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COMMITTEE ON RULES FOR THE 1992
REGULAR ELECTION OF EXECUTIVE DIRECTORS

0421

Meeting 92/2

11:00 a.m., July 2, 1992

G. K. Arora, Chairman

Executive Directors

M. Al-Jasser
Che P.
C. S. Clark

E. A. Evans
R. Filosa

I. Fridriksson

J. E. Ismael
A. Kafka
J.-P. Landau
A. Mirakhor
L. B. Monyake

G. A. Posthumus
C. V. Santos

A. Végh

Alternate Executive Directors

A. A. Al-Tuwaijri

G. C. Noonan
Q. M. Krosby
J. M. Abbott, Temporary
J. Prader

J. Papadakis
A. F. Mohammed
J. A. Solheim
M. Nakagawa, Temporary
B. Esdar
T. Sirivedhin
J. C. Jaramillo
I. Martel
O. Kabbaj
L. J. Mwananshiku
P. Wright
D. A. Barr, Temporary

Y.-M. T. Koissy
R. Marino
A. G. Zoccali

R. S. Franklin, Secretary
S. W. Tenney, Assistant

Also Present

African Department: E. A. Calamitsis, Deputy Director. Legal
Department: F. P. Gianviti, General Counsel; J. K. Oh. Secretary's
Department: J. W. Lang, Deputy Secretary; C. P. Clarke, B. R. Hughes.
Treasurer's Department: J. E. Blalock. Advisors to Executive
Directors: M. A. Ahmed, L. E. Breuer, M. B. Chatah, B. R. Fuleihan,
M. Galán, A. Gronn, M. J. Mojarrad, Y. Patel, A. M. Tanase,
B. Szombati, S. von Stenglin. Assistants to Executive Directors:
J. H. Brits, Chen M., M. Da Costa, S. K. Fayyad, J. Jonas, V. Kural,
K. Langdon, M. Mrakovcic, L. F. Ochoa, P. L. Rubianes, S. Rouai,
J. W. van der Kaaij.

1. RULES FOR 1992 REGULAR ELECTION - ISSUES FOR CONSIDERATION

The Committee members continued from Committee on Rules for the 1992 Regular Election of Executive Directors Meeting 92/1 (6/18/92) their consideration of a staff paper on issues for consideration (EB/CREED/92/1, 6/16/92). They also had before them background information on technical and historical issues (EBD/92/102, 5/14/92).

The Chairman made the following statement:

At Committee on Rules for the 1992 Regular Election of Executive Directors Meeting 92/1 (6/18/92), Committee members had had before them, as background information, a staff paper on issues for consideration (EB/CREED/92/1, 6/16/92). Among the attachments to that paper were copies of two letters: one dated November 26, 1990 from the Minister of Finance of Switzerland to the then Chairman of the Group of Twenty-Four Developing Countries (G-24), and the other, dated June 11, 1992 from the Minister of Economic Affairs at the Embassy of Switzerland to the Committee Secretary outlining Switzerland's position on the question of its representation on the Executive Board of the Fund.

During the discussion, several Committee members referred to the two letters, which appeared to them to be inconsistent with respect to the stated intentions or objectives of the Swiss authorities concerning Switzerland's efforts to be "represented" on the Boards of the Fund and the World Bank. The Committee endorsed the suggestion that, for the next meeting, the Chairman should seek clarification from the Swiss authorities on how the assurances in the first letter--not to claim a seat on the Board "to the detriment of the developing countries"-- could be reconciled with the goal stated in the second letter--to be represented on the Board in a constituency led by a Swiss Executive Director.

I have met with representatives of Switzerland and have presented to them both the concerns of the Committee and its request for an explanation of how the apparent inconsistencies in the two letters might be reconciled.

The Swiss authorities have indicated that they see no inconsistency in the letters in question. From the time of Switzerland's application for membership in the Fund, the authorities have voiced their desire for Switzerland to have a seat on the Board as head of a constituency, and that objective has not changed. However, in their view, the circumstances of Fund membership have changed considerably since November 1990, when no one envisaged the massive additional increase in membership with which the institution is now grappling. Similarly, the Swiss have observed, while no consideration was being given in 1990 to an

increase in the size of the Board from the 22 seats accepted since 1982, agreement in principle has recently been reached on a Board of 23 Executive Directors, with the additional chair, they presume, aimed at making room for the Russian Federation.

