

CONFIDENTIALMASTER FILES
ROOM C-525COMMITTEE ON RULES FOR THE 1992
REGULAR ELECTION OF EXECUTIVE DIRECTORS

Meeting 92/3

4:30 p.m., August 6, 1992

G. K. Arora, Chairman

Executive Directors

M. Al-Jasser
 Che P.
 C. S. Clark
 T. C. Dawson
 J. de Groote

 R. Filosa
 M. Finaish
 I. Fridriksson
 H. Fukui
 B. Goos

 A. Kafka
 J.-P. Landau
 A. Mirakhor
 L. B. Monyake
 D. Peretz
 G. A. Posthumus
 C. V. Santos
 A. Torres
 A. Végh

Alternate Executive Directors

L. E. N. Fernando
 Wei B.

 Q. M. Krosby
 J. Prader
 R. L. Knight
 J. Papadakis
 A. F. Mohammed

 T. Sirivedhin
 J. C. Jaramillo
 I. Martel

 P. Wright
 Z. Trbojevic

 R. Marino
 A. G. Zoccali

R. S. Franklin, Secretary
 K. S. Friedman, Assistant

Also Present

Secretary's Department: L. Van Houtven, Secretary and Counsellor;
 J. W. Lang, Deputy Secretary; B. R. Hughes, A. Jbili, S. L. Yeager.
 Treasurer's Department: D. Williams, Treasurer; O. Roncesvalles.
 Advisors to Executive Directors: J. M. Abbott, M. A. Ahmed,
 L. E. Breuer, M. B. Chatah, M. Galán, M. J. Mojarrad, F. A. Quirós,
 A. Raza, B. Szombati, S. Von Stenglin. Assistants to Executive
 Directors: S. Al-Huseini, M. C. Arraes Vinhosa, B. Bossone, Chen M.,
 J. A. Costa, N. A. Espenilla, S. K. Fayyad, H. Golriz, V. Kural,
 K. J. Langdon, W. Laux, G. Lindsay-Nanton, G. J. Matthews, F. Moss,
 E. H. Pedersen, S. Rouai, S. Shimizu, D. Sparkes, D. P. Thomas,
 Tin Win.

1. RULES FOR 1992 REGULAR ELECTION - ISSUES FOR CONSIDERATION

The Chairman considered that, before opening the floor for discussion, it would be useful to review where the Committee had stood at the conclusion of its latest meeting and the developments that had occurred since then.

After the first meeting, on June 18, 1992, it had been clear that Committee members were not agreed on the key issue of the number of Directors to be elected at the forthcoming election; nor was there unanimity of view on the underlying principles on which the election might be conducted, the Chairman continued. The Committee was able to agree that he should approach the Swiss authorities to seek clarification of their intentions in respect of the forthcoming election, especially in light of the assurances given in Minister Stich's November 1990 letter to the Chairman of the Group of Twenty-Four Developing Countries. At the end of the first meeting, he had encouraged Committee members to engage in bilateral discussions with a view to reaching agreement on the key issue of the number of Directors to be elected.

At the second meeting, on July 2, he had made a statement outlining the response of the Swiss authorities--a response that a number of Committee members had indicated was inadequate, the Chairman recalled. In addition, on the matter of the size of the Board and the principles on which the election should be conducted, it was clear that bilateral discussions had not led to agreement, and he had concluded the meeting with the suggestion that Committee members continue their bilateral discussions in preparation for a meeting on August 6.

Since the meeting on July 2, he had circulated on July 22 (as EB/CREED/92/2) a memorandum outlining his concerns about the impact of further delays in concluding the work of the Committee, the Chairman noted. Also, on July 23 he had circulated (as EB/CREED/92/3, 7/23/92) a memorandum from the G-9 Executive Directors outlining their unanimous view on the principles on which the election should be conducted and on the potential impact on developing country chairs of recent actions taken by Switzerland to form a constituency in preparation for the 1992 election.

On July 24, the Chairman remarked, he had circulated as EB/CREED/92/4 (7/24/92) a copy of a letter to the Swiss authorities from Mr. Magnussen, the Chairman of the World Bank Election Rules Committee, in which the Bank Committee in its entirety sought further assurances from the Swiss that they would not act in a manner inconsistent with Minister Stich's November 1990 letter to the G-24 Chairman.

Finally, he had received the previous day, August 5, upon his return to headquarters, a copy of the Swiss authorities' reply to Mr. Magnussen's letter, including a copy of Minister Stich's reply to the June 22, 1992 letter of the G-24 Chairman, which had been circulated informally to Committee members at the previous meeting.

For the present meeting, the Committee might wish to take up first Mr. Magnussen's letter to the Swiss authorities, the Chairman commented. Some Committee members had earlier proposed, and he had agreed, that it might be useful to consider whether a similar letter could not be produced by the Committee. He suggested that the Committee discuss that matter in light of the reply that had been sent by the Swiss authorities to the Bank Committee Chairman.

