing that the equiproportional segment could be between 20 per cent and 50 per cent of the total. If those who had started by believing that the exercise should be 100 per cent equiproportional had made a similar move, the text should mention it.

The Chairman commented that anyone who favored 100 per cent equiproportionality would not be observing the mandate of the Board of Governors, which had wished to see a considerable proportion of selectivity in the Eighth General Review of Quotas.

Mr. Anson remarked that if use of the word "compromise" would make it difficult to compromise, it might be better to say "in the light of the Executive Board discussion."

Mr. Sangare suggested that it might be more satisfactory if, instead of trying to agree on a precise range of figures for equiproportionality, the Executive Board came up with a rather vaguer text. The members of the Interim Committee might find it easier to come to a compromise decision.

The Chairman remarked that positions supporting zero per cent equiproportionality and zero per cent selectivity were not strictly speaking at opposite ends of a symmetrical band. If there were zero per cent equiproportionality in a Fund of SDR 100 billion, the group of non-oil developing countries would on average receive an increase of 33.6 per cent; if the Fund were SDR 90 billion, they would still have an average increase of 25 per cent. Consequently, even with zero per cent equiproportionality, the Board could make a recommendation in line with the desire of the Board of Governors to obtain a meaningful increase in quotas for all members. On the other hand, if there were zero per cent selectivity, some members clearly would not obtain a meaningful increase. It was, however, important to indicate a range of equiproportionality that could be accepted by a number of Executive Directors.

Mr. Anson, Mr. Joyce, and Mr. Lovato said that they could accept the range 20-50 per cent of equiproportionality.

Mr. Finaish indicated that the reference to the view of the intermediate positions, as formulated in Mr. Anson's version, was acceptable to him.

Mr. de Maulde said he would prefer to make 25 per cent the lower end of the range.

After further discussion, it was agreed that the position of the Directors with an intermediate view could be described in the words, "many Directors have indicated that they favor, or can accept, in the light of the Executive Board discussion, an equiproportional element of 50 per cent or a lower figure, going for some to 20 per cent of the overall increase, depending on the size of the Fund."

The Chairman then remarked that there were a few other Directors who had expressed themselves as being in favor of an equiproportional increase in the neighborhood of 60 per cent. It was important that their position should also be stated.

Mr. Suraisry said that if the lower end of the equiproportionality range was going to be lower than 25 per cent, he would rather join those favoring equiproportionality between 50 per cent and 75 per cent.

The Secretary indicated that Mr. Senior and Mr. Donoso, who were absent, were also in that group.

Mr. Kabbaj aligned himself with the same group, as a second-best position.

After further discussion, it was agreed that the position of those Directors should be described in the words, "A few other Directors favor, or can support, an equiproportional increase ranging between 50 to 70 per cent of the overall increase in quotas." It was also agreed to say: "These Directors stress the need to avoid abrupt changes in the quota shares of members and wish to ensure that each member receives a meaningful increase in its quota."

The Chairman commented that after stating the position of the Directors with an intermediate position it would be useful to explain the position of all those who favored a large equiproportional element, namely, that they had recalled that in the last communiqué of the Interim Committee it had been stated that in bringing quotas more into line with relative economic positions, account should be taken of the case for maintaining a proper balance between the different groups of countries. Those same Directors had noted that under alternative illustrative calculations in the tables attached to the report, the share of the non-oil developing countries, taken as a group, declined; and they believed that a large equiproportional component would help to minimize the deterioration in the relative position of that group of countries.

Mr. Dallara inquired where the view of the many Directors who had indicated that they favored or could accept an equiproportional element of 50 per cent or lower was to be placed.

The Chairman explained that it should remain at the end of the paragraph but the reference to an intermediate position would be spelled out in the words: "Between the views of those Directors who hold that the entire increase in quotas should be devoted to effecting selective increases and those who feel that a significant part of the increase should be distributed in the form of an equiproportional increase...."

The paragraph was renumbered paragraph 12.

Paragraph 14

The Executive Directors had before them an alternative draft prepared by Mr. Prowse (see Annex II).

