0404

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas

Meeting 88/8

10:00 a.m., September 1, 1988

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

Executive Directors	Alternate Executive Directors
A. Abdallah	
F. Cassell	
Dai Q.	
C. H. Dallara	C. H. Warner
J. de Groote	
	R. Morales, Temporary
M. Finaish	
G. Grosche	
J. E. Ismael	J. Reddy
A. Kafka	
M. Massé	
	C. V. Santos
Y. A. Nimatallah	I. A. Al-Assaf
G. Ortiz	
J. Ovi	
H. Ploix	D. Marcel
G. A. Posthumus	
C. R. Rye	
G. Salehkhou	O. Kabbaj
A. K. Sengupta	L. E. N. Fernando
K. Yamazaki	
S. Zecchini	

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant

Also Present

Asian Department: S. P. O. Itam. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director. External Relations Department: D. D. Driscoll. Legal Department: H. Elizalde. Research Department: P. Isard, I. Zaidi. Treasurer's Department: F. G. Laske, Treasurer; D. Williams, Deputy Treasurer; S. I. Fawzi, O. Roncesvalles, A. J. Tweedie. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, M. Al-Jasser, P. E. Archibong, M. B. Chatah, A. G. A. Faria, K.-H. Kleine, P. D. Péroz, M. Pétursson, G. Pineau, M. A. Tareen, D. C. Templeman, A. Vasudevan. Assistants to Executive Directors: E. C. Demaestri, S. K. Fayyad, V. J. Fernández, B. R. Fuleihan, P. Gorjestani, M. Hepp, J. Heywood, A. Iljas, C. Y. Legg, V. K. Malhotra, C. Noriega, L. M. Piantini, S. Rebecchini, A. Rieffel, D. Saha, G. Seyler, Shao Z., C. C. A. van den Berg, Yang J.

1. NINTH GENERAL REVIEW OF QUOTAS - SIZE OF THE FUND, AND SHARE OF DEVELOPING COUNTRIES IN THE FUND

The members of the Executive Board, meeting as the Committee of the Whole, considered an aide mémoire from the Managing Director (circulated on August 11, 1988) on the size of the Fund and a staff paper on the share of the developing countries in the Fund in connection with the Ninth General Review of Quotas (EB/CQuota/88/7, 8/9/88).

Mr. Abdallah made the following statement:

The two papers are helpful in advancing the debate on the Ninth General Review of Quotas. As to the size of the Fund, I wish to reaffirm my position that, if at all possible, the level of total quotas should be doubled.

However, whatever quota increase may be agreed, one likely effect of it is to weaken the representation of developing countries, especially the smaller ones, in the voting power of the Fund by diluting the impact of the basic votes. This and other valuable insights emerged from the most recent staff paper, which this chair specifically called for during the previous discussion on quotas, in July 1988 (EB/CQuota Meeting 88/7, 7/11/88). Table 3, on page 7 of the staff paper, clearly shows that the share of basic votes in total votes has declined markedly with each quota increase, from 15.61 percent in 1958 to 4 percent in 1988. Moreover, as the staff notes, doubling the size of the Fund would further reduce the share to 2 percent. This fact brings into focus the fundamental question of how far we wish to permit a departure from the original Bretton Woods compromise between two possible bases for voting power, namely, the proportion of members' contributions to the Fund's resources, and, to a more limited extent, the principle of equality of states, which is a means of enabling all member countries to exercise some influence in decision making in the Fund.

Against this background, the staff has examined the scope for a possible adjustment of the basic votes in the context of the more general distribution of the quota increase. The staff notes first the general point that restoration of the original proportion of the basic votes to total votes would at present require approximately a tripling in the number of basic votes to 761. However, this increase would need to be as much as six-fold if a doubling of the size of the Fund took place, with the important provision that such a doubling was distributed entirely in an equiproportional manner or with a significant equiproportional element using Method B. Of course, the method of increasing the basic votes of all members by a fixed amount does not take into account a number of alternative variants, and, moreover, would require an amendment of the Articles. However, as the staff has noted, the World Bank has established an ad hoc committee of Executive Directors to examine the issue of the voting power of small countries. This committee should be enlarged into a joint committee of the Executive Directors of the Fund and the World Bank to examine this issue in greater depth. A second aspect examined by the staff, and one that does not involve an amendment of the Articles, relates to distributing quotas under the Ninth General Review in a manner in which the quota or voting share of a particular group or groups of member countries could be maintained at the present level, as was done under the Sixth General Review. Everything possible should be done to prevent a decline in the share of an important subgroup of countries, namely, the countries eligible to use the enhanced structural adjustment facility.

These two approaches underscore some of the complexities involved in making assumptions about the apportionment of increases between the equiproportional and selective elements. What is at stake is a fundamental commitment of the Fund and the World Bank to maintain, if not increase, the influence of developing country members, as principal users of resources, in shaping the policies of the two institutions. More important, there are not many smaller countries remaining to join the Fund and the World Bank, but there are some particularly large countries whose entry into membership would undoubtedly exacerbate the imbalance between the shares of the smaller developing countries and the larger member countries and potential member countries. How are the objectives I mentioned to be achieved? There is no consensus yet, but it would be helpful if broad agreement could be reached fairly early to maintain the voting power of developing countries in these two institutions.

To this end, I suggest, as a first option that was not discussed explicitly in the staff paper, that the Executive Board should consider establishing a rule for this and future reviews under which the share of the basic votes should be maintained at between 10 and 15 percent of total votes, based on the evidence provided in Table 3 of EB/CQuota/88/7. This approach would of course require an appropriate amendment of the Articles. I would appreciate the staff's observations on this approach and its implications. A second option--which may not require such an amendment and would therefore be less problematic and more acceptable to the membership--involves a technique that was not discussed in the staff paper: retain the level of the basic votes at 250, while not defining groups of member countries, but, at the same time, taking into account only the equiproportional component of the quota increases. This component could be distributed in a manner that ensures that the level of voting shares, as distinguished from quota shares, will be maintained. This approach has several attractive features: it avoids the difficulty of defining groups of member countries; it prevents any further erosion of the strength of the basic votes; it allows for relative voting power to change through selective quota increases, which, as we have all agreed, particularly in the cases of Japan and Korea, should reflect changes in member countries' relative economic positions. I wonder whether the staff would like, at this stage, to comment on the feasibility of this approach. In addition, the staff should, in due course, provide illustrative calculations for equiproportional increases of the range of 25-50 percent.

Mr. Yamazaki made the following statement:

Before addressing the specific issues in the two papers under discussion, I wish to reiterate the urgent need to expedite the discussion on the Ninth General Review. The Fund requires adequate capitalization and a restructuring of the distribution of quotas as soon as possible. Moreover, the Executive Directors have to assume full responsibility for completing their work on quotas in time, given the postponement of the deadline for the completion of our work until April 1989. Therefore, as the Managing Director suggested in his statement on work priorities after the 1988 Annual Meetings, I wish to emphasize that the Board must finish its technical work before the end of 1988. In this context, it is essential for us to decide on the basic issues, such as the size of the quotas and the share of developing countries, at the earliest possible date, in order to proceed further with our discussions and to complete our work on time.

I fully agree with the main thrust of the aide mémoire. Nevertheless, I wish to underscore the need for a substantial quota increase. Since the international debt problems have been protracted, the role of the Fund will continue to grow in coming years. The salient tendency among debtor countries is the emerging shift to the cooperative approach centered on close collaboration with the Fund. I believe that this tendency will and must prevail. These considerations indicate the need for an adequate quota increase, which will further promote the adjustment efforts of member countries.

I basically support a doubling of the quotas, as proposed by management. However, because I have observed reservations about the doubling of quotas by a few Executive Directors, although I continue to support a doubling, I could, if it is at all necessary to reach a consensus, make a concession and go along with a somewhat smaller quota increase, namely, between

66 percent and 100 percent of quotas. My authorities feel strongly about this issue. They expect that the Ninth General Review will rectify Japan's quota share, which deviates widely from the underlying economic realities of Japan. My authorities have been greatly concerned that the large disparity between Japan's actual and calculated quota shares has increased, rather than decreased, during past quota reviews. Because of this uncomfortable and, indeed, very painful experience, my authorities have expressed their firm determination not to accept any quota increase of less than 66 percent.

The issue of the share of the developing countries is more complex than the issue of the appropriate size of the Fund. I have a great deal of sympathy with those Directors who have expressed concern about countries facing constraints in financing their adjustment efforts. However, the illustrative calculations presented by the staff provide us with an uneasy sign of the measures that we can adopt to meet those concerns. It seems unwise to polarize our course in a direction that could prolong our discussions. In my view, the appropriate way to address the concerns expressed by the developing countries would be to make an adequate quota increase so as to ensure that all member countries will at least maintain their absolute amount of access to the Fund's resources.

While the Executive Board's work on quotas should be completed at the earliest possible date, as requested by the Board of Governors, I wish to reaffirm my authorities' strong support for a substantial and selective increase in quotas.

Mr. Ismael made the following statement:

On the occasion of the previous discussion on quotas (Meeting 88/7, 7/11/88), this chair indicated its preference for a doubling of quotas for a number of reasons. The Managing Director's aide mémoire provides a comprehensive list of reasons that justify a doubling of quotas. I will not repeat these reasons; I fully associate myself with the arguments and conclusions in the aide mémoire.