Mr. Dawson considered that, especially in light of the Swiss reply, there was no reason for the Fund Committee to send a letter similar to that produced by the Bank Committee; he certainly would not agree to such a letter.

Mr. Posthumus considered that a Fund letter would presumably receive the same reply as that given to the World Bank Committee and was therefore unnecessary.

Mr. de Groote proposed, as an alternative, that the Chairman meet with the Swiss and communicate the Committee's views orally to the Swiss.

Mr. Dawson said that he was not attracted by Mr. de Groote's proposal, which posed for him the same problems as a letter. He would have no objection if Mr. de Groote or other members of the Committee wished to convey their own views, but he could not accept a communication to the Swiss authorities that purported to express from the Committee a view along the lines of that outlined in the Bank letter.

Mr. Landau agreed with others that writing a letter at the current juncture would not serve any useful purpose. As he recalled, however, the Committee had reached at its previous meeting an implicit understanding that it should be in a position at the present meeting to take stock of whether a Swiss constituency would emerge; to that end, the Swiss authorities were to have provided some indication of their intentions. No such indication had yet been provided, which added to the uncertainty clouding the Committee's work. In that context, he wondered whether the Committee might be able to agree on some message to be communicated to the Swiss authorities.

Mr. Mirakhor noted that the Fund had taken seriously the commitment of the Swiss authorities outlined in Minister Stich's 1990 letter to the G-24 Chairman. And in recognition of the problems that Swiss membership might pose for the forthcoming election of Executive Directors if that commitment were not honored, the Board had agreed that Mr. Stich's letter would be included in its report to the Board of Governors on membership for Switzerland in the Fund. Another reminder from the Fund to the Swiss authorities of their commitment would be useless at the present stage. The World Bank had faced a different situation: it had not been sent a message through the Group of Twenty-Four, and had therefore properly sought assurances for itself. Nonetheless, it might be useful if the Chairman, or a subcommittee, of the CREED were to inform Switzerland that the Fund Board of Governors

took the authorities' commitment very seriously. If the issues under discussion were not resolved by the time of the Annual Meetings, then at least the authorities of members of his constituency were prepared to raise them at every opportunity during the Annual Meetings.

Mr. Monyake said that, rather than have a subcommittee meet with the Swiss authorities to explain the Committee's views, Mr. Landau, who had looked after Switzerland's interests during the processing of the country's membership application, could be asked to convey the Committee's views to the authorities.

Mr. Landau said that he would be happy to convey a message to the Swiss authorities if there was consensus among Committee members that he should do so. His Government had played a role during the admission process in obtaining the authorities' commitment concerning participation on the Board. He and several other Directors had encouraged the Board to incorporate that commitment as an annex to the decision on the Swiss membership Resolution, and various levels of the French Government had clearly informed the Swiss authorities that they considered that the commitment was absolutely essential and should be respected fully and in a completely unambiguous manner.

Mr. Fridriksson recalled that at the Committee's meeting on July 2, the Chairman had stated that the Swiss authorities were in the process of forming a constituency that they had indicated would be composed of member countries of existing European constituencies, newly independent countries, and other member countries that had approached Switzerland. It would be helpful to have an indication of where that process currently stood.

The Chairman said that the Swiss authorities had told him that they would be in a position to provide him with that information by the middle of July, but they had not done so yet.

Mr. Peretz said that his main concern was that the Committee should reach agreement on the rules for the 1992 election of Directors well before the Annual Meetings. It would be extremely damaging for the institution if the elections issue became, as it easily could, the only talking point at the Annual Meetings.

He agreed that the Swiss authorities would likely send the Fund the same response that they had sent to the Bank if a letter from the CREED were sent forthwith, Mr. Peretz continued. Hence, there was no point in sending another letter. More important to the Committee's work at present was whether the Swiss had managed to gather a constituency, and he had as yet heard no answer to that question.

Mr. Che made the following statement:

I welcome the opportunity to discuss the election issues confronting the members of the Committee. Since we last met, two

developments should merit the particular attention of the members. The first is the memorandum from the Chairman of the G-9 Executive Directors to the Chairman of the Board of the Fund and the Chairman of the CREED, which has been circulated among other members of the Committee. The second is the letter to the Swiss authorities from the Chairman of the ad hoc World Bank Committee, which has been circulated among the Fund Executive Directors.

In my view, both documents are very important and deserve serious and immediate consideration by the Committee. Here I would like to emphasize only a few points.

First, it is most important for the Committee to ensure that the existing number of developing country chairs on the Fund Executive Board will be maintained and the current geographical balance preserved. This point has been articulated in the G-9 memorandum. China strongly supports this position.

Second, China can concur with the thrust of the letter to the Swiss authorities from the Chairman of the ad hoc World Bank Committee. The recent statement and insistence by the Swiss authorities on leading a constituency are fundamentally inconsistent with their commitment made in 1990. Therefore, a similar decision to request the Swiss authorities to honor their commitment not only to the developing countries, but also to the Executive Board, as well as to the Board of Governors, should be taken by the CREED, and such a decision in the form of a letter should be sent to the Swiss authorities immediately.