Mr. Prowse explained that he wished to present a simple and objective case for some special adjustment of the quotas of members whose quotas at present were less than SDR 10 million, and who accounted for only about 0.1 per cent of total quotas. He had put forward his text because it seemed possible to do something for the very small countries at a cost that would be minimal in its effect not only on total quotas but also on the shares of other members. It would be useful to include in the report an indication of the magnitude of the proposal. He could not agree with those Directors who felt that a movement toward the calculated quotas would solve the problems of the small-quota countries.

In the first place, Mr. Prowse continued, perhaps two thirds of their exports consisted of major commodities subject to great fluctuations because of external market forces. The bulk of their imports and payments for services were linked to consumption or the production of exports. Budgets typically contained almost no defense expenditure and surprisingly little in the way of food subsidies, a limited government sector devoted largely to welfare and the development of natural resources, and an urgent need to provide some kind of productive framework for the people. Moreover, the theme of unconditional access could receive too much emphasis;

it should be kept in proportion. For instance, if all the 17 small countries with quotas of under SDR 10 million drew their reserve tranches, they would consume less than SDR 50 million of the Fund's resources. Those countries felt that the leverage of the Fund attaching to access beyond the reserve tranche was significant, particularly because there was a good fit between the views of the Fund on what was required for adjustment and the views of the people themselves. There was no question of the small-quota countries trying to obtain access to resources on a basis that would be unsatisfactory to the Fund. What they were concerned with was obtaining significant access to Fund resources, and the authorities with whom he was familiar would be aggrieved if it were thought that they were seeking some kind of increased access while avoiding the need for conditionality. They valued rather more than the larger economies the special assistance and advice of the Fund.

He would certainly be prepared to amend his draft, Mr. Prowse stated. The only difference between his text and that of the staff was that he had tried to lay more emphasis on the basic votes and minimum quotas. The staff text seemed to imply a minimum quota of SDR 25 million, which was something different from what he had had in mind; the question of basic votes could be handled differently from the way proposed by the staff.

The rounding to SDR 5 million, 7.5 million, or 10 million that he had proposed, Mr. Prowse explained, would have a limited effect on the distribution of quotas. Mr. Joyce's present quota share, for instance, was 4.26 per cent. Were there to be a Fund of SDR 90 billion with a 50 per cent equiproportional distribution of the increase, Mr. Joyce's share would be about 4.118 per cent; if at the second round the Fund adopted a minimum quota of SDR 10 million, Mr. Joyce's share would rise to 4.139 per cent, and he would obtain a bonus of 253 votes. Mr. Alfidja would obtain a bonus of 250 votes. Mr. Sangare had no very small countries, and his own constituency would obtain some 173 bonus votes if the minimum quota approach were adopted. Consequently, the minimum quota approach did little to deal with the question of voting power or quota shares; it was designed to provide meaningful access, and the question of basic votes should be handled in another way.

Mr. Laske stated that he had no strong views regarding the way in which the views of those who favored special treatment for countries with small quotas were expressed. However, he did have strong views on how the position of Directors with a different position should be presented, and he would rather stick with the language that the staff had proposed, meaning the last three lines on page 7. To make the position quite clear, he would add at the end of the sentence that now concluded with the words "of members in distributing increases in quotas" the clause "and therefore these Directors do not favor a special adjustment for the quotas of the members mentioned above."

Mr. Joyce considered that Executive Directors were well aware that there was no agreement on the topic; what was needed, therefore, was a paragraph that accurately reflected both points of view. From the standpoint of those like himself who supported the proposal, Mr. Prowse's text seemed preferable because it expressed the reasons for the point of view more comprehensively. Moreover, it explained the different ways in which the objectives could be met more clearly than the staff draft. Similarly, it was essential to have a clear formulation of the views of Executive Directors who took a different position. He therefore had no difficulty in accepting Mr. Laske's suggestion, with one exception: the adverb "strongly" should be deleted. It seemed unlikely that one side held its views so much more strongly than the other.

Mr. de Maulde commented that there was no advantage to be gained in discussing a matter on which no compromise would be reached in the Executive Board. Consequently, the best course would be to take Mr. Prowse's text to describe his position and the staff text to describe Mr. Laske's position. Some mention should be made of the attention paid to the basic vote, as several Executive Directors favored an increase.

Mr. Malhotra stated that his position was the same as Mr. de Maulde's.

Mr. Kabbaj remarked that if Executive Directors were prepared to accept Mr. Prowse's version, he had no difficulty in supporting his text.