During the previous discussion on quotas, I suggested that the Executive Directors should look at ways and means to reconcile the various conflicting objectives of quotas. I proposed that the Ninth General Review should focus on securing maximum liquidity for the Fund by concentrating the selective increase on those few member countries that have a strong balance of payments position. At the same time, countries having a potential need to use the Fund's resources could be assured, in advance, of adequate access through an early decision to continue the policy of enlarged access. I also suggested that the concern about voting shares of member countries could be mitigated through an increase in the basic votes. Having reviewed the staff paper, it has become fully clear to me that the objectives of making quotas reflect the relative economic strength of member countries and of making a maximum contribution to the Fund's liquidity are clearly irreconcilable with the objectives of maintaining relative stability in Fund quotas and of preserving the voting shares of individual countries or any group of countries. At the same time, we cannot ignore the fact that quotas also determine the borrowing and voting rights of member countries. Under the circumstances, there is a need for some action to preserve the quota share of non-oil developing countries, which declined significantly under the previous general quota review. As the staff has noted, a further decline in the quota shares of developing countries will take place under the Ninth General Review unless some remedial action is taken.

There are essentially two ways in which the quota shares of non-oil developing countries can be preserved, namely, increasing the basic votes, and constraining quota calculations in order to preserve the current share of non-oil developing countries in the quota calculations for the Ninth General Review. I recognize that there are practical difficulties in the proposal to increase the number of basic votes, and these difficulties are adequately described in the staff paper. However, Mr. Abdallah has made two interesting proposals for maintaining the voting shares of developing countries through an adjustment of the basic votes. As these proposals were not specifically considered in the staff paper, we should first examine their feasibility. An alternative, namely, constraining quota calculations to preserve the present quota shares or voting shares of non-oil developing countries, also seems to be attractive. Indeed, such a scheme was used under the Sixth General Review, and I could support its use again under the context of the Ninth General Review.

If the idea of predetermining the size of the aggregate increase in quotas of the group of non-oil developing countries is not accepted by the Executive Board, then we may look for some other middle ground that can minimize the erosion of the quota shares of developing countries. Such a middle ground may entail a large quota increase combined with a reasonable balance between selective and equiproportional increases. My position on what that balance might be will depend upon the size of the overall quota increase. If a doubling of quotas is agreed, and if the method of distributing selective increases that was used for the Eighth General Review is also used for the present review, I could support a combination of general and selective increases along the lines followed for the previous quota review, namely, a 60 percent selective increase and a 40 percent equiproportional increase. However, if the quota increase is small and a different method is used for distributing the selective increases, I would prefer somewhat smaller selective increases.

I fully support the Managing Director's recommendation to double quotas. There are good reasons for preserving the quota shares of non-oil developing countries, and this should be achieved by constraining quota calculations so as to maintain the present shares of this group of countries. The issue of the distribution of quota increases between selective and equi-proportional elements will have to be determined only after an agreement on the size of the overall quota increase is reached.

Mr. Massé said that, while it was not possible to quantify precisely what the appropriate size of the Fund should be, the aide mémoire and earlier staff papers provided a good review of the major factors bearing on the issue. Those factors suggested that a substantial increase in the size of the Fund was warranted. To do otherwise would send wrong signals about the Fund's role in the international financial system.

The staff paper indicated that maintaining the present level of absolute access, without borrowing, would require an increase in quotas to SDR 160-180 billion. His authorities had not yet indicated their preference for a precise figure for the increase in quotas, but they felt that an increase in that range would be sensible. Some arguments could lead them to agree to a higher figure, but, in order to reach a compromise, a figure closer to the lower end of that range might be necessary. If it were decided that borrowing should be wound down over a longer period, the required increase in quotas could of course be somewhat smaller--at the lower end of the range of SDR 140-180 billion.

Throughout the quota review process, his authorities had felt that progress should be made toward making quotas more reflective of member countries' relative economic positions, Mr. Massé continued. His authorities had expressed their preference for approaches that tended to minimize arbitrary judgments and treated member countries equally, either individually or as members of a group. While he understood the relevant concerns that had been expressed about the share of developing countries in the Fund, his Canadian authorities were not convinced that it was necessary to preserve the quota or voting share of the developing countries at particular levels. The best means of ensuring that the interests of developing countries, as well as other member countries, would be well served by the Ninth General Review was to agree on a substantial overall increase in quotas.

Mr. Cassell made the following statement:

The aide mémoire summarizes a number of considerations bearing on the optimal size of the Fund in the early 1990s and concludes that a doubling of quotas would be appropriate. This is of course a matter of judgment, and on the basis of the same evidence I would reach a different conclusion.

I was surprised that the paper makes no reference to the problem of arrears. It seems to assume that, by the end of the period on which the paper focuses, an effective solution to the problem will have been found. This is a crucial assumption, the fulfillment of which cannot be counted on. If we have not found a solution, the environment envisaged in the paper will be very different in at least two crucial respects. First, the cost of Fund credit to the borrower will be higher, relative to prevailing market rates, than now. In other words, I doubt whether there will be any concessionality at all in the terms of Fund lending; this would certainly have some effect on the demand for Fund credit at that time. Second, it is unrealistic to expect the Fund's main shareholders to place substantial new resources in this institution at a time when a large part of the existing loans are in arrears and there is no agreed strategy for remedying that situation.

I find some of the arguments in the aide mémoire less than convincing. While we can all agree that the outlook for the world economy remains uncertain, the paper seems to imply that whatever the growth rate of the world economy and whatever the size and the distribution of global payments imbalances, there will remain a pressing need for Fund financing. It would be helpful to have a more quantitative analysis of the link that the staff perceives between different medium-term scenarios for the global economy and the appropriate size of the Fund. In this connection, it is interesting to note that the ratios of quotas, maximum absolute access, and gross drawings to the imbalances of the developing countries are currently high by historical standards.

The aide mémoire also suggests that the expansion and volatility of private credit markets and the trend toward trade liberalization are further arguments for an increase in Fund resources. However, we must be very wary of extending the Fund's role into inappropriate activities. The Fund should not be looking to take over the role of the commercial banks. Nor should its general balance of payments support be confused with the specific assistance provided by the World Bank to help finance the costs of trade liberalization.

A key judgment underlying the aide mémoire's argument is that a large increase in quotas is needed to send the right signal to the banks. This argument was used earlier, when the management was seeking larger access limits under the extended Fund facility. I find it no more convincing now than I did then. Instead, I expect that a large increase in quotas would send exactly the wrong signal to the banks--encouraging them further in their wish to see the Fund and the World Bank take over from them entirely in the provision of new money to indebted countries.

The case for a quota increase should rest not on general perceptions of the future world environment, but on a quantitative assessment of the likely future demand for Fund resources. The aide mémoire suggests that a renewed expansion of demand appears to be under way and projects that the quota share of member countries that are indebted to the Fund will rise sharply in the coming year to a level well above the average for each of the past three decades. It would be interesting to know how accurate previous staff forecasts of the future demand for Fund resources have proved to be. For example, has there been a systematic tendency to overestimate or to underestimate the future flow of purchases? A fundamental point that we cannot overlook is that in the recent past the main constraint on Fund lending has not been a lack of resources, but rather a lack of potential borrowers that could satisfy the conditionality requirements for Fund credit.

Given the uncertainties about future demand, one possible way of analyzing the need for a quota increase is to consider the level of purchases that could be accommodated by the projected flow of repurchases. The latest review of the Fund's liquidity suggests that a significant expansion of Fund lending in 1989 could be accommodated without an increase in quotas and with continued repayment of borrowing. The staff projects that total purchases will rise to SDR 5.4 billion in 1989, compared with SDR 3.3 billion in 1987. When drawings under the structural adjustment facility and the enhanced structural adjustment facility are included, the projected increase in Fund lending in 1989 over 1987 is still greater. However, despite the sharp increase in lending, the staff projections show continued repayments of borrowing and satisfactory liquidity ratios, by historical standards, up to the end of 1989.

Looking further ahead to the period 1990-92, the projected repayments flow of SDR 15.4 billion, together with an increase in the intensity of the use of quotas up to the 30 percent ceiling proposed by the staff, should be sufficient to accommodate both an annual level of purchases considerably greater than the 1984-89 average and the virtual elimination of borrowing. In addition, of course, there will be continued disbursements under the structural adjustment facility and the enhanced structural adjustment facility.

Before the 1988 Annual Meetings, the staff should produce some calculations demonstrating, under plausible scenarios for repurchases, borrowing, and intensity of use, the future flows of purchases that could be accommodated by existing quota levels. In sum, my authorities remain to be convinced that a case has been made for more than a very modest increase in quotas.

The question of the share of the developing countries in Fund quotas involves difficult issues that complicate the current discussion. Proposals to increase the basic votes would require an amendment to the Articles and would not have any effect for example on developing countries' access to Fund resources. It is not clear to me that there would be sufficient concrete benefits from a change in the number of the basic votes to justify the time-consuming effort that would inevitably be involved.

We certainly have no wish to see the collective share of the developing countries decline substantially, but it is important to note that, over the longer term, there has been a substantial and consistent increase in the quota share of developing countries, and the fact that this is the first time that the Fund has had to confront a projected decline demonstrates that there is nothing inherently inequitable in the methodology of quota reviews in this respect. Therefore, I do not believe that a case has been made for changing the system. The proposals in the staff paper are inconsistent with the basic rationale behind quota reviews and would have unwelcome effects on the Fund's liquidity. In addition, they would represent a sharp departure from the long-established principle of distributing quota increases uniformly. Moreover, the proposals would force the Executive Board to confront the difficult and complex issue of classifying member countries into distinct groups. For these reasons, we should not attempt to constrain quota adjustments in the way the staff has suggested.

The Chairman said that he felt strongly that facilitating the balanced growth of world trade and encouraging the dismantling of protection were tasks of the Fund, rather than of the World Bank.