Third, if the Swiss authorities honor their commitment, I believe that there is still a possibility of accommodating the new as well as the existing member countries within the 23-seat arrangement without reducing the current representation of the developing countries on the Executive Board of the Fund. However, should the Swiss authorities insist on claiming a seat, disregarding their commitment, which would entail the loss of an existing developing country chair under the proposed 23-seat arrangement and would be detrimental to the interests of the developing countries as a whole, then we will have no other alternative but to have a 24-seat arrangement if the principles governing the election as earlier articulated by Mr. Landau and Mr. Al-Jasser are to be maintained.

Mr. Kafka noted that the Committee could not, at this stage, assume that the Swiss authorities did not propose to honor their commitment, but he would have no objection to reminding them of that commitment. On the one hand, the Swiss might be fully prepared to desist from forming their own constituency if they felt that such action would be to the detriment of the

representation of the developing countries. On the other hand, they might feel that they had already gone so far in their efforts to form a constituency that it would be difficult to turn back.

Mr. Che remarked that he was worried that the rules for the 1992 election of Directors could lead to the displacement of Mr. Santos's chair if the Swiss insisted on having their own chair. For that reason, he would suggest that political factors must be taken into account in recommending election rules and that the Chairman of the Committee should be asked to talk with the Swiss authorities again.

Mr. Posthumus agreed with Mr. Kafka that Switzerland had not yet failed to honor its commitment; that would occur only when the Governor for Switzerland voted for an Executive Director from Switzerland. He wondered in that context whether there was any further information on those prospective member countries that had not yet clarified which constituency they intended to join.

The Committee Secretary replied that, where Directors had agreed to look after the interests of new members until the 1992 election, the Board had been so informed; in a few of those cases, the communications to the Fund had also indicated the intention of those countries to vote in a particular constituency in the forthcoming election.

Mr. Posthumus commented that the information that he was requesting was relevant to the Committee's work. As he understood it, there were at least three--and perhaps as many as five--new members that had not yet indicated a preference for constituency or had not yet been approached about the possibility of joining a constituency.

Mr. Dawson remarked that the Swiss authorities clearly knew that the Committee--including, to a lesser extent, his chair--was angry at them. They also knew--as Mr. Peretz and Mr. Posthumus had mentioned--that the current meeting of the Committee was in effect premature because the Swiss had promised to clarify where they stood in their efforts to form a constituency. The Committee needed to have at least a partial answer to that question before continuing with its work. The Committee should perhaps have insisted on receiving a communication from the Swiss authorities prior to the current meeting; in a sense, the Swiss were putting pressure on the Committee, whereas the Committee should be putting pressure on the Swiss to indicate whether they were honoring their commitment. Having listened to the current discussion, he was willing to modify his initial position and agree that it would be appropriate for the Chairman to present not the Committee's views on substantive matters, but rather the Committee's strong view that the authorities owed the Committee certain information so that the Committee could continue its work.

Mr. Peretz, agreeing with Mr. Dawson, wondered what deadline the Committee should have for completing its work. He presumed that an answer

from the Swiss authorities would be needed fairly quickly, if agreed rules were to be sent to the Governors for a vote without meeting.

The Committee Secretary responded that, typically, the Governors were given 30 days in which to vote on a Resolution. The problem with respect to the election rules was that the relevant Resolution would have to be adopted by an 85 percent majority and the time available for a vote might have to be considerably reduced. Even if the Committee were to reach agreement on recommended rules by, say the last week of August, a closing date before the start of the Annual Meetings would give Governors less than three weeks to respond.

Mr. Mirakhor recalled that the Swiss had already told the Committee Chairman that they intended to form a constituency. Since then, every Executive Director had received, in one way or another, information from the Swiss authorities about their intention to form a constituency. The evidence of their intentions was thus clear. All that Committee members were currently seeking was evidence of the extent to which the Swiss authorities' efforts had been successful.

Mr. de Groote commented that it would probably be easier to obtain information from the Swiss authorities if a basic uncertainty could first be removed, namely, whether there was to be a twenty-fourth seat on the Board. That matter would be clarified if all the Committee members were to express their views on it. It would be particularly helpful to know Mr. Dawson's position; he himself had the impression that Mr. Dawson was greatly opposed to an additional, twenty-fourth seat. At present, the Swiss authorities might believe that, in the end, the Directors would agree to recommend a twenty-fourth seat. The Swiss authorities could be expected to let things drag on until they knew whether the U.S. authorities would ultimately accept a twenty-fourth seat.

Mr. Goos agreed that as long as the boundaries of the playing field were not clearly defined, he would have difficulty accepting the idea that the Swiss owed the Committee something or that they were disregarding their commitment and putting pressure on the Committee. It was well known that if the Board were to expand to 24 seats, the Swiss authorities would have no difficulty in honoring their commitment, as they would not obtain a seat at someone else's expense. If it was decided that the size of the Board should be 23 seats, then it would remain to be seen whether the Swiss authorities would honor their commitment, as doing so would then be very difficult, if not impossible, although that should not absolve them from their commitment. After the Committee clearly understood the dimensions of the playing field, it should communicate that information to the Swiss authorities as quickly and unambiguously as possible, so that they would know what issues and consequences they had to face if they were to take certain steps.