Mr. Dallara said that he would certainly not contest the language that Mr. Prowse had put forward to elaborate his position. On the other hand, such an elaboration required a more detailed expression of the views of those who did not support the minimum quota proposals. He would therefore take Mr. Laske's position. In addition, he would like to see the insertion of an additional sentence before that put forward by Mr. Laske, namely, "And, therefore, these Directors did not believe that the SDR cost of such special adjustments was a relevant consideration; nor did they share the view that there were special economic problems for those countries that argued for a special adjustment."

Mr. Jaafar remarked that he would like to see a balanced presentation of the Executive Board's discussion on the question of small quotas. He would therefore associate himself with the comments of Mr. Malhotra and accept Mr. Prowse's text as a description of his position.

Mr. Anson stated that Mr. de Maulde's approach was the correct one. He would therefore be happy to start with Mr. Prowse's text as a description of Mr. Prowse's position. He would then continue with Mr. Laske's text, which was a sufficient rebuttal. He was rather concerned by Mr. Dallara's statement that the SDR cost was not a relevant consideration, and he was not altogether happy associating himself with the statement that the small-quota countries had no economic problems. The point was that the case had not yet been made out. He would propose changing the sentence "A few Directors thought it appropriate to examine the matter of small quotas later" to read "A few Directors thought it appropriate to examine the economic problems of small countries further." In the first sentence describing that position, he would prefer to delete the word "other"; surely most Directors held the view that it was important to maintain uniformity of treatment of members in distributing increases in quotas.

Mr. Prowse had been concerned about the remark in the text about the risk that in some cases there might be some postponement of needed economic adjustment through the use of less conditional Fund resources. That remark had presumably been linked to the suggestion in the following sentence that small quotas might be increased so as effectively to double the number of basic votes; in that case the increase in quotas would indeed be large in relation to the economies of the countries concerned. He would be quite prepared to drop the sentence in the interest of shortening the paragraph.

Mr. Zhang stated that he would support Mr. Prowse's text.

Mr. Sangare said that he would do likewise, provided that the opposing view was stated as in the staff version.

Mr. Vidvei commented that he too would support Mr. Prowse's text with the deletion of the words "more complex" in the description of other methods that could be used. It would certainly be possible to find other but simpler methods. For the opposing view, he could accept Mr. Laske's proposal.

Mr. Polak indicated that he had the same views as Mr. Anson.

Mr. Suraisry said that he could support Mr. Prowse's text on the understanding that the position of other Executive Directors should be stated as well.

The Chairman agreed that the first nine and a half lines of paragraph 14 should be deleted and replaced by Mr. Prowse's text, less the words "more complex," ending with the clause "other methods could also be used." Thereafter, the position of those holding the view that it was important to maintain uniformity of treatment could be expressed in the staff language. Mr. Dallara's addition would read: "These Directors did not believe that the small SDR cost of such special adjustment is a relevant consideration, and they do not consider the case has been made out that the economic problems of these countries are unique." After that Mr. Laske's sentence "Therefore, these Directors do not favor a special adjustment in the quotas of the members referred to above" would be quite in place. In order to make a correct follow-on, the next sentence would have to begin with the words "Some of these Directors" and go on with the staff text referring to the possibility that for some countries raising the rates might double the quotas.

Mr. Anson remarked that he did not recall whether any Executive Director had in fact made such a statement. If it had not been made, the sentence could be deleted.

The Chairman agreed with Mr. Anson. The proper sequence would be to continue with the sentence amended by Mr. Anson to read "A few Directors thought it appropriate to examine the economic problems of small countries further..." and to place the sentence desired by Mr. de Maulde regarding the further examination of the issue of a possible increase in basic votes at the end of the paragraph.

Mr. Vidvei commented that it would be preferable not to refer particularly to the rounding procedures that might be adopted with regard to the possible increases; the use of rounding procedures was only one of many possible solutions.

It was agreed to delete the words "and particularly in the context of any rounding procedures that might be adopted with regard to these increases."

The paragraph was renumbered paragraph 13.

Section IV. Payment for Increases in Quotas

Paragraph 15

No comment.