Mr. Rye made the following statement:

I note that the Managing Director's paper is merely an aide mémoire, and the fact that it does not adduce anything new is therefore not surprising. However, Executive Directors eventually have to reach a sufficiently broad consensus on the issue of the size of the Fund, and, in that connection, the aide mémoire was not helpful, as it presents a one-sided view of the arguments and makes no attempt to quantify or even indicate their relative importance. Moreover, although I am sympathetic with a substantial increase in the Fund, some of the points made in the aide mémoire do not add weight to the case for such an increase. In this connection, my reaction to the paper is similar to Mr. Cassell's. For example, in the area of trade liberalization, it obviously cannot be true in aggregate that, as imports expand following the reduction of trade barriers, exports may respond more slowly; even for developing countries in the aggregate, that outcome is most unlikely. Hence, it is at least as likely that the demand for Fund resources will ease following a reduction in restrictions as it is that the demand will increase. Moreover, it cannot be strongly argued that, as countries come to be regarded as being more creditworthy, their need for Fund financing will increase simultaneously. And if the current large volume of repurchases is sharply increasing the access to the Fund's resources for many member countries, those very repurchases are making available in parallel the usable assets required to meet the potential demand for Fund resources.

While the possible use of Fund resources by industrial countries cannot be ruled out, we cannot assess the need for quotas on the basis of such remote possibilities. Should those circumstances arise, the question of a renewed recourse to borrowing would come to the fore. In this connection, Mr. Cassell has usefully suggested the need for further refining and quantifying the basis on which we might reach a firmer conclusion on the appropriate size of the increase in quotas. For the moment, I would not change my provisional view that an increase of the order of 50 percent, or perhaps a little larger, to, say, SDR 150 billion--which would meet Mr. Yamazaki's objective of a minimum increase of 66 percent--would suffice.

As to the share of developing countries in the Fund, I am uncomfortable with any proposals that would involve discriminatory treatment of any particular group of member countries. Apart from the practical difficulties of classification, further institutionalizing particular country groupings in the Fund's membership structure would be a step backward. However, if some nondiscriminatory change could be made that would produce results that were seen as desirable by the Executive Board as a whole, that would be a different matter.

In this connection, the staff paper addresses two possibilities--an increase in the basic votes, or an increase in all quotas by a fixed amount. These proposals raise two concerns that need to be addressed: maintaining the viability of some of the more marginal constituencies that would lose ground under most schemes of quota increases; and maintaining adequate access levels for individual developing countries. An increase in basic votes would not address the second of those concerns--and of course, the difficulty in amending the Articles does not add to the attractions of that proposal. An increase in all quotas by a fixed amount would address both of the concerns I have mentioned. I understand the staff's concern about the problems that such a change would create for the application of conditionality to smaller member countries, although that concern can be overstated. I also understand the difficulty the staff might have with respect to the structure of small quotas in the Fund. However, there are already difficulties of that kind. The structure of small country quotas has many anomalies and needs to be reviewed. The application for a special increase by the Seychelles may be only a symptom of a more generalized dissatisfaction with quota relativities among the smaller member countries. In any event, given the extreme openness of these economies, most of the small member countries in my constituency believe that their potential access to the Fund's resources is too small to be genuinely helpful, and they certainly think that the idea of reintroducing a minimum quota in the Fund is not entirely without merit.

The viability of existing constituencies is a legitimate concern, and I would not like to see any major change in the geographical representation of the various constituencies in the Executive Board.

Mr. Sengupta made the following statement:

The aide mémoire has given the rationale for increasing the overall size of the Fund to SDR 150-180 billion. The case for such an increase is well made and logical, in the light of the world economic situation and of the expected role of the Fund in coming years. The quota increase suggested in the aide mémoire can take place only with the consent of the member country with the largest quota, and that country should be persuaded of the importance of a substantial increase. Whatever size is eventually agreed, it is necessary to ensure that the existing access limits are at least maintained and that the Fund will move gradually to become a genuinely quota-based institution.

Increasing the basic votes would involve setting in motion a complicated procedure for amending the Articles. While my authorities find considerable merit in the spirit of the suggestions that were made by Mr. Abdallah, the chances of agreeing on an amendment at this stage are not great. At the same time, the share of developing countries must be maintained. At least, the share of the low-income countries--those eligible to use the enhanced structural adjustment facility, a group the definition of which is noncontroversial--should be protected, partly because their balance of payments needs cannot be easily met by nonofficial sources. It is important to recognize that, if the quota shares of these countries were to fall sharply, their potential access to Fund resources would be limited. The staff's calculations show that the calculated quota shares of member countries eligible to use the enhanced structural adjustment facility would decline most precipitously under the existing formulas; the decline would be 56.7 percent--the greatest decline for any group of countries--from the present 9.5 percent to 4.2 percent. The non-oil developing countries' calculated share would also decline, although to a smaller extent--by 26.1 percent, from 26.8 percent to 19.8 percent. The calculated shares of all developing countries would fall by about 9.3 percent.

In addition, the application of the existing quota formulas would have far-reaching effects on the adjustment potential of developing countries. If these countries diversify their economies and make structural changes, their financing needs, at the given domestic savings level, would be large and would have to be met mainly by official foreign financing. In this connection, the Fund has a major role to play not only in improving the potential access of these countries to its resources, but also in catalyzing resources from other sources for this purpose. The data provided in Tables 5A-5D in EB/CQuota/88/7 are particularly interesting. The data in Table 5A assume that the size of the Fund will be SDR 150 billion and that the distribution between equiproportional and selective increases will be 50:50. Under these assumptions, and further assuming that the voting share of non-oil developing countries will be held constant, the share of industrial countries and of countries eligible to use the enhanced structural adjustment facility in total quotas, as well as in total votes, will decline, although marginally, whether the distribution method used is Method A or Method B; however, that approach would protect the voting share of non-oil developing countries. If the voting share of member countries eligible to use the enhanced structural adjustment facility were held constant, then, under Method A, the voting share of industrial countries would increase marginally, from 60.4 percent to 60.8 percent, and the voting share of the developing countries--including oil exporting and non-oil developing countries--would fall marginally, from 39.6 percent to 39.2 percent. The corresponding distribution of quotas would be more favorable: the quota shares of all developing countries would increase from 37.6 percent to 38.1 percent; the quota share of member countries eligible to the enhanced structural adjustment facility would increase from 9.7 percent to 10.2 percent; and the industrial countries' share would fall marginally, from 62.4 percent to 62 percent. It is clear that this is a zero-sum game: as some countries would lose a little, others would gain a little.

Similar examples could be cited showing the need to protect the position of the low-income countries while maintaining the smallest possible deterioration in the position of other groups. To this end, all that is needed is an agreement on the objectives. Similar objectives were set during the Sixth General Review, when it was agreed that the quota share of oil-exporting countries should be doubled, but the collective share of all other developing countries should not "be allowed to fall below its present level." That was a fitting response to the changed circumstances of the time. It shows that the Fund has sufficient flexibility in its decision making to meet the demands of various situations.

The staff paper suggests that predetermination of the quota or voting share of any one group may mean a departure from the principle of distributing quota increases in a uniform manner. If that is considered to be of paramount importance, such uniformity could be obtained, together with the desired results that I have described, by changing the formulas, as my technical paper (EB/CQuota/88/4, 3/9/88) has shown. The issue is whether we should allow the shares of such a large number of countries (62 member countries out of a total of 151 member countries) to shift so violently--by 56.7 percent on the basis of calculated quota shares--from their present level. If access to Fund resources--which should rise over time to an extent that reduces considerably the dependence on borrowed resources--for low-income countries is to be maintained at the present level, it would be necessary to find mechanisms to protect, as far as possible, the existing shares of these countries in total quotas and in the decision making of the Fund. If this cannot be achieved uniformly by modifying the quotas, as we have suggested, it should be done by containing the deteriorating effects on other groups, as was suggested in the examples I have given. The objectives that I have in mind can be obtained, and the Executive Board should express clearly its vision of the goals that the Fund should reach under the present quota exercise.

Mr. Ovi made the following statement:

As on previous occasions, we wish to emphasize the importance of resolving the issues related to the quota review soon. To this end, the aide mémoire on the size of the Fund, and the staff paper on the share of developing countries are helpful. However, the discussions on the size of the Fund in the early 1990s are approaching the stage of diminishing returns. We fully support the conclusion in the aide mémoire on the need for a doubling of present quotas. Ample arguments have been made to support this conclusion, and I do not believe that simply trying to place additional arguments on top of those already presented necessarily makes the case more convincing. Indeed, there is a risk that this approach might have the opposite effect. The paper seems to suggest that, regardless of the way in which world economic and financial developments evolve, there will be a need for a substantial increase in quotas. This conclusion clearly cannot be accurate. In fact, some of the arguments presented seemed to have been turned on their head in the process; in this connection, I have in mind the recent discussions on world economic growth, payments imbalances, and creditworthiness. Mr. Cassell's comments in this area were clearly convincing.

However, there are still a number of compelling reasons for doubling quotas. A gradual phasing out of borrowing by the Fund, which we all agree is necessary, will in itself require a very substantial increase. The fact that more than half of the amount of credit extended by the Fund over the previous decade was financed by borrowing is inconsistent with the nature of the institution. Moreover, as Mr. Kafka recently stressed, borrowed resources occasionally place a substantial extra burden on the debtor countries, because of the higher cost involved.

In addition, we should aim under the Ninth General Review for a meaningful increase in member countries' absolute access to borrowing from the Fund. Given the need for steps to phase out the enlarged access policy and to restructure quotas, a close to doubling of quotas is not only fully justified, but also very necessary. Furthermore, we agree that the quota shares of countries borrowing from the Fund are small, and that structural reforms in member countries' foreign trade regimes could be supported by the availability of greater access.