Mr. Clark commented that, without any additional seat, there were only two ways in which the Swiss authorities could honor their commitment: they

could take an office in the headquarters building, as the authorities of South Africa had done, in which case they would not be represented by an Executive Director; or they could join an existing constituency. He wondered whether any Director was prepared to extend an invitation to Switzerland to join his constituency.

Another possible scenario, of course, was that the Swiss authorities would proceed to form a constituency, in which event they would not be honoring their commitment, Mr. Clark continued. Then, as Mr. Che had noted, several existing chairs would have cause to worry. At the same time, that scenario could lead to a situation in which the regional balance on the Board was disrupted.

Apparently the Swiss authorities were not, in domestic political terms, in a position to cease their efforts to form a constituency and did not wish to withdraw from the election and be satisfied with an office in the Fund, Mr. Clark observed. At the same time, no one seemed willing to invite Switzerland to join an existing constituency. That made it difficult to square the circle, unless the Committee was willing to reconsider the parameters.

Mr. Fukui agreed with Mr. Peretz that time was growing short, and that failure to resolve the issues at hand before the Annual Meetings would be detrimental to the Fund's reputation. In that connection, he felt strongly that Directors must show a cooperative spirit.

He also agreed with Mr. Goos that the Committee needed to define the dimensions of the playing field, Mr. Fukui continued. However, that task could be aided by a clarification of the intentions of the Swiss authorities and of the situation with respect to their efforts to form a constituency. Therefore, it would be useful to have further communications with the Swiss authorities as soon as possible. The Committee should perhaps agree to send--through the Chairman--a message to Switzerland that the Committee was having considerable difficulty in completing its work; that Committee members wished to resolve the outstanding issues in a cooperative spirit; and that it would therefore be useful to have additional information from the Swiss authorities on their position with respect to forming a constituency.

Mr. Végh concurred with others that it would be useful to ask the Chairman to make the further contact with the Swiss authorities.

He disagreed with Mr. Kafka's view that the Swiss had not violated their commitment, Mr. Végh continued. From the start, the Swiss authorities had said that they were not concerned about the size of the Board--they had not pushed for a twenty-fourth chair. They had undoubtedly tried to form a constituency, and it was clear arithmetically that, with a Board of 23 chairs, their attempts to form a constituency were equivalent to breaking their commitment of November 1990. As Mr. de Groote and Mr. Goos had noted,

the essential point was that the only way to make the Swiss commitment of 1990 compatible with their having a chair was to agree that there should be 24 chairs.

Mr. Knight considered that the Swiss authorities had made their position fairly clear; in that connection, he agreed with Mr. Mirakhor's comments. He doubted whether there was much disagreement among Committee members that the Swiss authorities wished to form a constituency. The Board had given Switzerland the voting power to make that a practical outcome, and Directors had to assume that that would happen. However, the Swiss authorities did not have the power on their own to fulfill both their ambition of having a seat on the Board and their undertaking not to displace a developing country seat in the process. The presumption that the Swiss would seek a seat should not in any sense inhibit the Chairman from conducting a further dialogue with the Swiss, but the only way that a seat for Switzerland could be compatible with preserving the existing chairs was by agreement on an increase in the size of the Board to 24 seats. In the past, his chair had not been enthusiastic about the idea of increasing the number of seats, but clinging to the notion of 23 seats in the interest of efficiency no longer seemed a realistic option. As Mr. Peretz had stressed, it would certainly be undesirable for the Board to move ever closer to the Annual Meetings without having sensibly resolved the issues under discussion. For all the reasons he had mentioned, his chair was prepared to support a prompt decision to move to a 24-seat Board.

The Chairman, responding to the suggestion of several speakers that the Committee should have an idea of the dimensions of the playing field, proposed that Committee members clarify their views on the question of the size of the Board.

Mr. Kafka said that Mr. Végh had misunderstood his earlier intervention in which he had meant to press the Chairman to communicate with the Swiss authorities. His own chair had consistently supported the idea of increasing the Board to 24 seats, because that seemed to be the most likely, or even the only, solution to the problem facing the Committee. Like other speakers, he felt that the Fund must not allow the Swiss to "slither" into a situation in which, while claiming that they wanted to stick to their commitment, they were prevented from doing so.

Mr. Landau agreed with Mr. Kafka that the Committee should not wait until the last moment to know whether the Swiss were going to abide by their commitment. Mr. Che had made an important point about combining the legal and political aspects of the issues under discussion. As to the Chairman's suggestion to make a tour de table on the question of a twenty-fourth seat, the outcome could probably already be accurately guessed. A number of Directors would favor having 24 seats; the real question was whether Mr. Dawson would agree, and, if not, a tour de table seemed unnecessary.

