

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/43

10:00 a.m., April 24, 1989

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors

E. T. El Kogali

M. R. Ghasimi,
G. Grosche

B. Jalan
A. Kafka

G. A. Posthumus

K. Yamazaki

Alternate Executive Directors

C. Enoch
Zhang Z.
C. S. Warner
A. Rieffel, Temporary
J. Prader

R. J. Lombardo
E. Ayales, Temporary
N. Kyriazidis
A. M. Othman
O. Kabbaj

E. Kiriwat
Hon C.-W., Temporary
V. K. Malhotra, Temporary
L. M. Piantini
D. McCormack
C. V. Santos
B. A. Sarr, Temporary
I. A. Al-Assaf
M. Fogelholm
D. Marcel
G. P. J. Hogeweg
C. Y. Legg, Temporary
S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
B. J. Owen, Assistant

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Also Present

Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; K. P. Craig, C. W. Diener, A. Goltz, N. S. Jackson, J. B. Kaiser; P. J. McClellan, M. Oka, P. D. Swain, H. Wiesner, L. A. Wolfe. Legal Department: W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; H. Elizalde. Research Department: I. Zaidi. Treasurer's Department: F. G. Laske, Treasurer; T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; S. I. Fawzi, O. Roncesvalles, A. J. Tweedie. Personal Assistant to the Managing Director: H. G. O. Simpson. Special Advisor to the Deputy Managing Director: W. A. Beveridge. Advisors to Executive Directors: M. Al-Jasser, W. N. Engert, P. Gorjestani, P. O. Montófarno, P. D. Pérez, D. C. Templeman, R. Wenzel. Assistants to Executive Directors: A. A. Badi, M. Hepp, J. Heywood, S. Rouai, D. Saha, C. C. A. van den Berg, Yang J.

1. REPORT BY MANAGING DIRECTOR

At Informal Session 89/8 (4/19/89), the Managing Director informed Executive Directors that the Government of Czechoslovakia had asked that a Czechoslovak delegation informally visit the Fund on a date to be determined, probably in May. The delegation, of course, would also visit the World Bank. The topics on which the visitors wished to acquaint themselves included such matters as the requirements of membership, the extent of the information the Fund requires from its members, and the functioning of both institutions. At the present stage, it was not possible to anticipate the nature of the discussions, but the Executive Board would be kept informed following the visit.

He would report on his visit to China on Wednesday, when Mr. Dai would have returned to headquarters, the Managing Director went on. Meanwhile, he wished to inform Directors that at the recent meeting in Geneva of the United Nations Administrative Committee on Coordination, he had responded to Secretary General Pérez de Cuéllar's request to him to comment on the recent Interim Committee meetings and developments in the debt strategy. The Senior Vice President for Policy, Planning, and Research of the World Bank had also been present. The occasion had provided an opportunity for him to comment on recent developments with respect to the Fund's cooperation with certain agencies--especially the United Nations Children's Fund (UNICEF) and the United Nations Development Programme (UNDP)--in certain instances with respect to the alleviation of the social cost of adjustment and in others with respect to the financing of technical assistance. In the latter connection, he had discussed with the Administrator of the UNDP ways in which to develop the type of cooperation involving use of UNDP funds for technical assistance provided to the Fund in the financial or monetary sectors.

He had also taken the opportunity to call for more consistency in public statements by UN agencies on adjustment and debt issues, the Managing Director added. Recently, the International Labor Organization (ILO) and the Economic Commission for Africa (ECA) had taken a harsh and somewhat outmoded position on the search for alternatives to the adjustment strategy. He had made the clear point--which had been supported by the UN Secretary General--that such intellectual exercises were counterproductive because they provided alibis for those countries that did not want to take necessary action.

In Paris, he had consulted with the Paris Club Secretariat, as part of the routine process of cooperation with the Fund, on the calendar of action for the following month, the Managing Director stated. He had had meetings with the authorities of Côte d'Ivoire at the ministerial level, and with the President, whose attention he had drawn to the threat posed to the country's adjustment program owing to the lack of adjustment of producer prices and the absence of significant effects from the efforts to strengthen the fiscal stance. The President had made a commitment to a major readjustment of the fiscal stance and to a very significant adjustment of payments to producers when the new cocoa and coffee crops were

harvested at the end of September 1989, as well as agreeing to convince his people of the necessity for fulfilling those two conditions, which were basic requirements for a Fund-supported program. The Senior Vice President for Operations of the World Bank had visited the Paris Club Secretariat on the preceding day, and there had been good cooperation on the respective positions of the Bank and the Fund, which would be sending a mission to Côte d'Ivoire in May to discuss a possible letter of intent.