The Swiss authorities have noted that they continue to be conscious of the importance of not disturbing the developing country constituencies in the Fund; in seeking to form a viable constituency of its own, Switzerland has assiduously avoided any approach that would lead to a weakening of those developing country constituencies. They are in the process of forming a constituency that they have indicated will be composed of members of existing European constituencies, newly independent countries, and other countries that have approached Switzerland. In addition, the Swiss authorities confirmed that, in spite of suggestions made to them, they have not attempted to attract any member countries from existing developing country constituencies. At the same time, they observed, they have not yet been shown any viable alternative to the creation of a Swiss-led constituency. They believe that, until rules for the 1992 regular election of Executive Directors have been adopted--including the number of Directors to be elected--a clear picture of likely constituencies, candidates, and possible problems will not emerge.

Extending his remarks, the Chairman noted that a letter to the Swiss authorities from the Chairman of the G-24 had been circulated to Committee members.

For the current discussion, it would be helpful for Directors to comment on whether the principles put forward at the previous meeting by Mr. Al-Jasser and Mr. Landau--namely, that, to the extent possible, the geographic balance of the Board should be maintained; there should be no undue burden placed on Directors in their efforts to represent member countries; and there should be no reduction in the representation of developing countries--could be used as guidelines in facilitating agreement on the issues put forward in the staff paper, the Chairman concluded.

Mr. Al-Jasser recalled that he had stated the primary concerns of his chair at the previous discussion. It was in the best interest of the Fund to ensure that developing countries' representation in the Board would not be reduced or undermined. At the present stage, when the Fund was becoming a truly universal organization and its responsibilities were expanding, it was crucial to guard the Fund's credibility as being truly cooperative and truly representative of its membership. Therefore, every effort should be made to maintain the geographic representation of members in the Board.

In the light of recent developments, it would be extremely difficult to maintain the guiding principles put forward both by his own chair and the

French chair, without increasing the size of the Board, Mr. Al-Jasser noted. Within the framework of those principles and a larger Board, it should not be difficult to reach a consensus promptly on the other technical considerations raised in the staff paper.

Mr. Nakagawa said that his chair had not changed its position since the previous discussion. His authorities strongly supported the guiding principles put forward by Mr. Al-Jasser and Mr. Landau. In reaching agreements on the technical issues put forward in the staff paper, it would be important for the Committee to adhere to the Fund's established rules for determining the composition and number of constituencies in the Board.

His authorities would stress from among those principles the need to maintain the geographic distribution of chairs in the Board, which was aimed at providing a balanced representation of members, Mr. Nakagawa commented. As increasing the number of chairs in the Board would not enhance the geographic distribution of chairs, his authorities had reservations about the proposal to increase the size of the Board to 24 chairs.

His authorities strongly supported the principle that there should be no reduction in the representation of developing countries, Mr. Nakagawa stated. In that connection, it was critical to ensure that the representation of African countries, particularly those in sub-Saharan Africa, would not be undermined.

At the present stage, when the Fund was becoming a truly universal organization, it was especially important for Directors to carefully consider the issues involved in establishing rules for the 1992 regular election of Executive Directors, as that election would likely determine the final structure of the Board, Mr. Nakagawa considered.

Mr. Che noted that the issues involved in establishing rules for the 1992 regular election of Executive Directors were sensitive and delicate. In considering any change in the traditional objectives underlying the rules for the conduct of elections, Directors should bear in mind the critical need to maintain regional balance and sufficient representation of developing countries in the Board. Given the recent large increase in membership and the difficulties related to absorbing the new members into existing constituencies, his chair considered that the size of the Board should be enlarged to encompass 24 Executive Directors. Thus, the rules for the 1992 regular election should be revised to accommodate the election of two additional Directors.

Mr. Végh commented that the information contained in the Chairman's opening statement did not reconcile the current position of the Swiss authorities with the commitment made by them in November 1990.

While he supported the guiding principles put forward by Mr. Al-Jasser and Mr. Landau as stated objectives, it would not be possible to uphold

those principles unless the size of the Board was increased in the context of the forthcoming election of Executive Directors, Mr. Végh noted. With a Board limited to 23 Directors, the current position of the Swiss authorities would lead to a change in the geographic composition of the Board and probably the loss of one of the current developing country chairs.

Mr. Prader stated that he agreed with Mr. Végh about the inconsistency between the principles put forward by Mr. Al-Jasser and Mr. Landau and the current size of the Board. In the interest of cooperation, it would be appropriate to increase the size of the Board to 24 chairs. A Swiss-led constituency composed of members of existing European constituencies would not be consistent with the support those chairs had expressed for Switzerland during the membership process.

Mr. Posthumus said that he agreed with Mr. Végh about the inconsistency between the principles put forward by Mr. Al-Jasser and Mr. Landau and the current size of the Board. While the Fund should always adhere to appropriate principles, there was also a need to take into account practical considerations in establishing rules for elections of Executive Directors.