The Chairman considered that Mr. Landau was correct about guessing the general outcome of a tour de table. Still, it seemed possible that some Directors, like Mr. Knight, might have changed their position in the face of the realities that had been mentioned at the current meeting. It would seem reasonable to know where all Committee members stood on the question of a twenty-fourth seat.

Mr. Dawson said that he objected to the Chairman's proposal for a tour de table. The position of his chair remained unchanged: his authorities continued to favor a Board of 23 seats. Indeed, serious thought had been given to taking a position in favor of a Board of 20 seats, although he would not initiate that suggestion at the current stage.

Mr. de Groote remarked that he welcomed the clear statement from the U.S. chair of its position on the size of the Board, which effectively settled the question. Accordingly, in communicating with the Swiss authorities, the Chairman should not leave them any illusion or doubt about the fact that they could not expect a twenty-fourth seat. That fact should define the outer dimensions of the playing field. In a sense, that was a positive outcome of the current meeting, as it dispelled previous misunderstandings and speculation.

The Chairman commented that, while he, too, welcomed the clarification of Mr. Dawson's position, he felt duty bound as Chairman to invite other Committee members to express their views on the issue of the size of the Board.

Mr. Dawson said that, in his view, a polling of the Committee was unnecessary at the current stage, and, if begun in that fashion, he would insist on an adjournment of the meeting in order to report to his authorities and to seek further instructions.

Mr. Peretz agreed with Mr. de Groote that the question of the size of the Board was now academic in light of Mr. Dawson's statement of his chair's position. Everyone was aware that an increase in the size of the Board required a majority of 85 percent of the total voting power. As Mr. Dawson had stated his position, there seemed no point in asking other Committee members to state their position.

Mr. Landau remarked that he had consistently maintained that the Committee members should act in a cooperative manner. He would certainly favor reaching an agreement on a twenty-fourth seat in a cooperative manner, but that did not seem possible, and Committee members therefore had to look for another solution in a cooperative manner.

He continued to believe that some further clarification of the intentions of the Swiss authorities was necessary, Mr. Landau said. The Committee had been expecting to receive by end-July an answer from the Swiss authorities to the question whether they intended to form a constituency.

The Committee could wait a little while longer to receive the answer, but it could not wait indefinitely. He strongly agreed with Mr. Peretz on the need to resolve the constituency issue and agree on a set of election rules before the coming Annual Meetings. And in that context, Mr. Mirakhor's indication that the developing countries would make a major issue of the size of the Board during the Annual Meetings was particularly striking. Such an outcome would be detrimental for both the Fund and Switzerland. Accordingly, the Committee must try to resolve the issue in advance of the meetings. The point that Mr. Posthumus had made about the usefulness of knowing which constituencies the new members intended to join was important for those countries as well as for the Committee. Some new members apparently were considering forming a constituency with Switzerland, and they too might benefit from clarification about the Committee's position on the size of the Board and the consequences for members forming constituencies.

At present, resolving the issue at hand seemed difficult, Mr. Landau continued. However, the Committee should agree on election rules that would prevent a politically unsustainable result emerging from the election process; and his chair could not support rules that might lead to an unsustainable outcome. That seemed to be the only point on which he would disagree with Mr. Dawson, who had mentioned that elections were bound to produce losers and winners. The nature of the election of Executive Directors was different; it was organized in a cooperative manner.

The Chairman commented that his idea had not been to poll the Committee members but allow them to share views that would enable decision makers in countries to reach a cooperative solution of the sort Mr. Landau had mentioned. To achieve that outcome, Committee members would have to listen to one another.

Mr. Dawson observed that if no elected constituency was willing to accept Switzerland, that in itself would be an astonishing demonstration of an uncooperative spirit. He understood that Directors were unlikely to be in a position to state during a CREED meeting their willingness to accept the Swiss, but the opportunity for cooperation remained.

He continued to believe that the Committee was owed an answer by the Swiss authorities on the question of their intentions concerning the formation of a constituency, Mr. Dawson said. And it would be appropriate for the Chairman to communicate that expectation to the Swiss.

He saw three options for the Swiss authorities in present circumstances, Mr. Dawson went on. First, Switzerland could join an existing constituency; second, it could choose not to field a candidate in the 1992 election, and he felt more strongly than Mr. Clark that the second possibility seemed more likely to occur than the first; and third, it could decide to compete in the election, which it certainly had a legal right to do. It was not as clear to him as it seemed to be to some other Directors

that the Swiss authorities had chosen the third option, although it seemed to be the most likely of the three he had mentioned.

Mr. Mirakhor commented that it was certainly not surprising that no elected constituency was willing to cooperate in taking a step that would clearly not be in its best interest. Developing countries had been aware of the problem of a possible seat for Switzerland from the moment Switzerland had applied for membership, as had Mr. Dawson, who was a member of the Committee on Membership for Switzerland. The developing countries had eventually agreed to support membership for Switzerland because they recognized that Switzerland was an important country and that its presence in the Fund would benefit the international monetary system. Switzerland should be represented on the Board, but not at the expense of representation of developing countries. Everyone would certainly agree that if the election rules were to limit the size of the Board to 23, they would definitely lead to the elimination of one of the developing country chairs.