Paragraph 16

Mr. Jaafar recalled that when the question of payments increases and quotas had been discussed in the Committee of the Whole on the Eighth General Review of Quotas (Meeting 82/19, 12/21/82) his chair had indicated that he would like to retain the option of payment in domestic currencies. Following the compromise put forward by Mr. Joyce, his authorities could now agree to paying 25 per cent of the increase in quotas in reserve assets. In the circumstances, perhaps it might be possible to delete the first word of paragraph 16, "Almost."

Mr. Zhang, however, said that he wished to insist that countries should be able to pay in their own currency.

Mr. Suraisry remarked that, to be consistent, the word "one-fifth" in line 6 of paragraph 16 on page 9 should be written "20 per cent."

Mr. Suraisry's change was accepted.

As a result of changes made in paragraph 17, on a suggestion by Mr. Malhotra, it was agreed that the opening sentence of paragraph 16 should read: "Almost all Directors agree in principle that 25 per cent of the increase in quotas should be paid in reserve assets."

The paragraph was renumbered paragraph 15.

Paragraph 17

Mr. Kabbaj suggested that paragraph 17 be divided into three. The new paragraphs should begin with the words "Many Directors also feel that..." and "In the light of these considerations,..." The new paragraphs should be numbered.

Mr. Kabbaj's proposal was accepted.

Mr. Laske referred to the arrangement described in lines 7 and 8 of page 10 for assisting members experiencing difficulties in making reserve asset payments because they did not hold sufficient official foreign assets. The language used could falsely create the impression among members of the Interim Committee that Executive Directors had agreed on the possibility of such arrangements for short-term bridging finance when, in fact, they had not discussed the matter. If the sentence was retained, it should be made clear that it was a proposal put forward by the staff, but not considered by Executive Directors. Second, at the beginning of what had become the final paragraph, it was said that almost all Directors agreed to the payment of 25 per cent of the quota increase in reserve assets, on the understanding that the Interim Committee would request the Executive Board to take action so that consideration could be given at the next Annual Meeting to a new allocation of SDRs. It would be better to separate the two thoughts by making the beginning of the paragraph read, "In the light of these considerations, almost all Directors agreed to the payment of 25 per cent of the quota increase in reserve assets. Many of them do so on the understanding that...." Finally, in line 10 on page 10, the staff had written, "In the light of the technical assurances that had been provided by the staff regarding the feasibility of such arrangements,..." Surely what was meant was, "In the light of the assurances that had been provided by the staff regarding the technical feasibility of such arrangements,..."

The Treasurer commented that, as he understood it, Mr. Laske was not objecting to the statement that the staff had provided assurances regarding the feasibility of the arrangements. However, the arrangements would require the cooperation of certain members of the Fund in providing special drawing rights for a day, and--as he understood it--Mr. Laske did not wish to prejudge that issue. Nor was it clear that the Executive Board would approve the proposal. Consequently, it would be correct to say that the staff had done no more than provide assurances regarding the technical feasibility of such arrangements.

Mr. de Maulde, taking up Mr. Laske's point about Directors' agreeing to paying 25 per cent of the increase in foreign assets, although not on the understanding described, remarked that in adhering to the compromise suggested by Mr. Joyce, which he did not particularly like, he had understood that almost all his colleagues, including Mr. Laske, were also doing so. If they did not wish to adhere to the compromise, he too would withdraw.

Mr. Dallara said that he could support Mr. Laske's point regarding the very short-term arrangements for bridging finance. Either the language could be struck out, or it should be amended in the sense proposed by Mr. Laske. Regarding Mr. de Maulde's comments, he had a view of the understandings that had been reached similar to that of Mr. Laske, whom he would follow in his proposal for a change. The support of the United States for a 25 per cent asset payment was not based on any understanding;

it was an independent decision separate from any consideration regarding an allocation of SDRs. He could of course agree that many Executive Directors had supported such an asset payment on the understanding described in the text. Moreover, he would like to delete the words "as a matter of urgency" in the final sentence, as relating to a review. The words changed the tone of the sentence and would cause his authorities some difficulty. Finally, in supporting the reformulation suggested by Mr. Laske, he was not thereby indicating that he could support a review for the purpose described.