The issue of the quota share of developing countries clearly involves conflicting considerations. We understand the concerns felt by developing countries in this respect. However, given the nature of the Fund, preserving the particular share of quotas of any group of countries should not be a goal in itself. Special treatment of the developing countries because of their

> present economic difficulties might set an unwelcome precedent for the future and might work to the detriment of these countries in the longer run, and definitional difficulties would arise. Therefore, we are skeptical about proposals that would formally constrain the change in the quota share of these countries. We continue to hold the fundamental view that the relative economic positions of member countries should be reflected in their quota shares according to some objective criteria. For this reason, we see a need for a substantial selective increase to adjust for deviations between calculated and actual quota shares. It is of vital importance that virtually all member countries receive a meaningful absolute increase in quotas in the context of the Ninth General Review. The difficult economic situation of many developing countries is therefore a strong argument in itself for both a substantial increase in overall quotas and--depending on the size of the quota increase--for a significant element of equiproportional increases in the distribution of the quota increase. Hence, my position is close to that of Mr. Ismael.

Mr. Kafka stated that he fully supported the conclusions in the aide mémoire, which presented all the relevant arguments for a very substantial quota increase. He preferred a doubling of quotas.

The Executive Board should consider selective as well as equiproportional increases in quotas, but it should strive to maintain the voting share, or at least the quota share of the non-oil developing countries, Mr. Kafka considered. The share of that group of countries had already fallen under the Eighth General Review. For various reasons, the approach to meeting the concerns of developing countries should not be based on changing the number of basic votes, which would, moreover, require an amendment of the Articles; there was insufficient time to undertake the amendment process. He was attracted to the staff's idea of constraining selective increases to maintain the quota or voting share of the non-oil developing countries. However, if there were strong objections to what some might feel were the discriminatory aspects of that approach--and while it seemed logically possible to present a constrained adjustment of selective quotas as nondiscriminatory--the Executive Directors should perhaps opt for a very high proportion of equiproportional increases compared with selective increases and make some special adjustments; the latter would, of course, be discriminatory, but the number should be held to two including Japan and Korea.

Mr. Grosche made the following statement:

> During the previous discussion on quotas, I noted that my authorities favored a new size of the Fund of SDR 150 billion. They could also accept a somewhat higher figure. In focusing on a size of SDR 150 billion, I hope that the Executive Directors

can reach a reasonable compromise between two conflicting objectives, namely, helping to maintain the Fund's central role in the international monetary system in the early 1990s, and gaining approval by legislative bodies of an increase in their national contributions to the Fund. Forceful action on the problem of arrears is necessary to facilitate that approval. There is a point at which the costs and risks for creditors become an obstacle to their acceptance of a large increase in quotas. The adjusted rate of remuneration is lower than would be the case in the absence of arrears. And, more important, creditors are less assured that they would be able to draw fully on the Fund themselves, should it ever become necessary for them to do so.

My authorities agree with the thrust of the aide mémoire; there are only a few points on which they beg to differ. They are not convinced that, in order for the Fund to effectively perform a catalytic role, it is necessary in all cases to maintain or strengthen its own financial involvement. To perform its catalytic function effectively, the Fund must be able to persuade the member country concerned to undertake and sustain appropriate policies. If large economic imbalances persist, adjustment will be necessary, whether or not Fund financing is provided. The Fund's involvement certainly makes a difference, but we should avoid sending a message to the international community that the Fund has an obligation to offer incentives for economic adjustment, or that the Fund is obliged to reward a country that undertakes adjustment. Such action by the Fund would represent a shift in responsibilities that should be rejected; we should stress that adjustment is in a country's own best interests.

The good arguments in favor of a larger Fund are sometimes blurred by contradictions. Mr. Ovi has already noted certain sentences in the aide mémoire which, apparently unwittingly, convey the impression that the need for purchases from the Fund will become greater in the future whether or not the global economic environment is favorable and whether or not member countries regain creditworthiness. The argument for a larger Fund clearly must be based on a worst-case scenario.

We should use the opportunity of the present quota review to bring quotas more in line with member countries' relative economic positions in the world economy. We could not accept an approach that would incorrectly present Germany's position in the Fund, which, at present, is appropriately reflected in Germany's ranking in actual and calculated quotas; it is also appropriately represented in nearly all the quota calculations that we have seen to date. Quota increases should be distributed in a uniform manner. My authorities carefully studied the staff paper on the share of developing countries. They detect no convincing arguments for departing from the principle of distributing quota increases in a uniform fashion. Accordingly, they have doubts about the two basic approaches described in the staff paper, which do not seem to be in line with this overriding principle. However, I understand the concerns of the Executive Directors of developing countries, and part of these concerns could be alleviated or even eliminated by a substantial increase in quotas and by a combination of selective and equiproportional increases similar to the one used for the Eighth General Review. Accordingly, my position is very close to Mr. Ismael's third option and to Mr. Ovi's position.

The Chairman said that he agreed with Mr. Grosche that countries must adjust, and that it was in their own best interest to do so, whatever amount of financing might be available from the international community. One of the Fund's purposes, as stated in its Articles, was to give confidence to members by making the Fund's general resources temporarily available to them to support proper adjustment programs. The Fund must stand ready to achieve that purpose.

Mr. Posthumus made the following statement:

The aide mémoire on the size of the Fund includes a number of interesting arguments. While a substantial increase in the Fund is desirable and necessary, a doubling of quotas might not be acceptable to all my authorities. A substantial increase should involve an increase that is much higher than the increase agreed for the Eight General Review, and such an increase has our support.

The Ninth General Review should be used to decrease substantially, or, if possible, to abolish the policy on temporary enlarged access. We take this position not because total access to the Fund's resources should be decreased, but because we have accepted the temporary character of the enlarged access policy, and the Executive Directors should therefore not continue to oppose its elimination. In addition, making the enlarged access policy, including borrowing, a permanent feature would represent an argument against quota increases.

It is of great importance that so many Executive Directors support a substantial increase in quotas, and particularly that so many countries with strong relative economic positions do so. Their support signifies a strong commitment to the Fund. I do not agree with Mr. Cassell's comments on the influence of the arrears problem. On previous occasions, I have consistently expressed our concern about the need to take preventive action in the area of arrears; and I have noted that the assuming that the Fund's main shareholders might wonder why they should place new money in the institution sends the wrong message. The Fund was not meant to transfer resources from rich countries to poorer ones. The Fund should continue to make its resources available to every country in every possible situation. Although I share most of Mr. Cassell's concerns in this area, the Fund should try to improve its role rather than retreat; in this connection, Mr. Grosche's comments are helpful.

Bringing quotas more in line with member countries' relative economic positions is vital to the Fund's existence. Therefore, the quota increase should take place in a manner in which the rights, votes, and responsibilities of member countries could remain closely interrelated. I sympathize with Executive Directors who favor an increase in the basic votes of all members, but since that step requires an amendment of the Articles, it should not be a part of the Ninth General Review. An equiproportional increase, together with a selective increase in roughly the same proportion used for the Eighth General Review is probably the best solution if the increase in quotas is to be substantial. A selective increase might be made on the basis of Method B, so that member countries with a calculated quota that is larger than their actual quota would share in the selective increase. Under this system, however, Japan would not be allocated a share commensurate with its relative economic position, unless the total quota increase were to be much larger than now seems possible. Therefore, in principle, I support Mr. Yamazaki's request for an ad hoc increase in Japan's quota, but in conjunction with the Ninth General Review. In other words, I support an approach under which Japan would obtain a position that is commensurate with its economic strength through a combination of a share in the selective increase and an ad hoc increase. Such a solution seems to be possible, and under it, smaller countries with substantially strengthened relative economic positions would also be treated fairly.

Mr. Ortiz said that he agreed with the previous speakers who had supported, at a minimum, a very substantial increase in quotas. He was surprised that Mr. Grosche believed that there was a conflict between the need for adjustment, which everyone recognized, especially by countries that were making adjustments and needed to make further changes, and the availability of resources from the Fund. In order to be successful, adjustment programs had to be well financed. It was difficult to understand why increasing the size of the Fund would send the wrong signal to commercial bank creditors. The resources in question should be seen as complementary to, and certainly not as substitutes for, commercial bank credit. At the same time, the need for financing was so large that even a very sizable increase in--a doubling--the size of the Fund would barely be sufficient to sustain realistic medium-term adjustment efforts. That conclusion would be fully supported by the information provided during the forthcoming world economic outlook exercise. The need for a doubling of the size of the Fund would be evident from the available information; there was no need for dogmatic or ideological arguments.

He sympathized with Mr. Abdallah, who had proposed an increase in the basic votes, Mr. Ortiz continued. Such an approach would of course require an amendment of the Articles, which was not likely to happen at the present stage. The quota review process was a zero-sum game, as the gains of some members were made at the expense of others. As Mr. Sengupta had stressed, equity and other considerations called for an agreement to maintain the shares of groups of member countries. He basically supported Mr. Kafka's position on the share of developing countries; if it was not possible to distribute increases in quotas on the basis of the objective of preserving the relative share of some blocks of countries, he was perhaps willing to proceed along the lines that Mr. Kafka had suggested.

Mr. Zecchini made the following statement:

> We support a substantial increase in the size of the Fund, possibly up to a doubling of present quotas. The aide mémoire clearly spells out the many strong arguments that justify such an increase, and we support them.
>
> Several arguments can be added to those mentioned in the aide mémoire. First, a relatively large increase in the Fund's resources is called for to make it easier to introduce selective adjustments and thus, correct the significant imbalances that remain between the actual and calculated quota shares of many member countries. Second, a better focus is needed in the sentence at the top of page 4 of the aide mémoire, since it might seem contradictory to say that a sharp reduction in imbalances could strain the economic and financial system. Perhaps the text meant to say that a strong effort to make a sharp reduction in some currently large deficits might lead to tensions in other external payments positions, particularly the balance of payments positions of debtor developing countries. Third, clear reference should be made to the argument that, given the magnitude of the present payments deficits and the longer time required to correct them, phasing out the enlarged access policy cannot be envisaged before a sizable quota increase takes place. Otherwise, there would be a very high risk that the international financial system would experience disruptive tensions. In addition, I strongly agree with two considerations that are mentioned in the aide mémoire, namely, that Fund credit and market credit are necessarily complementary components of financing packages in support of adjustment programs, and the quota increase is an important support of Fund borrowing.