There was no point in asking the Swiss authorities what they intended to do about a constituency, Mr. Mirakhor continued. The Swiss had already communicated their intentions to a number of Directors and governments. In order to stop Switzerland from--as Mr. Kafka had put it--"slithering" into a position in which it did not have to make a commitment until the last moment, the Committee should make it clear to the Swiss authorities that the Board would not agree to a chair for Switzerland if it led to the elimination of one of the developing countries' chairs. If the Committee was to move forward, it should take a realistic step and make it clear to the Swiss authorities that the Board would not accept any alternative under which a developing country chair would be eliminated.

Mr. Clark commented that it might be helpful to ask the Swiss authorities whether they had attempted to join a constituency of industrial countries. Such an arrangement would be the only one in which they could honor their commitment within a Board of 23. He did not believe that the Swiss authorities would cease their efforts to form a constituency; and a Swiss chair within a Board of 23 would not permit the authorities to honor their commitment, as there would have to be one less developing country constituency, which would violate a principle that was supported by the entire Committee.

Mr. Dawson said that he did not believe that, in determining the size of the Board, there was a fixed number of, or ratio between, developed and developing countries. That distinction was archaic. He understood the reasons for seeking a balance in the Board, and it was for that reason that his chair had indicated that it was critical to maintain certain chairs in the Board. That was not to say, however, that he would agree with the sort of distinction between groups of chairs that had been mentioned; he would oppose that kind of distinction. When expressed in the most general terms of regional and geographical balance, he could support the idea of making a distinction. But when one talked about the idea in specific terms of any

particular developing or developed country seat, he could not accept the idea. The muddiness of the distinction between types of chairs was evident in, for example, Mr. Torres's chair; given the countries in that group, it was not clear whether it was really a G-9 seat. Another example was the chair for Saudi Arabia. Should one of the largest creditors to the Fund really be included among the G-9 countries?

Therefore, distinctions between kinds of constituencies should be viewed flexibly, Mr. Dawson went on. He saw Mr. Al-Jasser's chair and Mr. Torres's chair as being a mixture of both kinds of groups. Similarly, all of the elected European constituencies included some current or prospective borrowers, while some of the so-called developing country constituencies included creditors. Some Directors seemed to be hanging on to a Cold War distinction that had lost its utility.

Mr. Landau observed that Mr. Dawson seemed to be saying implicitly that there could be sufficient political support in the Board for having Switzerland replace an existing developing country constituency. He could not support such an outcome, and he was confident that the Board would not either. Therefore, in attempting to move forward to find a constructive solution, the Committee should avoid the assumption that Mr. Dawson seemed to be making, as it was unrealistic and unacceptable.

He agreed with Mr. Clark that one could not know for certain whether an existing constituency was willing to include Switzerland until the Swiss asked the relevant groups, Mr. Landau continued. Thus far, the Swiss authorities had not tried to do so, as they had been working on the basis of an assumption that might not be compatible with views in the Board. The Committee should address the question of incompatibility of assumptions and create a situation in which everyone would be working on the basis of mutually compatible assumptions. A situation in which 24 seats would not be possible might be compatible with the kind of démarche Mr. Clark had mentioned, but it would not be compatible with the démarche the Swiss authorities were pursuing. That was the kind of message that the Committee should send to the authorities and to other countries as well. At the moment, the Committee was creating confusion, because everyone was working on the basis of mutually incompatible assumptions.

Mr. Al-Jasser considered that G-9 members need not all be borrowers. Nor was it helpful to distinguish between appointed and elected chairs in considering whether a country should be categorized among the group of developing countries. Saudi Arabia had always been a developing country, a fact that his authorities had seen as neither a negative nor positive factor. Developing countries had a legitimate right to representation in the Fund, which had remained credible, efficient, and effective because of the balance in the Board among countries from all parts of the world. That fact had not changed with the end of the Cold War; if anything, the need for representation for developing countries was greater than ever. He agreed with the points that had been made by Mr. Mirakhor and Mr. Landau.

Mr. Kafka remarked that all Committee members seemed to agree that the Swiss authorities should be told that the Committee felt that the authorities had made a commitment and should stick to it. There was some disagreement whether the communication to the authorities should be made in writing or orally by the Chairman. He would accept either of those alternatives or an intermediate solution in the form of a note verbale delivered by the Chairman, so that there could be no misunderstanding of what the Committee was trying to tell the authorities.

Mr. Dawson said that he could accept a kind of note verbale--what the U.S. State Department called a nonpaper--only if Committee members were given a chance to review the text, a process that could be very time consuming. He trusted the Chairman to convey a message along the following lines: the Committee members were angry at the Swiss authorities; the Committee members were awaiting promised information from the authorities on a Swiss-led constituency; the Committee members would like to know whether the Swiss planned to join an existing constituency, which the Committee felt would be a good idea; and the Committee also wondered whether the authorities were thinking of not participating in the forthcoming election of Directors. He was confident that the Swiss would fully understand those points in whatever form delivered.