Mr. Papadakis said that he agreed with Mr. Posthumus.

Mr. Noonan said that he was in general agreement with the guiding principles put forward by Mr. Al-Jasser and Mr. Landau. For the current discussion, he was not in a position to comment on how those principles could be reconciled with the statement recently made by the Swiss authorities.

Mr. Marino stated that he was willing to go along with the principles put forward by Mr. Al-Jasser and Mr. Landau as guidelines for the Committee's deliberations. As it was critical to maintain the representation of developing countries in the Board, he wondered whether a further exchange of views with the Swiss authorities might help to reconcile their recent statement with the commitment made by them in November 1990.

Mr. Abbott noted that the principles put forward by Mr. Al-Jasser and Mr. Landau were not transparent in terms of their practical implications. As the rules for the election of Executive Directors focused only on elected chairs, there would be some readjustment of chairs within the group of developing countries, owing to the change in status of one chair that was currently appointed. The addition of that chair to the group of elected chairs alone would change the current regional balance. The addition of a Russian-led constituency would also change the current geographic balance of the Board. Those changes might not be consistent with the proposed principle to maintain the existing regional balance among constituencies. In addition, some Directors had expressed concerns about the current regional balance of the Board in the past, and they might not wish to lock that balance into place for the future.

In November 1990, the Swiss authorities had indicated that they did not wish to disrupt any of the existing developing country constituencies, Mr. Abbott recalled. While that was an acceptable position for the Swiss, the Board had not formally agreed that the representation of developing countries should remain unchanged.

Mr. Al-Jasser commented that a change in the status of the Saudi Arabian chair would not change either the geographic balance of the Board or the representation of developing countries. The change in the status of Saudi Arabia from appointing an Executive Director to electing one was only a technical detail; the Saudi Arabian chair would still be a Middle Eastern developing country constituency.

There was clearly a need to safeguard the representation of developing countries in the Board, even if some changes would be needed in the rules for the election of Executive Directors, such as increasing the size of the Board, Mr. Al-Jasser stated.

Mr. Abbott noted that, as Saudi Arabia would no longer be eligible to appoint an Executive Director at the time of the forthcoming election of Executive Directors, that chair would need to be included in the number of elected constituencies.

Mr. Santos considered that the principles put forward by Mr. Al-Jasser and Mr. Landau were sensible. Indeed, those principles had been used as guidelines for previous elections of Executive Directors, and there was every reason to maintain those principles, especially at the present stage, when the Fund was becoming a truly universal organization.

Mr. Evans commented that the first two principles put forward by Mr. Al-Jasser and Mr. Landau were not noticeably different from the principles that had been used as guidelines for past elections of Executive Directors. No rewording of those principles was required.

The Committee was not in a position to recommend rules for an election of Executive Directors that would be inconsistent with the long-standing principles of the Fund, Mr. Evans noted. Therefore, it could not adhere to the principle that developing countries' representation in the Board should not be reduced unless there was a prior agreement among Directors on a voting pattern that would uphold that principle.

There seemed to be some lack of understanding on the part of the Swiss authorities about the rules for elections of Executive Directors, if they did not consider their recent statement to be inconsistent with the commitment made by them in November 1990, Mr. Evans said. As Switzerland did not have enough votes in the Fund to elect an Executive Director by itself, it could only gain a chair on the Board if other members wished to join a constituency led by Switzerland. If Switzerland did not gain a seat on the Board, the rest of the membership had a responsibility to accommodate that

country within an existing constituency. As it was not possible for Switzerland to follow both courses of action, Committee members should consider which existing constituency Switzerland should join. Finally, whatever course was chosen, his authorities could not envisage a Board without two African constituencies.

Mr. Landau commented that he agreed with Mr. Evans that in normal circumstances the Fund should rely on the principles used in the past. However, the Fund was currently faced with a historically unique situation. As that situation was extremely fluid, it might be helpful to have some agreed principles to guide the Committee in finding solutions to the exceptional issues currently under consideration.

Mr. Barr said that, as his chair had indicated at the previous discussion, the United Kingdom would prefer to proceed on the basis of an agreement to increase the size of the Board to 23 chairs. Therefore, as Mr. Evans had pointed out, there was a need to consider further the issues related to Switzerland's future representation. He agreed that there should be no reduction of the African countries' representation in the Fund.