At this juncture in the Fund's history, we have serious misgivings about the rationale for the proposals in the staff paper on the share of developing countries. One of the basic flaws of the idea of protecting the voting share of developing countries is the implicit assumption that this group always consists of the same countries. This is an erroneous assumption, given the dynamic state of the world economy; as that economy expands, developing countries are supposed to shift to groups of countries with higher levels of development, while new states might join the developing country group or other groups. This trend has occurred with the recent emergence of newly industrializing economies. As long as the world economy proceeds toward more advanced stages of development, it is logical to allow for a decline in the share of developing economies, as, over time, they account for a smaller portion of the world economy.

Another flaw of the idea of protecting a given voting share is that the voting power of the developing country group is a function of the fragmentation of this portion of the world economy into states. The greater the number of states formed in the same developing economic area, the more voting power is acquired by them as a result of the allocation of basic votes. However, this approach reflects only political arguments and serves only political purposes, not economic ones, which are the most relevant in the context of this debate. We cannot discriminate against large economies because they are large, and in favor of small economies because they happen to be small for several reasons, including historical and political ones.

Another weakness of the argument for protecting a given voting share is the benchmark used to establish that a certain relative voting power has to be increased. There is no plausible justification for assuming that it is appropriate to protect the current percentage of voting power of non-oil developing countries. Why is the 27.8 percent share at the end of the Eighth Quota Review more appropriate than the initial share of 22.1 percent? It could be argued that the latest share, 27.8 percent, is an inappropriate benchmark.

In addition, it is important to recall that the introduction of basic votes was a reflection of a compromise among the different interpretations of the Fund's functions at the time of its inception. In a mutual credit institution, which the Fund has become, it is generally accepted that voting power should be proportionate to contributions. The historical reasons that prompted the introduction of basic votes in 1944 do not seem either to exist today or to have the same compelling force. Among other considerations, the system of qualified majorities for the approval of the most important decisions of the Fund seems to protect fairly well the rights of the weakest or minority groups. Furthermore, by assigning fixed quantities to the basic votes rather than a fixed percentage share, the Articles seem to have implied, since the establishment of the Fund, that the relative share of basic votes could vary over time. In addition, after examining all the simulations by the staff on different alternatives, it is evident to me that any protection of the relative voting power of developing countries is at the expense of the share of industrial countries and not of other country groups. In view of this unfair implication, what reason should prompt the industrial countries to support the idea of protecting the voting share of developing countries?

Under the present rules governing the decision-making process of the Fund, the interests of developing countries are fairly well protected, and there is no urgent need to freeze the relative voting power at the present level to ensure their continuing influence. What is more important for these countries is the possibility of commanding a relatively larger access to Fund resources compared with the access of other members. In this connection, the Fund has already made great strides by adapting its policies and developing new facilities and mechanisms tailored to meet the relatively larger needs of these countries. Moreover, by allowing the actual quotas of these countries to exceed their calculated quotas, the Fund has contributed to the expansion of their access to its resources. In view of these considerations, while I favor a sizable increase in the size of the Fund, I see no compelling justification for an ad hoc adjustment of the relative voting power of developing countries no matter what subgroup among them is selected.

Mr. Dallara made the following statement:

We welcome the effort that was made in the aide mémoire to respond to concerns and requests made by Executive Directors--including this chair--on previous occasions with respect to further analysis of the role of the Fund in the 1990s and the potential need for Fund financing in order to provide a better, more comprehensive basis for judging the need for, and appropriate size of, a quota increase. The aide mémoire contains a qualitative discussion and analysis of some of the factors that will likely affect the role of the Fund and influence the demand for Fund resources in the coming years. Nevertheless, like Mr. Rye and Mr. Ovi, we were not fully persuaded by the approach taken in the aide mémoire. Indeed, it is difficult to accept the thrust of the argument that regardless of what happens in the world economy, there will be a need for a substantial increase in quotas.

We accept some of the arguments put forward in the staff paper. For example, it is persuasive to argue that, if creditworthiness does not return easily to some debtors in the near future, this will have implications for the need for Fund resources, while even if creditworthiness does return at an early stage for some debtors, there may well still be a need to use Fund financing at an early stage should their creditworthiness then begin to decline. However, the magnitudes involved are different from those suggested in the staff paper. If there were a trend toward improved creditworthiness for a significant number of member countries, that trend would, other things being equal, imply a smaller demand for Fund resources and less use of those resources than would be the case if creditworthiness were restored more gradually.

However, a quantitative aspect of the issues at hand remains to be fully explored. For example, some hypothetical calculations of the possible overall financing need of member countries in coming years and of the alternative financing sources that might be available would have been welcome. I recognize that such estimates would be difficult to make, but they would have provided a more comprehensive basis on which to make the required judgments.

Perhaps even more important than quantitative calculations are the nagging questions my authorities have about the role of the Fund itself. I recognize that the uncertain global environment makes it impractical to have a definitive judgment on the Fund's role, which will have to evolve in the light of changing circumstances. Nevertheless, we had hoped that some basic parameters of the Fund's role could be identified. For example, an important question is whether there is an expectation that the Fund will need to provide a large share of total external financing in coming years, depending on developments in private markets. The Managing Director has often emphasized that Fund financing should not be seen as replacing private capital flows. At the same time, some of the analysis in the aide mémoire might seem to imply that such an outcome might indeed be necessary. The question is clearly a difficult one.

Another difficult issue is the catalytic role of the Fund. I agree with Mr. Grosche that more attention could have been given to that role and its various components. The extent to which the Fund's capacity to play a catalytic role is a function of the soundness of its programs, and not the size of its financing, could benefit from further examination. Simply put, the question is whether stronger programs reduce the need for the Fund to provide financing. At first glance, it might be tempting to answer that question in the negative. Upon further reflection, however, it would be recalled that an element of the

Executive Board's approach to adjustment programs is that stronger programs deserve stronger support by the external financial community. Given any particular overall balance of payments financing need, it is not necessarily clear that the answer to the question is in the negative. It may well be that stronger and more persuasive performances under Fund-supported programs would create a need for the Fund to enhance its catalytic role through financing rather than through the soundness of programs; there is clearly a relationship between the two.

Another question, which has become a significant issue for the first time only during the 1980s, is how to reconcile the need for the Fund to continue to play an important role in solving difficult debt problems with the need to preserve the revolving character of the Fund's resource base. During the present discussion, the Chairman underscored the importance, as stated in the Articles, of the Fund being able to give confidence to member countries by making available its resources temporarily. It is widely recognized that the temporary aspect of Fund financing has come under strain. My authorities are particularly concerned about the need to preserve and, indeed, perhaps reaffirm in the international community, the temporary nature of Fund financing given the strains on the Fund's resources. Unfortunately, the banking community basically does not understand the revolving character of the Fund's financing. The Fund could either accept the banking community's attitude and the fact that, in some cases, the Fund might have to continue its financial support indefinitely, or the Fund could send a strong message to the banking community that the institution is a source of temporary payments financing, and that the temporariness of its financing must be preserved. In this connection, an interesting example is the Philippines, which is one of the most serious cases of prolonged use of Fund resources. However, it has also made significant and impressive adjustment efforts in recent years. Discussions that I and my authorities have held with the banking community suggest that it does not wish even to consider the possibility of a decline in Fund financing for the Philippines. In my view, this attitude creates a problem. I would not suggest that there is a need to halt Fund financing to the Philippines in the immediate future, but there are conceptual issues involving the Fund and other parts of the international financial community that have to be addressed and factored into the quota deliberations. We cannot approach the next decade without reaffirming in some fashion that we continue to view the Fund as a source of temporary balance of payments financing. This fact is not easy to reconcile with the Fund's other objectives, but it presents an issue that we must deal with.

I continue to be somewhat puzzled by the Executive Board's reluctance to consider an issue that I have raised on a number of previous occasions, namely, how the evolution of European financing arrangements and the prospective strengthening of those arrangements affect the potential need for Fund financing by industrial countries. In posing this question, I do not wish to imply in any way that industrial member countries should never resort to Fund financing. The issue at hand is whether the evolution of financing arrangements in Europe has ceteris paribus reduced the prospect that a European member country facing payments difficulties might resort to Fund financing. I do not have strong views on the possible answer to that question, but some empirical analysis of developments in the 1980s, compared with the 1960s, might be helpful.

My authorities have some questions about the technical assumptions that are made in the aide mémoire in support of the proposed doubling of quotas. The calculations in that paper are merely illustrative, but it is my impression that the aide mémoire assumes preservation of the upper tier of the access ceiling of 440 percent of quota. However, over the previous five years, even during the critical stages of the debt problem, average actual cumulative access has been of the order of 165 percent of quota. Only six member countries have outstanding access of more than 250 percent of quota. While I do not question the assumption that the Fund will need to continue to play a strong financing role, I doubt whether the ceiling of 440 percent of quota is necessarily an important benchmark for the purpose of this exercise.

I am not in a position to take a view on the size of a quota increase. Speaking personally, I am somewhat concerned about the range that is under discussion and about the emphasis that has emerged on a doubling of quotas. I would not deny that there are arguments for this position that have commanded the strong support of many Executive Directors. At the same time, the range of the present discussion might, at this stage, retard somewhat, rather than accelerate, agreement on a quota increase. A second personal observation is that it is potentially very unhelpful for member countries to indicate that a particular percentage increase in quotas is the minimum required by their authorities, thereby introducing a degree of rigidity into the negotiations that may well make them more difficult.