Mr. Kafka said that he was not as confident as Mr. Dawson that the Swiss authorities would fully understand the Committee's message.

Mr. Landau commented that a message along the lines of the one Mr. Dawson had mentioned would be appropriate. He would also encourage the Chairman to contact countries that either did not have a constituency or were considering moving to a different constituency. Those countries faced difficult choices, and they should be aware of the Committee's thinking.

Mr. de Groote remarked that he, too, agreed with the topics for a message that Mr. Dawson had listed. In addition, there seemed to be a misunderstanding among the Swiss authorities about what it meant to form a constituency. The Swiss authorities should not believe that forming a constituency depended only on the votes they managed to collect; it also depended on the voting power of other constituencies. As everyone was aware, some reshuffling among constituencies was occurring.

Mr. Peretz said that he could go along with the points suggested by Mr. Dawson, Mr. Landau, and Mr. de Groote. In addition, the Swiss authorities should be told that it was clear from the current discussion that there was not the necessary majority to increase the size of the Board to 24 chairs.

Mr. Filosa stated that he could support the ideas put forward by Mr. Dawson, with one exception. He, for one, was not angry at the Swiss authorities.

He strongly agreed with Mr. Peretz that the issues under discussion must be resolved well before the coming Annual Meeting, Mr. Filosa commented; failure to do so would be detrimental to the Executive Board, the Swiss authorities, and the Governors. However, the Committee should not necessarily expect an answer from the Swiss, who might not be in a position to say with certainty which countries might join them in forming a constituency, as the decision by the countries concerned might be based on factors outside the control of the Swiss authorities.

Mr. Goos said that he too would not wish to be associated with a message saying that the Committee was angry at the Swiss authorities. He could go along with the suggestion to inform the Swiss authorities that a decision for a twenty-fourth seat did not have the necessary support; alternatively, the message could say that a large number of Directors would be willing to support a twenty-fourth seat. It should be clear that the problem rested in the first place with the Fund's major shareholder.

Mr. Dawson stated that the Swiss authorities were fully informed of the position of the U.S. authorities. He himself had spoken with senior Swiss authorities, and senior officials at the State and Treasury Departments and the White House had recently met with Swiss authorities. He would not accept any communication that said that the problem under discussion had arisen solely because of the position of the United States. A message along the lines of Mr. Peretz's proposal would be acceptable, and he would have no objection to mentioning the strong views of the U.S. chair.

Mr. Landau commented that the Swiss authorities knew exactly what the Committee's position on the size of the Board was. The important part of the Chairman's message would be that there were several options open to the authorities, some of which might not have been considered by the authorities hitherto and might be worth considering in the coming weeks, taking into account all the elements of the situation, including Directors' views on the size of the Board and their feeling about the Swiss commitment made in 1990. That was how he would interpret Mr. Dawson's comments and that was what he supported.

Mr. Knight agreed with the latest proposals for communicating with the Swiss authorities, who might not have thought of all the options open to them in addition to forming a constituency. It was necessary for the Committee promptly to pass on to the Swiss authorities what the Committee intended to do, and to formulate rules so that the election could take place in an orderly fashion.

The Secretary, responding to a question, noted that in recent elections the rules had provided that no single elected constituency should exceed a specific ceiling--9 percent of total votes of those members eligible to elect--in order to promote some balance in constituencies. Within that boundary, there were no limits on the number of countries in a constituency.

Mr. Monyake said that he wondered what the implications for the ceiling would be if the new members, other than the Russian Federation, were to join existing constituencies.

The Secretary responded that, in the past, the ceiling that he had mentioned had usually been defined by the Committee in the knowledge of the likely formulation of constituencies. If the ceiling was exceeded in a given constituency, the smallest individual member that took the Executive Director for which it voted over the 9 percent ceiling was deemed not to have elected that Director, but that country was then eligible to designate an elected Director to cast its votes, and that member would be deemed to have elected the Director that it designated. It was fair to say that, if the rules that had prevailed in 1990 were applied in 1992, there would be sufficient room for all current members and applicants to belong to constituencies of a Board with 23 seats, although that possibility might not reflect initial choices.

Mr. Monyake said that he hoped that no country from one region of the world would be forced to join a particular constituency in a distant region simply because of the mathematical requirements of the agreed election rules.

The Chairman remarked that he agreed with Mr. Monyake that it would not be desirable to encourage a process that could lead to the kind of outcome that Mr. Monyake had described.

Mr. Landau said that there might be more constituencies than one currently imagined that might be willing to include Switzerland, if that option were to be seriously considered by the Swiss authorities.