2. NINTH GENERAL REVIEW OF QUOTAS - REPORT TO BOARD OF GOVERNORS AND PROPOSED RESOLUTION

The Executive Directors considered a report by the staff on the status of work on the Ninth General Review of Quotas, together with a draft report of the Executive Board recommending the adoption of a draft Resolution by the Board of Governors to continue the Ninth Review after April 30, 1989 (EBD/89/105, 4/11/89).

Mr. Warner said that with two modifications, he could support the proposed reports. He had one modification to suggest to the draft Resolution.

With respect to the staff report itself, he had noted several references to the subject of the Board's report as being the adjustment of quotas. While that phrase was taken from Article III, Section 2(a), it was used out of context because it omitted the qualifying wording of that provision: "the Board of Governors shall...conduct a general review, and if it deems appropriate propose an adjustment of the quotas of the members." He suggested that it would be more accurate to describe the report simply as a status report on the conduct of the Ninth Review.

As for the draft report of the Executive Board to the Board of Governors, Mr. Warner observed that what was in the view of his authorities the most substantive issue on which Directors had not yet finished their discussion--the role of the Fund--had not been mentioned in paragraph 2. Yet that issue was closely related to recent initiatives by his authorities and others on ways to strengthen the debt strategy. In that connection, he also wished to reiterate his chair's concern that major progress be made in resolving the Fund's arrears problem before any final decision was taken on a quota increase.

The modification that he wished to suggest in the draft Resolution of the Board of Governors was designed to reflect more completely the wording of the April Interim Committee communiqué, Mr. Warner explained, and thus to make the timing of Executive Board action more flexible. While the Executive Board was to complete its work by the end of 1989, there seemed to be no reason for stating that it should do so by October 31, 1989. He proposed that the Resolution request the Executive Board "to complete its work on the Ninth General Review of Quotas with a view to a decision by the Board of Governors before the end of this year."

The Deputy Treasurer explained that the two dates of October 31, 1989 and December 31, 1989 had been included in the draft Resolution simply because the action recommended by the Executive Board had to be submitted to the Board of Governors in time for it to be able to vote. The two procedures were quite distinct, and to refer only to December 31, 1989 would leave open the actual timing of the request to the Board of Governors to vote.

Mr. Grosche asked for confirmation of his understanding that it usually took four weeks to complete the voting procedure by the Board of Governors. Therefore, if the process was to be completed by the end of December, the Executive Board would have to submit a draft Resolution to the Board of Governors four to six weeks beforehand. The end of October had seemed to provide an appropriate timespan for the Executive Board to complete its own work; at the most, there might be a leeway of two weeks.

Mr. Warner said that as long as the Executive Board agreed to keep that time constraint in mind, and to schedule its meetings accordingly, there would seem to be no need to set an arbitrary date of October 31 for the completion of its work. The Board would undertake to act in sufficient time to give the Governors four weeks to complete the vote before the end of the year.

The Chairman stated that six, rather than four weeks, would be necessary, given that the last two weeks of December did not lend themselves to prompt, timely action by many governments. On the understanding that the Executive Board had in mind that it would reach a decision by November 15, and given the wording of the Interim Committee's communiqué, he could go along with Mr. Warner's proposal not to include October 31 as the deadline for the Executive Board to complete its work.

The Deputy General Counsel suggested that Mr. Warner's points could be met if the draft Resolution read as follows: "...request the Executive Board to complete its work on the Ninth General Review of Quotas with a view to a decision on the completion of the Ninth Review before the end of this year."

The Deputy Treasurer remarked that obviously, if the Executive Board could not complete its work on time, it would find itself in the awkward position of having to ask the Board of Governors for a further extension.

With respect to Mr. Warner's comment that the wording of the staff report seemed to indicate that agreement had already been reached on an adjustment of quotas, the Deputy Treasurer added, it should be noted that that wording appeared only in the descriptive, preambular sentence, and not in the report of the Executive Board or in the draft Resolution.

Mr. Warner said that he wondered whether the reference to the adjustment of quotas could be replaced by a reference to the conduct of the Ninth Review.

The Deputy General Counsel responded that as the Board of Governors had not only to conduct a review but upon its completion make a finding as to whether or not quota adjustments were appropriate, it had been considered adequate to refer in the report to that finding.

The Deputy Treasurer said that he agreed that a reference to the conduct of the review might suggest that not much progress had been made. The second sentence of the preamble could perhaps be redrafted to state that the draft Resolution would "...request the Executive Board to complete its work with a view to a decision by the Board of Governors on the completion of the Ninth Review before the end of this year." The reference to the adjustment of quotas could be deleted.

The continuation of the Executive Directors' discussion of the role of the Fund in the early 1990s could be included in paragraph 2 among the other substantive issues on which the Board's discussions had not been concluded, the Deputy Treasurer said. However, the issue of arrears to the Fund had not been mentioned among the preceding points (i) to (vi) as one of the main issues that had been discussed by Executive Directors.