I agree with Mr. Cassell and Mr. Grosche that the arrears problem is relevant in the context of quotas. The problem may present a hurdle in the way of the willingness of creditors to embrace significant increases in their financial commitments to the Fund, and the arrears problem should be a factor in the Executive Directors' analysis of the appropriate size of the Fund in the future.

I wish to associate myself with Mr. Zecchini's comments on the developing countries' share of quotas. My authorities do not support the idea of any arbitrary constraints on quotas for any specific block of countries or the idea of increasing the basic votes. At the same time, my authorities are not insensitive to the wish of developing countries to retain adequate representation in the Fund.

Mr. Salehkhou made the following statement:

The aide mémoire makes a most convincing case for a substantial increase in the size of the Fund to enable the institution to fulfill its purposes and efficiently discharge its responsibilities during the first half of the 1990s. I broadly agree with the conclusions in the aide mémoire, which are a reaffirmation of the position that this chair has consistently maintained. There is a direct relationship between the Fund's ability to provide its own resources and its ability to catalyze other sources of financing. Only with adequate financing, together with appropriate program design and implementation, can the Fund encourage member countries to initiate and implement courageous adjustment efforts and effectively deal with political implications and uncertainties. Accordingly, I agree with the Chairman that member countries' absolute levels of access to Fund resources should remain unchanged and, that access limits should be effectively implemented. Furthermore, the Fund has been and should remain, a quota-based institution.

The world economic outlook, as well as projections by other multilateral institutions, including the World Bank's World Development Report, all point to a high degree of uncertainty in the medium term. Commodity and oil prices continue to be depressed, and no relief is in sight. The debt situation remains potentially explosive, and imbalances and structural deficiencies in industrial countries persist. The Fund's prominent role in promoting international financial stability and its central role in the debt situation leave little doubt about the need to strengthen its resources to enable it to perform its function efficiently. The size of the Fund in relation to the magnitude of member countries' payments imbalances should be restored to historical levels if the smooth functioning of the international monetary system is to be ensured.

The crucial role of the Fund in encouraging member countries' trade liberalization efforts, by providing adequate financial support, hardly needs to be emphasized. The same is true of the Fund's efforts in assisting debtor member countries to re-establish and/or to retain their creditworthiness.

If history is a useful guide, we should not overlook the potential need of some industrial countries to use Fund resources. The fact that such a possible need is not included in the projections only strengthens the case for a substantial increase in quotas. Moreover, the temporary nature and small size of the resources available under the structural adjustment and enhanced structural adjustment facilities should not in any way weaken the case for a substantial increase in quotas. My authorities therefore strongly endorse the Chairman's call for doubling the size of quotas.

A careful examination of the staff paper on the share of the developing countries in the Fund clearly shows the complexity of the issues involved in a fairer distribution of quotas among the membership. On the one hand, liquidity considerations and the need for the Fund to rely on its own resources call for the uneven distribution of quotas and voting shares in favor of industrial countries. On the other hand, the cooperative character of the Fund and the need to promote and support financially the adjustment efforts of borrowing members call for those countries to participate more actively in the Fund's decision-making process. These objectives are admittedly conflicting, and reconciling them has not been an easy task; I would be surprised if the Executive Directors could reach any definitive conclusion today.

While I personally sympathize with Executive Directors who favor maintaining the quota and voting shares of the non-oil developing countries, especially those eligible to use the structural adjustment and enhanced structural adjustment facilities, in the absence of any clear instructions on the matter from my authorities, I wish to reserve my position. However, I also wish to reaffirm my position, taken during the previous discussion on quotas (EB/CQuota Meeting 88/7), that my authorities prefer Method B, with a short list of member countries eligible for selective increases and a 50/50 apportionment of quotas of SDR 180 billion.

I wish to reaffirm my Iranian authorities' position, which was presented to the Executive Board at EBM/84/41 (3/14/84), when the Executive Board was requested to give sympathetic consideration to my authorities' request for an ad hoc special increase in the quota of the Islamic Republic of Iran. Iran was unable to participate in the Seventh and Eighth General Reviews of Quotas because of parliamentary timetables and other special circumstances then prevailing.

Mr. Morales said that he continued to support a doubling of quotas and felt that the distribution should be as equiproportional as possible. He fully agreed with the arguments and conclusions in the Managing Director's aide mémoire. On previous occasions, he had presented the arguments his authorities had put forth about why they did not attach much value to calculated quotas as a factor in the distribution of quotas. In that connection, his chair had previously expressed its views on the various alternatives that had been presented. Any quota structure must be compatible with levels of absolute access for each member country that would ensure that the Fund could play an important role in those countries. Accordingly, any adjustment in the structure of quotas should not leave any member country with an insufficient level of access. In addition, the quota structure should be adequate to generate the needed level of financing. Those arguments were fully consistent with the view that the share of developing countries in the Fund should not be reduced from its present level.

The staff paper on the share of developing countries in the Fund contained two alternative proposals, Mr. Morales noted. The first, an increase in the basic votes, was the most direct way in which to restore the relative importance of those votes in the Fund, but it would require an amendment of the Articles, which could significantly delay the adoption of decisions on the Ninth General Review. Moreover, that alternative would merely correct the share of votes of developing countries; it would not correct their share of quotas. The second method, an increase in quotas under the Ninth General Review to maintain the developing countries' share of quotas, could be achieved through a fixed increase in quotas equivalent to the 250 votes of each member country. He strongly preferred an alternative that would distribute the quota increases under the Ninth General Review in a way that would keep the quota or voting power of the non-oil developing countries at the present level.

He fully supported a significant and prompt aggregate increase in quotas, Mr. Morales stated. There was an urgent need to maintain the Fund's presence in the international financial environment and to strengthen its catalytic role. Nevertheless, the possibility in theory that the developing countries' position in the Fund could be weakened under the Ninth General Review remained a cause for serious concern. Executive Directors should continue to examine every possible way to avoid that unacceptable outcome.

Mrs. Ploix made the following statement:

> I fully agree with the main line of reasoning in the aide mémoire that supports the Managing Director's call for a

doubling of quotas. However, I would add a few broad arguments in favor of this proposal to the specific arguments that are fully made in the aide mémoire.

First, the issue of the size of the Fund should be seen as a problem relating to the critical mass of Fund resources in relation to world economic and financial variables. It is important to remember that the Fund is a financial institution and as such will retain a significant role in the management of world financial problems only if it continues to have substantial and readily perceptible financial weight. This conclusion would remain accurate even if the Fund's catalytic role were to be reinforced, since, in order to exercise its leverage, the Fund must be perceived as a credible player.

Second, the relative size of the Fund is also important in the context of other international lenders at a time when an agreement has been reached on a substantial capital increase for the World Bank. An insufficient quota increase in the Fund would only increase the gap that already exists between the two institutions' financial resources, thereby seriously undermining the widely supported efforts to promote well-balanced collaboration between them.

The Fund cannot expect to muster financial contributions from commercial banks and official creditors only by certifying the adequacy of adjustment programs. The Fund has to comply with the old saying to "put its money where its mouth is." This conclusion underscores the fact that an approach based on confining the Fund to a purely technical role would be unrealistic.

Third, it is widely acknowledged that the Fund has to rely primarily on its quota base. The excessive cost of borrowed resources and their short-term maturity, together with the associated "mismatch" problem, makes borrowed resources unsuitable to meet the Fund's needs.

The necessary substitution of ordinary resources for borrowed resources cannot take place without a substantial increase in quotas, unless there were to be a sharp curtailment of access limits, which should be avoided in light of the protracted external difficulties of a large number of member countries.

Another factor that has a bearing on the desirable size of the Fund is the so-called self-financing ratio. This ratio is at present very high by historical standards, but it seems unwise to assume the continuation of this trend in determining the size of the Fund that would allow present access limits to be maintained. Such an assumption implies that most industrial countries would remain structural creditors and most developing countries structural debtors. This split is clearly inconsistent with the monetary nature of the Fund, as it tends to sanction the Fund's financial role as an aid agency. In determining the size of the Fund, an allowance should therefore be made for the potential use of Fund resources by industrial countries.

As to the developing countries' share in the Fund, I personally sympathize with Mr. Ismael, but my authorities are greatly reluctant to endorse a split in the membership between industrial and developing countries. In addition to the technical difficulties associated with the classification of countries, the preservation of the Fund's unity should be seen as a matter of priority. It is therefore difficult to endorse the approach consisting of pre-empting a given amount of the quota increase in favor of developing countries.

The alternative examined by the staff is the possibility of increasing the basic votes for the whole membership. In the context of the quota review, basic votes have to be increased significantly if the developing countries' voting share is to be maintained. However, this suggestion does not appear to be very practical, because it involves an amendment of the Articles. Despite this major impediment, this issue should be kept under consideration, as a decline in the smaller developing countries' influence in the Fund should be avoided.

In a short-term perspective, I tend to feel that maintaining adequate access to Fund resources is a more pressing need for lower-income developing countries. This objective could still be reached, even if it proved difficult to avoid a decline in their quota share as a group. To this end, access limits must be maintained at an appropriate level.

Mr. Dai made the following statement:

The aide mémoire contains some very convincing arguments for a doubling of quotas. It is clear that the need to enhance the Fund's role in promoting member countries' growth-oriented adjustment and in catalyzing financial flows to debtor countries calls for such a meaningful and timely increase in quotas. The uncertain economic prospects--including fluctuations in exchange rates and commodity prices, and increases in interest rates--imply an increased potential demand for Fund resources, as member countries have become more vulnerable to the shifts in international financial markets. A substantial increase in quotas is justified to ensure that member countries' access to Fund resources remains unchanged. Therefore, we fully support the Chairman's proposal for a sizable increase in total quotas.