Mr. Peretz commented that, presumably, the Swiss authorities had already talked to a number of constituencies--but on the basis of Switzerland having the chair on a permanent basis. If the Chairman's message noted the option of Switzerland joining an existing constituency, it should be clear that the Committee had in mind that the authorities should not insist on holding the group's chair on a permanent basis.

Mr. Mirakhor said that he agreed with Mr. Landau. If the Swiss were to commit themselves not to take a group's chair on a permanent basis, a number of chairs would be willing to include them.

Mr. Dawson noted that the draft memorandum in the Bank's Election Rules Committee currently contained a higher ceiling than the Fund's Committee was considering. Of course, the Committee could agree to recommend that the ceiling be raised, if that were thought to be necessary.

Mr. Torres commented that he agreed with the points that Mr. Dawson had suggested should be included in the Chairman's message to the Swiss authorities. He also supported the additional points made by Mr. Landau and

Mr. de Groote. The discussion had been useful, as it had led to a clarification of what had been called the dimensions of the playing field, which should help to address the problem of what Mr. Landau had described as the lack of mutually incompatible assumptions.

Mr. Filosa remarked that the Chairman's message to the Swiss should include the Committee's intention to complete its work by a particular date, probably the week beginning August 24.

Mr. Peretz observed that August 24 was the day after the conclusion of the informal Board recess. He wondered what was the very latest date by which the Committee must complete its work. For example, would August 31 be possible?

The Chairman commented that there appeared to be a consensus that he should communicate with the Swiss authorities and that his message should say clearly that the Committee unanimously agreed that the authorities had made a serious commitment, and that, in the absence of agreement on a Board of 24, the authorities would be clearly violating their commitment if they formed a separate constituency.

Mr. Dawson said that his problem with the Swiss position was that the authorities had made simultaneous contradictory commitments. He understood that many Directors believed that the Swiss authorities were violating a commitment, but his own authorities had been operating on the basis of the presumption that the Swiss would try to take a seat, perhaps because his authorities had not believed the 1990 letter from Minister Stich. He would not feel comfortable asserting that the Swiss authorities had violated a commitment in the sense that the G-9 Directors and the Group of Twenty-Four Developing Countries had so asserted. That was the fundamental problem that he had with the Magnussen letter, which was too categorical a statement. He also could not agree with Directors who divided members into kinds of classes in the Board. He would have no difficulty in having the Chairman mention that the G-9 and G-24 view was widely held in the Board, but he could not agree to the suggestion that the Committee's view was that the Swiss had violated a commitment.

Mr. Landau remarked that the Chairman could note that there was an overwhelming sense in the Committee that a commitment had been violated; that approach would not suggest that all Directors felt that way.

Mr. Clark considered that if the Chairman was going to indicate that the Swiss should consider options other than forming a constituency, then he should indicate what those options were and perhaps which existing constituencies the Swiss should consider approaching.

Mr. de Groote commented that in opening his message, the Chairman could say that Directors agreed that, in trying to obtain a seat, the Swiss authorities were creating a major disturbance in the equilibrium of the

Board, and a majority of Directors felt that the Swiss were not honoring their commitment.

Mr. Dawson remarked that presumably nearly everyone would agree that in his message the Chairman could tell the Swiss authorities that their efforts to form a constituency were disturbing.

Mr. Fukui said that the word "overwhelming" would convey the sense of agreement among most Directors on their reactions to the efforts by the Swiss authorities to form a constituency. Indeed, the Chairman could say that the reactions were not only overwhelming, but also very strong.

The Chairman commented that, if Committee members agreed, he would meet shortly with the Swiss authorities and report to the Committee on the outcome of his meeting.

The Committee seemed to be at an impasse, the Chairman continued, and in order to propose election rules for adoption ahead of the Annual Meetings, the Committee must reach agreement no later than August 31. Given the pressure of time, he would shortly circulate to Committee members a draft report and draft rules. The paragraphs in the draft text that referred to a recommendation on the size of the Board would contain brackets so as not to prejudice the outcome of the Committee's further discussion. Giving Committee members an early opportunity to examine the text could place them in a better position to finalize the report once key issues were agreed upon in principle.

Mr. Kafka remarked that the Chairman's message should take into account the outcome of the latest discussion in the World Bank's Committee.

Mr. Peretz noted that the World Bank Committee on Election Rules had received a set of draft rules several days ago. At its meeting earlier that day, the Bank's Committee agreed that there was no point in discussing the draft rules because Committee members were not yet in a position to reach agreement. The meeting had therefore been inconclusive, and the Committee had agreed to return to the issue after the Bank Directors' recess. Thus, the position of the Bank's Committee was the same as that of the CREED, except that the Bank Directors had not agreed on a further communication with the Swiss authorities. The Bank Committee had agreed that August 31 was the latest possible date by which an agreement must be finalized.

In concluding the discussion, the Chairman stated that he wished to encourage Committee members to use the forthcoming period of the informal Board recess to continue their discussions so that rules could be approved ahead of the Annual Meetings.

The meeting was adjourned at 6:55 p.m.

APPROVED: April 26, 1993