The Chairman said that he had no difficulty with mentioning the role of the Fund as a continuing subject for discussion. However, he recalled that several Directors had frequently expressed difficulties with suggesting a link between arrears and the quota increase.

Mr. Grosche remarked that while arrears were a factor to be taken into account in coming to a decision on the size of the Fund, other equally important issues had to be considered in that context. He had in mind, for instance, the consequences of the initiative of U.S. Secretary of the Treasury Brady with respect to debt.

Mr. Posthumus noted that unlike most of the main issues enumerated in paragraph 2 as having been discussed by the Executive Directors, the role of the Fund in the early 1990s was not a necessary element of the decision that the Board of Governors would eventually take. Moreover, to state that certain issues "have been discussed" surely implied that they were still being discussed. He suggested that the role of the Fund in the early 1990s, which incidentally might well be discussed throughout the decade, should be treated as an issue apart from the other essential elements of a decision relating to the Ninth Review.

Mr. Marcel said that he agreed fully with Mr. Grosche.

Mr. Warner commented that since the concern of his authorities with respect to the question of arrears as it related to the decision on quotas would be recorded in the minutes, he could defer to the views of other Directors on that point.

Mr. Yamazaki said that he was satisfied with the compromise wording that had been found.

The Deputy Treasurer said that the staff, and indeed he believed the Board, had felt that the role of the Fund in the early 1990s was one of the substantive remaining issues. However, to meet Mr. Posthumus's point, an additional reference to the fact that Directors would continue their discussion of that issue could be inserted as a separate, penultimate sentence in paragraph 2.

The Chairman noted that a revised report and proposed Resolution for submission to the Board of Governors, incorporating the changes that had been agreed, would be circulated by the end of the day (see EBD/89/105, Rev. 1, 4/24/89).

The Executive Board then took the following decision:

1. The Executive Board approves the report annexed hereto, entitled Increases in Quotas of Members--Ninth General Review, for transmittal to the Board of Governors.
2. The Board of Governors is requested to vote without meeting, pursuant to Section 13 of the By-Laws, on the draft Resolution attached to that report.
3. The Secretary is directed to send each member of the Fund by rapid means of communication on or before April 27, 1989, the Report on Increases in Quotas of Members--Ninth General Review set forth in the Annex, and the draft Resolution attached to it.
4. To be valid, votes must be cast by Governors or Alternate Governors by rapid means of communication on or after April 27, 1989 and must be received at the seat of the Fund on or before May 30, 1989. Votes received after that date will not be counted.
5. The effective date of the Resolution of the Board of Governors shall be May 30, 1989, the last day allowed for voting.
6. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.
7. The Secretary is authorized to take such further action as he shall deem appropriate in order to carry out the purposes of this decision.

Decision No. 9130-(89/43), adopted
April 24, 1989

3. ADMINISTRATIVE AND CAPITAL BUDGETS, FY 1990

The Executive Directors, meeting in restricted session, considered the administrative and capital budgets for FY 1990 (EBAP/89/86, 3/31/89; and Sup. 1, 4/11/89), together with a staff paper on categories of employ- men (EBAP/89/101, 4/13/89). They also had before them as background information the staff paper on the review of the Fund's income position for FY 1989 and FY 1990 (EBS/89/67, 4/13/89); a staff paper on special services to member countries (EBAP/89/87, 3/31/89); the nationality distribution list (EBAP/89/87, 3/31/89); and information on Executive Board and other meetings of Executive Directors during calendar year 1988 (Secretary's Circular No. 89/40, 4/10/89).

The Executive Directors agreed to continue the discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/89/42 (4/17/89) and EBM/89/43 (4/24/89).

4. EL SALVADOR - OVERDUE FINANCIAL OBLIGATIONS - NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

1. The Acting Managing Director's notice of failure to settle Trust Fund obligations dated April 20, 1989 with respect to El Salvador, in EBS/89/81 (4/20/89), is noted. It shall be placed on the agenda of the Executive Board for April 28, 1989.

2. The Fund urges El Salvador to become current in its financial obligations to the Fund promptly and to avoid thereby the need for the Fund to take remedial action.

3. Consideration of the Trust Fund notice particularly affects El Salvador. The member shall be informed by rapid means of communication of this matter and of its right to present its views through an appropriately authorized representative.

Decision No. 9131-(89/43) TR, adopted
April 21, 1989

5. PEOPLE'S REPUBLIC OF MOZAMBIQUE - STRUCTURAL ADJUSTMENT FACILITY - THIRD ANNUAL ARRANGEMENT - INCREASED ACCESS

1. The People's Republic of Mozambique has requested an additional loan equivalent to SDR 3.965 million under the third annual structural adjustment arrangement for the People's Republic of Mozambique approved on March 20, 1989 (EBS/89/27, Sup. 1, 3/29/89) pursuant to paragraph 4(3) of the Regulations for the administration of the structural adjustment facility (Decision No. 8238-(86/56) SAF, adopted March 26, 1986, as amended).