I will now comment on the issue of the share of developing countries in the Fund. The requirement of those countries of an increase in their share in the Fund is in line with the need for reform of the existing inequitable international monetary system. The present share of the developing countries is already incompatible with their increasing role in the world economy. There are more than 100 developing countries in this important cooperative international institution, but they have only a weak voice in the making of policy decisions. Increasing the share of the developing countries in the Fund through the Ninth General Review would be an important step toward correcting these inequities. Since the Eighth General Review, there has been a declining trend in the share of the developing countries in the Fund. To halt this decline, as this chair has stated on many occasions, the share of the developing countries should at least be maintained at the present level; in particular, the deteriorating position of the poor member countries should be given special consideration.

During the previous discussion on quotas (EB/CQuota Meeting 88/7), my authorities expressed support for Mr. Ismael's proposal regarding a change in the basic votes. They still hold that view. The basic votes have not been adjusted since the Fund was established, more than 40 years ago. As a result, the relative importance of the basic votes has been substantially reduced--from 11.2 percent of total votes, when the Fund was established, to the present 4 percent. The need for adjustment and, hence, increasing the importance of the basic votes, have been issues for some time. However, since changes in voting power involve an amendment of the Articles, which would be time consuming, we can agree to take this matter up at a later date. Taking up this matter should not pose any insurmountable difficulty. If the number of Executive Directors could be changed to 22 in light of changing realities, we should be able to reconsider the number of basic votes designed in the mid-1940s, when there were only 44 member countries with total quotas of about $7.7 billion.

I do not see the rationale for rejecting the genuine wish of the developing countries to maintain their relative position in total quotas on the grounds of uniformity of treatment of members. If we genuinely wish to preserve the principle of uniformity of treatment in the quota review exercise, the only true and complete uniformity would be in the form of equiproportional increases. However, under this approach, the selective or special increases requested by a few of the large member countries would be ruled out. In fact, special, nonuniform practices have to be considered from time to time when circumstances so demand. For instance, after the oil crisis in the early 1970s, the interests and tremendous changes in the economic position of the oil developing countries were well taken into account through the doubling of quotas under the Sixth General Review. It is apparent that, in the past, special and nonuniform treatment has been considered and applied in practice. I am not convinced that, on the grounds of uniformity of treatment, the current request by developing countries is not a valid one.

Mr. Ortiz considered that Mr. Dai's point concerning uniformity was well taken. It was difficult to see how the Executive Board could comply with requests for special quota increases without acting inconsistently with the principle of uniformity of treatment. If the Executive Board were to set the principle aside for the purpose of approving special increases for some countries, it would be difficult to avoid taking the same step for other countries. Accordingly, if an ad hoc increase for Japan were approved, it should not be at the expense of member countries that were inadequately represented in the Fund; it should be at the expense of members whose quota shares were relatively large, such as the United Kingdom's.

Mr. Finaish remarked that Mr. Ortiz's points were well taken. As to the other issues under discussion, a substantial increase in the quotas, possibly a doubling of the present quotas, was fully warranted by current and prospective developments in the world economy and by the role that the Fund was expected to play in the coming period. The Managing Director's aide mémoire was convincing and helpful.

He fully supported the objective of preserving an adequate share for developing countries in the Fund, Mr. Finaish continued. He had an open mind on the means to achieve that objective, and he could support any practical and feasible mechanism that could preserve the share of developing countries as a group, in terms of both quotas and voting power. He continued to believe that in deciding on the size of the quota increase and on the method of distribution, Executive Directors should pay attention to the need to substantially narrow the discrepancies between actual and calculated shares of member countries.

Mr. Zecchini commented that he understood Mr. Ortiz to mean that some member countries' relative voting power was greater than their relative quota share. Mr. Ortiz had mentioned one industrial country in particular, but he himself wondered whether that situation was not typical of a relatively large number of developing countries as well.

Mr. Ortiz said that his main point was that if the Executive Board decided to depart from the principle of uniformity of treatment to grant a special quota increase for one country, it could also, on the basis of the same principle, attempt to maintain the relative shares of some groups of countries. If the Executive Board intended to accept requests for special quota increases, it would be appropriate to do so at the expense of countries whose voting shares exceeded their calculated quotas; a number of developing countries were in that situation, and that approach, taken to its extreme, would have to take those countries into account as well. However, his main point was that the Executive Board would be breaking with the principle of uniformity of treatment by approving special quota increases.

Mr. Nimatallah remarked that the break in uniformity of treatment was a feature of his own suggestion, made at the previous discussion on quotas (EB/CQuota Meeting 88/7) that when ad hoc or selective quota increases were granted, the usual consequential deduction from other members' quota shares could be minimized, as far as the smaller countries were concerned, by placing most of the burden on countries with large quotas. He continued to believe that that approach was a practical one.

Mr. Zecchini commented that including certain developing countries in the counterpart of the ad hoc adjustment, as Mr. Ortiz had mentioned, would conflict with the requests of some Executive Directors to preserve the share of developing countries in the Fund. That fact underscored the complexity of the requests by some Executive Directors to give special treatment to certain groups of member countries.

Mr. Posthumus remarked that the present debate seemed to cover two different kinds of special requests, one to bring member countries closer to their calculated quotas, and another to keep them away from their calculated quotas.

Mr. Santos made the following statement:

> During previous discussions, this chair favored a substantial increase in quotas. The arguments spelled out in the aide mémoire reinforce this conclusion, and we agree that a doubling of quotas is called for. During previous discussions on quotas, this chair stated that it was concerned about the decline in the voting power of developing countries and wondered whether the cooperative spirit of the Fund would not be jeopardized in the future by the results of the Ninth General Review. The staff paper explores possible ways in which to take this concern into account, at least partially.
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> Over recent decades, there have been significant changes in the structure of quotas and voting power in the Fund. Both the quota and voting shares of developing countries increased substantially in terms of percentage points until 1983. However, the calculations for the present review show a decline of about 1 and 2 percentage points, respectively, in the quota and

voting shares of developing countries. This is especially disturbing because the number of developing countries in the Fund has increased. These deviations should be corrected. In this connection, my authorities strongly support maintaining the shares of quota and voting power of the developing countries at least at the 1983 levels.

The basic votes have declined from 11.26 percent of total votes in 1985 to 4 percent in 1988. I am struck by the drastic decline, which has eroded the meaningfulness of the basic votes, and the great discrepancy in the distribution of voting power between groups of countries. There are still 120 member countries whose voting power is below average. In this connection, Mr. Ismael and Mr. Abdallah have put forward interesting and constructive proposals that deserve consideration as a part of the Ninth General Review. I can go along with Mr. Abdallah's proposals. However, given the considerable practical and political difficulties mentioned by some Executive Directors in taking Mr. Abdallah's approach, we should look at alternative approaches to preserving the quota and voting shares of specific groups of countries. My authorities support Method A, with a predominant equiproportional element and a short list of countries eligible for selective increases, as a means of distributing the overall quota increase among member countries. In addition, with respect to alternatives suggested to mitigate the decline of developing countries' shares, my authorities' preference is to at least maintain unchanged the present share of the voting power of the member countries eligible to use the enhanced structural adjustment facility.

Mr. Nimatallah said that the basic votes were needed to ensure that the access of the low-income countries would not be reduced, and that geographic representation in the Board would be maintained, as well as for political and equity reasons. Therefore, he could go along with any practical approach to maintain the vote and quota levels of these countries, including his proposal that the deductions from quotas following ad hoc and selective increases should be relatively small for low-income countries; accordingly, the quotas of members with larger quotas than members that receive an ad hoc or selective increase would carry the major burden.

Like Mr. Cassell, his authorities considered that a convincing case for a substantial increase in quotas had not yet been made, Mr. Nimatallah remarked. Therefore, he supported only a modest increase that would not exceed 25 percent. That approach was reasonable and practical. It was reasonable in the sense that it was suited to the situation that was likely to prevail in the early 1990s, compared with the crises of the early 1980s. Despite those crises, the Eighth General Review had not led to a doubling of quotas. Since a crisis in the early 1990s was not foreseen, a smaller increase would be in order. His position was practicable, because most member countries, including the United States, not to mention smaller ones, suffered from budgetary problems.

Obviously, the appropriate size of the Fund was a matter of judgment, depending on member countries' assessments of the economic environment in the near future, Mr. Nimatallah said. The following three issues that were mentioned by Mr. Dallara and others also were to be taken into account: the Fund's catalytic role and what was actually meant by it; how much the Fund would carry of the central banks' role; the temporary nature of Fund financing; and the need to preserve the revolving character of the Fund's resources, an issue that involved the question of overdue payments to the Fund. The Executive Board needed to consider those issues before reaching a decision on the appropriate size of the Fund.

Mr. de Groote made the following statement:

> In assessing the size of the Fund, the recent progress in cooperation among large industrial countries in the area of exchange rate stabilization must be taken into account. It is correct to say that the current situation does not raise the issue of reserve need for the three world currencies, since interventions are now aimed at counteracting an appreciation of the dollar and thus have a helpful effect on monetary aggregates in Japan and Germany, while intervention can be accomplished in the United States through sales of that country's own currency. The continuous implementation of a policy of more stable exchange rates might, however, at times make it useful for reserve centers to have additional resources at their disposal, especially when the aim is to counteract a depreciation of the dollar vis-à-vis the two other world currencies. Recent events have shown how useful SDR assets can be for reserve centers; in this connection, I recall especially the arrangements reached during the latest visit of the Japanese Prime Minister to the United States. The usefulness of resources available under the quotas might be equally relevant. Indeed, if instead of following an established routine for revising quotas, we had to start from scratch, we should be concerned mainly with the size of the quotas of the United States, Japan, and Germany, a size that has to be sufficient to allow these countries to assume fully their responsibilities as the world's monetary centers. Mr. Posthumus has stressed that the Fund should be at the disposal of all its members, and not only of the group of developing countries. Let us first and foremost not forget those members on which the functioning of the present system of cooperation around more stable exchange rates rests.
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> The problem of the quota share of developing countries cannot be dealt with independently of the size of the Fund. If after the quota increases and after we return to a normal access

policy, the access of developing countries remains unchanged in absolute amounts, or even increases, the problem of the distribution of quotas will appear in a very different light. Therefore, priority should be given in this discussion to the size of the Fund. If the distribution issue comes first during the debate, there is a danger that the trade-off between the size of the Fund and the corrective actions in the distribution in favor of developing countries will turn out to the disadvantage of the latter group. In mentioning this, I raise merely an issue of strategy, not of substance.