The Deputy Managing Director recalled that under Section X of the By-Laws, every year the Executive Board had to present to the Board of Governors an Annual Report as part of which the Executive Board had to review "the functioning of the international monetary system, including the adequacy of global reserves, the conduct of the business of the General Department and of the Special Drawing Rights Department...." The latest trend in world inflation and liquidity certainly came within the functioning of the international monetary system. Consequently, it might be felt that the review referred to would be undertaken as part of the preparation for the Annual Report in any event.

Mr. Dallara explained that he had not been saying that his authorities would not have an open mind on the issue of the specific study referred to in the final paragraph at the time of the meeting of the Interim Committee. At the present moment he was unable to say whether he could support such a study as currently worded.

The language he would prefer to see, Mr. Dallara went on, was "In the light of these considerations, almost all Directors agree to the payment of 25 per cent of the quota increase in reserve assets. Many of them do so on the understanding that the Interim Committee..." to the end of the sentence, with the deletion of the words "as a matter of urgency." It would greatly help his authorities to support such a study if the terms of reference were neutrally worded.

Mr. Laske explained that his intention was to separate the agreement regarding the payment of the quota increase in reserve assets from a review leading to consideration of an allocation of SDRs. He would have no objection if the sentence were reworded to refer to work in the context of the Annual Report.

The Deputy General Counsel explained that there could be no allocation of special drawing rights, or even a vote on an allocation by the Board of Governors, unless the Managing Director made a proposal. The Managing Director would make such a proposal only after completing consultations in which he became convinced that there was broad support for the proposal that he would make. His proposal would be forwarded, with the concurrence of the Executive Board, to the Board of Governors for adoption or rejection. If the Executive Board or the Board of Governors wished the Managing Director to make a proposal, either could request him to do so. Under the Articles, the Managing Director would then have six months in which to come forward with a proposal, or with a report that there was not broad support for a proposal.

The Chairman reminded Executive Directors that, at its meeting in Toronto, the Interim Committee had asked the Executive Board to continue its efforts to bring about a convergence of views that would permit the Managing Director to submit as soon as possible a proposal concerning SDR allocations in the current basic period, in accordance with the provisions of the Fund's Articles.

Mr. Vidvei stated that he was not at all happy with paragraph 17. For instance, if the passage regarding members having difficulty in paying their share of the increase in quotas were leaked, it would have most unfortunate consequences for the Fund. He would therefore prefer to see the matter handled by the Managing Director in his statement to the Interim Committee rather than included in the report by the Executive Directors.

The Treasurer remarked that if in fact members really had to borrow to make the payment of 25 per cent of the quota increase to the Fund, the situation would have to be very bad because the payment would represent a rather small proportion of the reserves of most members at the present time. He would prefer the sentence to read: "Directors recognized that many members may face difficulties in making reserve asset payments and that some of them might need to borrow." He would also like to see deletion of the passage referring to the fact that members might experience difficulties in making a reserve asset payment because they did not hold sufficient official foreign assets.

Mr. Malhotra remarked that, without retreating from the compromise that had been agreed upon, the position of those Executive Directors who felt that countries should be enabled to pay for the increase in quotas in domestic currencies ought to be clearly stated. The language might be "Directors recognize that many members may face difficulties in making reserve asset payments and may need to borrow to make the payment to the Fund. Several Directors are thus of the view that members should have the option of paying the increased subscription wholly in their own currency."

As to the final paragraph, Mr. Malhotra went on, his position had been that even the present language was not strong enough. He had accepted the compromise only on the understanding that there would be some acceleration of the review process. If the compromise was not acceptable, he would have to revise his position not only on the question of a review but also on the question of payment. Meanwhile, he would like to see the language of the final paragraph left as it was.

Mr. Dallara said that he understood that the phrase "as a matter of urgency" only referred to the attitude of those described in the final sentence, and that he was not among them. He had only been suggesting that it would make it easier for his chair to support such a review if the words "as a matter of urgency" were deleted. On the other hand, if the retention of the words combined with the division of the sentence as suggested by Mr. Laske would facilitate agreement, he would not object, provided that it was understood that he could not at the moment associate himself with the phrase.