Mr. Monyake considered that the problems related to the future representation of Switzerland could not be resolved until the future size of the Board was agreed. Thus far, Directors had not indicated whether or not they could accept in principle a Swiss-led constituency. In light of the number of countries that had recently joined the Fund and the size of their combined share in quotas, he could support an increase in the size of the Board to 24 chairs.

He agreed with previous speakers on the need to ensure that the representation of developing countries should not be reduced and that the existing regional balance of the Board should be maintained to the extent possible, Mr. Monyake stated. In connection with the latter principle, it was important to note that, as constituencies of any category were added, some change in the balance would occur. Therefore, it was important to consider relative positions, rather than technicalities.

He wondered whether Mr. Abbott's remarks at the previous discussion about the number of European chairs on the Board were meant to refer only to the elected European chairs, Mr. Monyake asked.

Mr. Mohammed stated that he agreed with Mr. Monyake.

Mr. Mirakhor said that he fully endorsed the principles put forward by Mr. Al-Jasser and Mr. Landau.

Mr. Fridriksson commented that his views had not changed since the previous discussion. The Chairman's opening statement on his discussions with the Swiss authorities indicated that progress was being made toward establishing a Swiss-led constituency composed of both new and existing Fund

members; as on previous occasions, the Swiss had indicated that they were not attempting to attract any countries from existing developing country constituencies. Moreover, the Swiss authorities had indicated that they saw no viable alternative to the formation of a Swiss-led constituency.

On the basis of those considerations, it was possible to conclude that Switzerland would put together a viable constituency, which would crowd out the smallest current constituency at the next election of Executive Directors if a Board of 23 chairs was agreed, Mr. Fridriksson noted. Switzerland had made a commitment not to take any action that would result in such a situation.

At the present stage, it was difficult to take firm positions on how the Committee should respond to the possible creation of a Swiss-led constituency, given the lack of available information on the likely composition of such a constituency and its implications for existing constituencies, Mr. Fridriksson considered. He wondered whether any information was available on the countries that were likely to join Switzerland.

The principles put forward by Mr. Al-Jasser and Mr. Landau seemed to contain inherent support for an increase in the size of the Board to 24 chairs, Mr. Fridriksson commented. But, that was only his interpretation of the proposal.

The Chairman stated that he had no information other than that contained in his opening statement about either the intentions of the Swiss authorities or the likely configuration of a Swiss-led constituency.

Mr. Landau commented that, as it would be nearly impossible for the Committee to find fully consistent solutions to all of the issues for consideration in the absence of a general agreement on the rules for the 1992 regular election of Executive Directors, the Committee should strive to agree on some very basic principles to facilitate progress.

The current situation with respect to possible future constituencies was fluid and carried the risk of misunderstandings arising among members, Mr. Landau noted. In that respect, he agreed with the comments put forward by Mr. Evans. The positions taken by the Swiss authorities on various occasions appeared to be ambiguous, and the most recent discussions with the Swiss authorities had not provided the clarifications sought by the Committee.

Nevertheless, the general principles put forward by Mr. Al-Jasser and himself were fully consistent with the views expressed by the Board of Governors in the past, and they could help to dispel misunderstandings among members, Mr. Landau said. In that connection, those general principles were not intended to prejudge the decision that would be reached concerning the future size of the Board or the possible formation of a Swiss-led constituency.

Mr. Esdar considered that the Committee's main objective was to find an appropriate compromise between the need to maintain adequate regional representation in the Board, on the one hand, and the need to ensure the efficient operations of the Board, on the other hand. He would prefer to seek a solution that would meet both of those objectives within a Board of 23 chairs. However, as it might not be possible to find such a solution, he would not exclude the possibility of increasing the size of the Board by an additional chair.

He agreed with Mr. Evans that it would facilitate the Committee's work to abide by the general principles agreed at the time of the 1990 regular election of Executive Directors, Mr. Esdar stated.

Mr. Abbott recalled, with respect to Mr. Landau's observation that the general principles used as a basis for the forthcoming election should be fully consistent with the principles agreed by the Board of Governors in the past, that Board of Governors' Resolution No. 45-7 (8/29/90) on rules for the 1990 regular election of Executive Directors had stressed the need to ensure the efficient functioning of the Board. If the Committee was going to consider a restatement of general principles to be followed in establishing rules for elections of Executive Directors, it ought to pay due respect to that principle. Agreement on a larger Board would not be consistent with the need to ensure the efficient execution of the Board's responsibilities.

Mr. Landau said that he would not object to including the need to ensure the efficient functioning of the Board among the principles to be used as a basis for the Committee's work. In line with that principle, it was also important to make certain that no undue burden would be placed on any Executive Director, owing to the size of his constituency.