2. The Fund approves the loan in accordance with the request.

Decision No. 9132-(89/43), adopted
April 21, 1989

6. MADAGASCAR - TECHNICAL ASSISTANCE

In response to a request from the authorities of Madagascar for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/89/114 (4/19/89).

Adopted April 21, 1989

7. SOMALIA - TECHNICAL ASSISTANCE

In response to a request from the Somali authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/89/108 (4/13/89).

Adopted April 19, 1989

8. VIET NAM - TECHNICAL ASSISTANCE

In response to a request from the Vietnamese authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/89/109 (4/13/89).

Adopted April 19, 1989

9. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/89/102, Supplement 1 (4/14/89), EBAP/89/103 (4/14/89), EBAP/89/105 (4/17/89), EBAP/89/107 (4/19/89), and EBAP/89/108 (4/20/89), by Advisors to Executive Directors as set forth in EBAP/89/92, Supplement 1 (4/17/89), EBAP/89/107 (4/19/89), and EBAP/89/108 (4/20/89), and by an Assistant to Executive Director as set forth in EBAP/89/106 (4/19/89) is approved.

APPROVED: October 25, 1989

JOSEPH W. LANG, JR.
Acting Secretary

Increases in Quotas of Members - Ninth General Review
Report of the Executive Board to the Board of Governors

1. Article III, Section 2(a) of the Articles of Agreement provides that "The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members." The five-year period since the completion of the previous review of quotas ended on March 31, 1988. The Board of Governors decided in April 1988 to continue its review and requested the Executive Board to report on this matter and submit appropriate proposals to the Board of Governors not later than April 30, 1989. The Executive Board believes that further consideration is needed of the substantive issues relating to the Ninth Review before it will be in a position to make appropriate recommendations to the Board of Governors. The Executive Board is submitting this report, and the attached draft Resolution, to the Board of Governors, the organ competent under the Articles to deal with an adjustment of quotas, in accordance with Article III, Section 2 and Resolution No. 43-1, adopted April 22, 1988.

2. In the course of the past year, the Executive Board has considered all the main elements relating to the Ninth Review. The main issues that have been discussed by Executive Directors are (i) the role of the Fund in the early 1990s; (ii) the size of the overall increase in quotas; (iii) the issues bearing on the distribution of the overall increase, including an examination of the position of the developing countries in the Fund and, in particular, those members with very small quotas; (iv) the question of ad hoc quota increases in the context of the quota review; (v) the mode of payment for the increase in quotas; and (vi) technical issues relating to the economic data and the formulas used to make quota calculations. The Directors have concluded certain technical aspects of their work but they have not concluded their discussions on most of the substantive issues, including the size of the overall increase in quotas, its distribution, and the media of payment for the increased subscriptions. Directors will also continue their discussion of the role of the Fund in the early 1990s. Consequently, the Executive Board is not in a position to make recommendations in time for the Board of Governors to adopt a resolution completing the Ninth General Review by April 30, 1989.

3. The Interim Committee considered the subject of the Ninth General Review during the thirty-first and thirty-second meetings of the Committee in Berlin (West) on September 25-26, 1988 and in Washington on April 3, 1989, respectively. In connection with its latest meeting, the Executive Board submitted a report on the Ninth General Review which outlined the progress made in its work relating to the Ninth General Review and requested guidance from the Committee on the main issues discussed in the report. Paragraph 5 of the communiqué issued at the conclusion of the meeting reads as follows:

The Committee agreed that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy, and reduce the Fund's reliance on borrowing. The Committee urged the Executive Board to complete its work on the Ninth Review with a view to a decision on this matter by the Board of Governors before the end of this year.

A further report on the Ninth General Review will be made to the Interim Committee at its next meeting on September 24, 1989.

4. In the light of the above, and taking into account the conclusion of the Interim Committee as expressed in its latest communiqué, the Executive Board proposes that the Board of Governors continue its review and that the Executive Board submit a report to the Board of Governors, together with appropriate recommendations regarding the size of the overall increase in quotas, increases in the quotas of individual members, and on the mode of payment of increases in subscriptions, with a view to enable the Board of Governors to complete the Ninth Review by December 31, 1989.

5. In view of the foregoing considerations, it is recommended that the Board of Governors adopt the resolution set forth below:

RESOLVED:

That the Board of Governors, having noted the report of the Executive Board entitled Increases in Quotas of Members - Ninth General Review, hereby resolves to continue its review of quotas under Article III, Section 2(a), and requests the Executive Board to complete its work on the Ninth General Review of Quotas with a view to a decision by the Board of Governors on the completion of the Ninth Review before the end of this year.