The Chairman remarked that the language as drafted might give rise to a misunderstanding of the procedure that must be followed with respect to making a decision on an allocation. It was not any consideration that might be given to the matter at the next Annual Meeting that could lead to a decision on a new allocation of SDRs at that time; the responsibility for a proposal lay with the Managing Director, and he might feel, as an outcome of the work on the Annual Report that he would be in a position to make a proposal. He only wished to avoid giving the impression that a new procedure for triggering an allocation of special drawing rights was being created. As for Mr. Vidvei's concern, it seemed unlikely that the world would be any more disturbed than it presently was by the discovery that some members were having difficulty in paying an increase in quotas because they did not hold sufficient official foreign assets.

The Deputy General Counsel suggested that formulation might be that the Executive Board would review the trends in the world economy as part of its work on the Annual Report and that the review would assist the Managing Director in making a determination whether he could make a proposal for an allocation that would have broad support.

Mr. Joyce commented that it was important to inform members of the Interim Committee that some Executive Directors had only agreed to the payment of 25 per cent of the quota increase in reserve assets on the understanding that certain actions would be taken. Mr. Laske's proposal did not seem to invalidate that compromise. Nor were the words at the end of the paragraph intended in any way to invalidate the powers of the Managing Director, which were clearly spelled out in the Articles. All that the paragraph had been trying to say was that the Committee could request the Executive Board to carry out a review urgently, and it was on that basis that some Executive Directors had agreed to the 25 per cent payment in reserve assets.

Mr. de Maulde observed that his original position had been that payment should be made in special drawing rights, and that an allocation of special drawing rights in an amount approximately equivalent to 25 per cent of the quota increase should be made at the time when members had to make payment for the quota increase. He had gone on to say that if that position was unacceptable, he could agree to payment of 25 per cent in national currencies. Then Mr. Joyce had made his proposal, which had originally been much more strongly worded than it was at present. Finally, he had agreed to accept the idea not of an allocation of special drawing rights but of the study of an allocation. The language was exactly as written in the last sentence on page 10. If that language had become unacceptable to some Executive Directors, he would request the insertion of another sentence stating that some Executive Directors considered that there should be an automatic allocation of special drawing rights at the time of the increase in quota.

Mr. Malhotra explained that his original position had been that it should be possible for members to pay 100 per cent of the increase of quotas in local currencies. He had therefore made a considerable concession in agreeing to the present language. If the language was not acceptable, he, and he supposed most of the Executive Directors elected by developing countries, would wish to insert a sentence stating that the possibility of paying 100 per cent of the increase in local currencies should be considered.

The Chairman explained that it was desirable to avoid holding a full-scale discussion in the Interim Committee on the desirability of an allocation of special drawing rights, if only because the Executive Board had not sufficiently discussed the matter. It would be unfortunate if such a discussion were to bring about a deadlock on the question of the increase in quotas.

His own view was that it would be quite wrong for member countries to pay the whole of the quota increase in local currencies, the Chairman stated. Such a procedure would be contrary to the policies of the Fund, and to make such a decision at the present time might well throw doubt on the credibility of the Fund's finances. It had seemed to him quite innocuous to say that some Directors had thought that the question of a new SDR allocation should be examined on its own merit, and that they would agree that members should pay 25 per cent of the quota increase in official foreign assets provided that the consideration of a new allocation of special drawing rights was undertaken before the 1983 Annual Meeting. Naturally, there would be varying views regarding the means of paying quota increases; his own perception was that the acceptance of the payment of 25 per cent of any quota increase in hard currency accompanied by an assurance that there would be a review of the possibility of a new allocation of special drawing rights would be the most satisfactory outcome.

Mr. Laske said that he entirely agreed with the Chairman that it would be unsatisfactory both if 100 per cent of the quota increase were paid in local currencies and if the Interim Committee were compelled to take up the question of an allocation of special drawing rights at its forthcoming meeting. He had asked for the division of the sentence into two because he could agree to the payment of 25 per cent of the quota increase in reserve assets, but he could not agree to that payment on the understanding set out in the remainder of the sentence. The two points were entirely separate.

Mr. de Maulde commented that it might be overstating the case to say that "almost all" Directors agreed to the payment of 25 per cent of the quota increase in reserve assets on the understanding set out in the remainder of the sentence.

Mr. Polak suggested that one solution might be to make clear the difference of opinion between those Executive Directors, including Mr. Laske and himself, who favored payment in reserve assets and other Directors like Mr. Malhotra, who had strong reservations on the point. The last sentence might refer only to those with reservations, and the language could be "In the light of these considerations, those Directors who had expressed reservations on the payment of 25 per cent of the quota increase in reserve assets could also agree to such payments on the understanding that...."