As to the substance of the matter, I share the preoccupation of those Directors who do not wish to see a reduction in the developing countries' access to Fund resources. In examining this question, we should not forget, however, that the position of those countries is now already protected by a number of special facilities; at present, the total potential access to Fund resources of developing countries is considerably greater than the potential access of industrial countries. In any event, I would oppose any solutions that would threaten the representation of all the present constituencies in the Executive Board. The minimum of votes required for the election of an Executive Director should enable all the current constituencies to keep their seats. Further work could perhaps be done on the question of minimum votes required for the election of an Executive Director.

A relatively large increase in quotas is needed to make meaningful selective increases possible. Mr. Zecchini has convincingly developed this point.

At an early age in the discussion, we should examine the modalities for settling the increase in quotas. I previously suggested an allocation of SDRs for this purpose.

A certain amount of crystal-ball gazing is involved in our exercise on the appropriate future size of the Fund: we do not know what the future holds in store. Fund quotas exist for the same reason as member countries' reserves--countries need them because the future is uncertain. At present, we should consider readjusting what could be regarded as insurance coverage; if we have to err, it is important to do so on the safe side: the resources of the Fund should be sufficient to allow it to face circumstances that we cannot correctly forecast today, without having to borrow. The management and the Executive Board have made frugal use of existing Fund resources in recent years. There is no reason to believe that more lax policies would be implemented if the Fund had more resources at its disposal. It is the Board's role to avoid such an outcome.

I favor conducting an objective study of the financial arrangements among European countries, as Mr. Dallara suggested, but not a study that would look only backwards, since European monetary integration is very much a subject for coming years. Without trying to predetermine the conclusions of such a study, I would submit that, contrary to those who believe that EEC integration would make the Fund a less relevant institution for the industrial world, an important and increasing role can be expected for the Fund as the central agency and, in some cases, as a lender of last resort, in the relations between the ECU, the yen, and the dollar in a system of more stable exchange rates.

I agree with Mr. Dallara that we could broaden our approach to the subject of Fund quotas by considering the respective roles of the Fund and markets in the financing of deficits, given the temporary nature of the use of Fund resources. In this connection, Mrs. Ploix mentioned the notion of critical mass. This notion seems to be highly relevant. Another consideration is that the market will most likely never grant conditional credit. It will remain the Fund's role to assess a member country's position and to support the required policies with the appropriate amounts of financing at the initial stage of program implementation. The adjustment will therefore always have to follow roughly the same pattern in terms of the respective contributions by the Fund and other financing sources, starting with a predominant Fund contribution that will have to be larger if the program is more fundamental, because in such cases the uncertainties for the balance of payments are also relatively great; the time in which the markets could be expected to come to the support of the program might be long. Even in the case of successful program implementation by Turkey, some three and a half years has been needed to restore the country's spontaneous access to external financing. Mr. Dallara mentioned the case of the Philippines, and even more time might be required for that country to restore its spontaneous access to external financing. There might also be some cases in which the markets will have no incentive to take up their share in financing the process of rehabilitation. We should not draw from those cases the conclusion that because the markets refuse or hesitate to play their part--for reasons that might be due, for instance, to considerations about their portfolio distribution--the quality of the program is necessarily inferior. We should also avoid referring to these cases as if they implied that the Fund had bailed out the banks. Rather, the Fund is assuming its responsibilities in circumstances in which the banks, for reasons of their own, do not regard, at a particular moment, a certain country as being a desirable customer, irrespective of the success of the country's reform program.

The Chairman commented that even in cases like that of Turkey, in which a highly successful adjustment program had been implemented, the economy could remain vulnerable, and continued adjustment could require further adequate Fund support.

Mr. de Groote remarked that, in the case of Turkey, and probably other countries as well, the authorities could not have implemented strong adjustment programs and dealt with the implications of significant import liberalization and reserve accumulation if they had not had the assurance of the availability of exceptional access to the Fund's resources.

Mr. Zecchini noted that reference had been made to the monetary and financing arrangements in the context of the European Communities. In that connection, it was important to note that those arrangements placed relatively great stress on market sources of financing, rather than on government sources. Of course, each source of financing had significantly different connotations with respect to availability and cost.

In considering the extent to which stronger adjustment required a relatively greater amount of resources, it was important to bear in mind the time frame of the particular adjustment effort, Mr. Zecchini said. Recent experience suggested that strong adjustment efforts typically required relatively greater resources in the initial stages, which then usually made possible reduced financing in the later stages of adjustment. It seemed fair to say that the stronger the adjustment, the greater the amount of financing required would be in the initial stages in order to make it possible for the authorities concerned to introduce far-reaching reforms of the economic system.

Mr. Nimatallah commented that another factor in the amount of financing needed for relatively strong adjustment efforts was the objective of sustaining a particular level of economic activity in the country concerned. The experience of Saudi Arabia suggested that adjustment involved reducing the level of economic activity over time to a sustainable level that was consistent with resources availability. If a country started its adjustment effort at a time when the level of economic activity was relatively high--for example, because of excessive borrowing or a period of high exports--the authorities would probably insist on sustaining that level of activity; they would then have to obtain additional borrowed resources to maintain the volume of imports needed to sustain the high level of economic activity. However, if the level of economic activity were reduced over time, the implementation of adjustment measures would mean that the volume of external resources required by the country should gradually decline, until the level of economic activity was reduced to a point at which it could be sustained by the country's own resources over the long term. The critical issue in that connection was the time period involved. It would naturally be difficult to know in advance how much time would be required to gradually reduce the level of economic activity to a sustainable level. Considerable and careful judgment concerning the time period would have to be made. The statement, the stronger the adjustment effort the more resources it would require, was an oversimplification.

Mr. Ortiz remarked that an increase in economic activity was not the only reason why a member country might wish to utilize additional resources. A country that was in the process of trade liberalization in order to shift resources from the domestic sector to the export sector might well have a temporary need for considerable additional resources to finance the increase in imports that was likely to result and which over time would lead to an increase in export capacity. In such cases, the need for additional financing would not necessarily result from increased domestic consumption or investment alone.

Mr. Grosche said that he agreed that, in considering the amount of resources needed to support an adjustment program, the time frame of the program must be taken into account. The Fund could provide substantial financing for strong programs if the programs would reverse undesirable trends and enable the country to repay the Fund. Longer-term, current account financing should be provided by other sources. In principle, developing countries should incur larger current account deficits, provided that they were sustainable. Therefore, appropriate financing needed to be secured; in that connection, it was important to stress the revolving nature of the Fund's resources and the need to avoid prolonged use of Fund resources by member countries.

Mr. Dallara considered that the point concerning the time frame of programs was well taken. The need for financing varied from one case to another. Depending on the way in which a program was being strengthened, additional financing might or might not be required. Strengthening through demand-side measures might not necessarily imply the need for as much additional financing as strengthening through supply-side actions. One of the relevant considerations in the quota discussion was the extent to which member countries were willing to integrate more clearly into program design supply-side measures and conditionality. Many member countries had clearly been moving in that direction in recent years by increasing the breadth of their adjustment programs. However, many member countries continued to be very reluctant--often for understandable political reasons--to integrate such efforts into Fund-supported programs. That issue would have to be further examined in the course of future discussions on the question of whether stronger programs merited stronger Fund financing.

The Chairman commented that, given the ongoing negotiations under the GATT, considerable efforts were being made to open up the international trading system. The Fund's approach should be consistent with those efforts. If member countries' measures to liberalize trade temporarily increased their balance of payments deficits, additional conditional financing would be called for.

The Deputy Treasurer commented that absolute access levels had not changed in the 1980s and the aide mémoire implicitly assumed the need to continue those absolute access amounts in the coming period. That assumption was thought by the staff to be fully reasonable in view of the economic uncertainties of the 1990s and because the Executive Board had taken the strong view that it wished to reduce, if not eliminate, borrowing by the Fund. In those circumstances, one had to assume either that demand for Fund resources in the 1990s would be very low, and that the increase in quotas could be limited accordingly, or that, as Mr. de Groote had suggested, quotas were a kind of insurance policy, and the Fund should at least maintain the "insurance" that it already had. The discussion in the aide mémoire on the demand for Fund resources was based very much on the latter approach. Some Executive Directors had suggested that the discussion in the aide mémoire on the rate of growth of the world economy was inherently contradictory. However, the staff felt that the insurance provided by the existence of adequate quotas should be maintained even if the rate of growth of the world economy rose, because individual member countries might nevertheless slip and require financial assistance. Furthermore, as Mr. de Groote had also suggested, the market did not provide conditional financing. The Fund was of course concerned only with providing conditional financing, and whatever the state of the markets, there would always be, in the staff's judgment, a need for conditional financing, and it might be demanded because of the reluctance of the banks to extend credit without the backing of the Fund. The hope was that the conditional financing would be complemented by commercial bank financing, but the likelihood was that in some cases Fund financing would not be complemented by the banks. In those cases, the insurance provided by Fund financing would certainly be needed, and possibly in relatively large amounts.

The Executive Directors agreed to continue their discussion on quotas on September 2, 1988.

APPROVED: February 10, 1989