Mr. Kafka stated that he supported the general principles put forward by Mr. Al-Jasser and Mr. Landau. While he was not in favor of increasing the size of the Board unnecessarily, it might not be possible to satisfy all of those principles without expanding the size of the Board to 24 chairs. There should not be a major difference between a Board of 23 chairs and a Board of 24 chairs in terms of overall efficiency. Therefore, it might be appropriate for Committee members to agree for the current discussion on the basic principles put forward by Mr. Al-Jasser and Mr. Landau and the principle that the Board should be large enough to ensure efficient representation of members.

The Chairman noted that Board of Governors' Resolution No. 36-3 on the size and composition of the Executive Board (4/27/81) stated that, when determining the number of Executive Directors to be elected in each regular election, the Fund should continue to be governed by the objectives set forth in that resolution, including the desirability of broadly maintaining the existing geographic balance in the composition of the Board. That Resolution also indicated that the number of Executive Directors to be elected in 1982 and subsequent regular elections "would need to be 16, and

should be a greater number if necessary to promote those objectives and considerations."

Mr. Posthumus noted that Board of Governors' Resolution No. 36-3 had incorporated all of the principles that had been put forward by Mr. Al-Jasser, Mr. Landau, and Mr. Abbott.

Mr. Mirakhor considered that the most operationally significant principle included in Board of Governors' Resolution No. 36-3 was the provision on maintaining the geographic balance of the Board as of 1981. Presumably, the Board of Governors considered that all of the other principles were embedded in that provision.

The General Counsel said that, while Board of Governors' Resolution No. 36-3 was clearly a statement of intention, it was not a binding rule of law. It was always up to the Board of Governors to determine the number of elected Executive Directors for each regular election.

Mr. Mirakhor asked whether the Fund would need to maintain the existing geographic balance of the Board in order to remain consistent with previous rulings of the Board of Governors.

The General Counsel responded that the rules agreed by the Board of Governors for each regular election of Executive Directors lapsed immediately following the election. Therefore, any special rules for each election of Executive Directors had to be approved by the Board of Governors. For example, in the event that no agreement was reached on rules for the 1992 regular election, the rules agreed for the election in 1990 would not apply; instead, the election would be based on the rules contained in the Articles of Agreement. A Board of Governors' Resolution, approved by a majority of 85 percent, was required to either increase or decrease the number of elected chairs at any regular election from the 15 elected seats provided for under the Articles. Since the Second Amendment, the Articles did not provide for any specific geographic distribution of seats in the Board.

Mr. Ismael commented that the position recently taken by the Swiss authorities was not consistent with the position taken by them in the past. Therefore, it would be logical for Switzerland to join an existing constituency in the Fund. If the Committee agreed to accept the principles put forward by Mr. Al-Jasser and Mr. Landau, and if Switzerland were to be successful in forming a viable constituency, the Committee would have no choice but to recommend an increase in the size of the Board to 24 chairs.

Mr. Abbott stated that his authorities supported the established precedent to preserve the two African constituencies in the Board. As the principles put forward by Mr. Al-Jasser and Mr. Landau went beyond that objective, his chair could not support them.

Mr. Esdar asked whether the principle that the Fund should seek to broadly maintain the existing geographic balance of the Board would address the concern raised by Mr. Abbott.

Mr. Fridriksson said that, for the next Committee discussion, it would be helpful for the Chairman to seek further information from the Swiss authorities on the likely members of a Swiss-led constituency.

The Chairman remarked that the current discussion had served to clarify Directors' positions on key issues. While there appeared to be some convergence of views on the general principles put forward by Mr. Al-Jasser and Mr. Landau, it was clear that Directors subscribed to various interpretations of those principles, and there was no majority in support of any particular interpretation.

In seeking solutions to the issues currently under consideration, Directors should bear in mind the need for the Committee to put forward its recommendations on rules for the 1992 regular election of Executive Directors to the Executive Board by early September in order to allow the Board of Governors sufficient time to consider those rules before the actual election, which was scheduled to take place on September 23, 1992, the Chairman stated.

He would continue to hold bilateral discussions with members of the Committee and with the Swiss authorities, the Chairman said. He hoped that Switzerland would be in a position soon to comment on the likely configuration of a Swiss-led constituency prior to the next meeting of the Committee. He would convey to the Swiss authorities, at his next meeting with them, the fairly widespread view among Committee members that the recent statement of the Swiss authorities was not consistent with the commitment made by them in November 1990.

The Committee agreed to continue its consideration of the issues related to the rules for the 1992 Regular Election of Executive Directors on August 6, 1992.

APPROVED: April 26, 1993