Mr. Malhotra considered that Mr. Polak's proposal was not compatible with the language of paragraph 16.

The Chairman commented that Mr. Malhotra's position was in fact protected by the assurance that the review would be undertaken. The language at the beginning of paragraph 16 could be "Almost all Directors agree in principle that 25 per cent of the increase in quotas should be paid in reserve assets."

Mr. Malhotra said that he could accept Mr. Polak's proposal. But to make his position clear the second sentence in the paragraph could read: "Several Directors were thus of the view that members should have the option of paying the increased subscription wholly in their own currency."

Mr. Dallara repeated that he hoped that any formulation--which, he understood, did not include his position--would be as neutral as possible in order to reduce the difficulty that his authorities would have in supporting the review.

Mr. Anson remarked that there was a difference between a review and a proposal. The suggestion was that there should be a review that would be available before the Annual Meeting. The communiqué of the Interim Committee issued in Toronto had spoken about making a proposal as soon as possible, which left open the question of time and enabled Mr. Dallara to accept it. However, if the text said that the proposal was to be made by the time of the Annual Meeting, it implied that a proposal had to be made, with the implication that a proposal would be followed by an allocation.

Mr. Polak remarked that, as he saw it, all that was being done was that the Executive Board was being asked to commission a review that would enable the Managing Director to see whether he could make a proposal. That did not prejudge any issue whatsoever.

After further discussion it was agreed that the end of the last sentence should read: "...on the understanding that the Interim Committee would request the Executive Board to review the latest trends in world inflation and liquidity as a matter of urgency, with a view to facilitating consideration at the next meeting of the Interim Committee as to whether a new allocation of SDRs would find broad support."

Mr. Laske referred to the sentence beginning in line 4 on page 10 regarding the situation in which members might experience difficulties in making reserve asset payments because they did not hold sufficient official foreign assets. The sentence as written gave the impression that the Executive Directors were satisfied that such arrangements could be agreeable to the members whose cooperation was necessary.

Mr. Joyce said that he agreed with Mr. Vidvei in feeling that reference to bridging finance was unwise; the term seemed to indicate that the country was in balance of payments difficulty and needed to have recourse to the Bank for International Settlements.

Mr. Laske suggested that the simplest way of dealing with the matter would be to say that "Arrangements could be put in place to assist such members in making the payments to the Fund." The advantage would be to leave the exact definition of the arrangements rather fuzzy.

The Treasurer remarked that the language would be technically correct.

Tables

The Chairman recalled that Mr. Hirao had asked for the insertion of an extra column (8) in each table showing an equiproportional/selective increase of 20/80.

Mr. Vidvei suggested that rather than calling the tables "Alternative Illustrative Distributions of the Overall Increase in Quotas" they should be called "Alternative Illustrative Distributions of Quotas" with a similar change of language in the subheading for the distribution of equiproportional and selective increases. In that way it might be possible not only to do away with the term "adjustment coefficient" but also to eliminate the footnotes.

Mr. Laske stated that while he was not insisting on retaining the term "adjustment coefficient," changing the table at the present stage might rather add to confusion.

Mr. Joyce supported Mr. Laske. It had taken some effort to persuade officials in capitals to accept the concept of the adjustment coefficient; it would only confuse them to delete it.

The Treasurer remarked that he would support Mr. Vidvei in using the term "Illustrative Apportionment of Overall Increase" as the heading for columns (2) to (8).

Speaking on behalf of Mr. Polak, the Treasurer went on to explain that Mr. Polak had suggested that the average increase in quota of each of the groups listed should ideally be shown under each column. However, Mr. Polak would be satisfied if the percentage increase were shown for the group of non-oil developing countries. In view of the lateness of the hour, Mr. Polak would not insist on the proposal. One way of dealing with the matter might be to show the figures in footnote 1.

Mr. Zhang noted that the non-oil developing countries would obtain the smallest percentage increases. He was not at all keen on showing the figures mentioned by Mr. Polak. Psychologically, it would be most unsatisfactory.

Procedure

Mr. Joyce asked how the text that had apparently been agreed would be handled.

The Chairman replied that the Executive Board meeting scheduled for the following day to consider the agenda for the Interim Committee could be postponed until 3:00 p.m. By that time it should be possible for Executive Directors to have been able to examine the final draft of their report. They could comment on the document during the afternoon meeting, but he could not allow any matters of substance to be reopened.

The Executive Directors completed their report to the Interim Committee on the Eighth General Review of Quotas, subject to brief review the following afternoon.

APPROVED: June 24, 1983

LEO VAN HOUTVEN
Secretary

Draft Report of the Executive Directors to the Interim Committee on the Eighth General Review of Quotas

Alternative versions of paragraph 11 of the Draft Report put forward at EBM/83/12 (1/13/83):

1. Managing Director's suggested version

11. The Executive Board considered different methods that could be used to distribute the increase in quotas, taking into account the various aims noted in paragraph 9 above. After long deliberation, the Executive Board agrees that the adjustment of present quotas to better reflect the relative economic positions of member countries should be made in proportion to each member's share in the total of calculated quotas. In order to assure a meaningful increase in quotas for each member, most Directors also agree that a part of the overall increase should be used for an equiproportional increase in quotas--i.e., each member's present quota should be increased by the same percentage.

2. Staff's suggested version

11. The Executive Board considered different methods that could be used to distribute the increase in quotas, taking into account the various aims noted in paragraph 9 above. After long deliberation, the Executive Board agrees that the increase should be distributed in proportion to each member's share in the total of calculated quotas. This method directly reflects members' relative economic positions, as measured by the calculated quotas, in the distribution of quota increases. However, in order to assure a meaningful increase in quotas for each member, most Directors also agree that a part of the overall increase should be used for an equiproportional increase in quotas--i.e., each member's present quota should be increased by the same percentage.

3. Mr. Malhotra's suggested version

11. The Executive Board considered different methods that could be used to distribute the increase in quotas, taking into account the various aims noted in paragraph 9 above. After long deliberation, the Executive Board agreed on a method which envisages that a part of the overall increase could be devoted to an equiproportional increase of existing quotas and a selective part distributed in proportion to each member's share in the total of calculated quotas. The Executive Board felt that an appropriate balance of equiproportional and selective increases of quotas under this method would help achieve the objectives laid down by the Interim Committee.

4. Mr. de Groote's/Mr. Anson's suggested version

11. The Executive Board considered different methods that could be used to distribute the increase in quotas, taking into account the various aims noted in paragraph 9 above. After long delib ration, the Executive Board agreed that the selective increase should be distributed in proportion to each member's share in the total of calculated quotas, and the other part should be distributed in proportion to existing quotas.

Mr. Prowse's Alternative to paragraph 14 in Draft Report

The Executive Board has also considered the position of the very small quota members--i.e., those with quotas that at present are less than SDR 10 million, and who account for only about 0.1 per cent of total quotas. Many Directors feel that the special economic problems of these countries, including very limited access to capital markets, narrow productive and export base, and transportation difficulties, are not, and possibly cannot be, adequately comprehended by the quota formulas, and that a case exists for some special adjustment of their quotas, after taking account of any increases that might be agreed under the Eighth General Review. Adjustments, which would be meaningful from the point of view of the small countries concerned, would be relatively very small in aggregate (perhaps no more than SDR 20 million, depending on the precise method of adjustment chosen). They could be based on a single minimum quota, or rounding-up of quotas to say a maximum level in each of a number of classes (e.g., SDR 5, 7.5, and 10 million), or a straight percentage increase (based either on present or new quotas); other, more complex, methods could also be used. Other Directors do not favor a special adjustment for very small countries, stressing the need to maintain uniformity of treatment of members in terms both of quota distribution and access to Fund resources. (Some of these Directors have expressed concern that a special adjustment might provide scope for very small quota countries to satisfy their needs for Fund financial assistance without recourse to the upper credit tranches.) A few other Directors feel that it could be appropriate to examine the matter further in the light of the increases in quotas that might be agreed under this Review, and particularly in the context of any rounding procedures that might be adopted as regards those increases.

[The draft provided to the staff dealt only with the question of small quotas. It could be supplemented, however, with the following sentence from the staff's revised draft on the subject of minimum votes:

"Some Executive Directors put forward the view that the issue of a possible increase in basic votes, which would need an amendment to the Articles, might be further examined."]