

CONFIDENTIAL

COMMITTEE ON MEMBERSHIP - MOZAMBIQUE

Meeting 84/1
July 12, 1984

B. de Maulde, Chairman

Executive Directors

M. Finaish

Alternate Executive Directors

w. B. Tshishimbi
M. K. Bush

H. A. Arias, Temporary
N. Coumbis
E. I. M. Mtei
Wang E.

J. C. Corr, Secretary
S. J. Fennell, Assistant

Also Present

O. Kabbaj

S. H. Choi, IBRD. African Department: R. J. Bhatia, Deputy Director; N. Abu-Zobaa, J. C. K. Brou, Buu Hoan, S. Schiavo-Campo. Legal Department: J. M. Ogoola. Secretary's Department: B. J. Owen. Treasurer's Department: M. N. Bhuiyan, M. A. Lumsden. Advisors to Executive Directors: E. A. Ajayi, D. C. Templeman. Assistants to Executive Directors: J. Bulloch, M. B. Chatah, M. Lundsager, A. A. Scholten.

1. MEMBERSHIP FOR MOZAMBIQUE

The members of the Committee considered a staff paper on the calculation of a quota for Mozambique (EB/CM/Mozambique/84/1, 6/29/84).

The Chairman informed Committee members that the Mozambican authorities hoped that their application for membership and quota could be decided upon as soon as possible so that they could attend the 1984 Annual Meetings as representatives of a member country. Mozambique had also applied for membership in the World Bank and its affiliates.

The staff representative from the Treasurer's Department remarked that the calculated quota range for Mozambique in Table 11 of the staff paper should read SDR 61.32 million-SDR 65.25 million.

Mr. Mtei said that the calculation of Mozambique's quota should ideally not have been carried out in a hurry, because a considerable amount of information was required that was not easily available to the Fund. The Fund had limited experience with Mozambique, and close consultation between the institution and country would normally be appropriate. However, as Mozambique had wished to join the Fund by the time of the Annual Meetings, the staff had had to prepare the document for the Committee rapidly.

The size of the quota was particularly important to Mozambique, Mr. Mtei indicated. The staff had followed the usual methods for calculating the quota, and it had compared Mozambique with countries roughly similar in economic size. However, the staff had encountered a number of difficulties in trying to abide by the established rules, particularly in obtaining accurate statistics on the various factors entering into quota calculations. Further, the methodology employed by the Mozambican authorities to estimate GDP was different from that used by the Fund. In addition, data for 1980 had been used to calculate the quota range; during that year, economic output had been low because of adverse external factors. Indeed, the staff acknowledged that the available data on GDP significantly underestimated the economy's current productive capacity owing to Mozambique's adherence to the UN sanctions against Rhodesia and to attacks by externally supported guerrillas. The staff also referred to the "global social product" concept of national accounting used by the authorities in estimating GDP, which, because it excluded certain services, was likely to be on the low side. Furthermore, the actual stock of reserves as of December 1980, rather than monthly or quarterly averages of reserves, had been used for calculating Mozambique's quota. However, Mozambique's foreign exchange reserves had been rapidly declining for some years; in addition, the staff had valued the country's holdings of gold at SDR 35 per fine ounce, as was normal in quota calculations. Thus, Mozambique's reserve position had been underestimated, at only SDR 37.7 million.

A comparison of some quotas recently calculated for other countries joining the Fund would be illuminating, Mr. Mtei indicated. For St. Christopher and Nevis, the staff had recommended that the Membership Committee should accept the midpoint of the calculated quota range. The quota of Zimbabwe, even though it had been admitted as a member after the Seventh General Review of Quotas, had been calculated on the basis of the Sixth General Review of Quotas. Furthermore, 1972 data had been used, apparently because Zimbabwe's economy had suffered under international sanctions since the unilateral declaration of independence in 1965. Zimbabwe had thus been treated generously, and its initial quota in 1981 had been higher than calculated.

The countries with which Mozambique had been compared in the staff paper had, with one or two exceptions, much smaller economies, Mr. Mtei considered. Moreover, most of them were experiencing normal conditions, while Mozambique had been in a state of war, which had resulted in its GDP being unduly low. Most of the other countries maintained their

reserves in foreign currency, rather than in gold. Under an old agreement with South Africa, Mozambique had to maintain its reserves in gold, which should perhaps be valued at the market price, giving a total reserve figure of \$250.07 million.

The authorities were disappointed by the manner in which the quota had been calculated, Mr. Mtei continued. They believed that Mozambique's economic size fell roughly between that of Tanzania and Madagascar and that it should be compared with its neighbors, rather than with the countries included in Table 11 of the staff paper. While it might be difficult to revise the calculation of Mozambique's GDP, perhaps the quota could be recalculated under the assumption that reserves were \$250.07 million, with gold valued at market prices. The authorities had expressed their views clearly in a cable that they had asked him to bring to the attention of the Committee:

I have received through Ambassador V. Ferrao an IMF document on Mozambique's quota calculation to be submitted at a meeting of IMF Committee scheduled for 11:00 a.m. on 12th July. We have not had sufficient time to study it, but from the first reading we are somewhat surprised at so low a proposed quota.

The different formulas applied for quota calculations show the range between 61 [million] and 66.7 million SDR, and, when compared with other countries, the IMF staff suggests the quota of SDR 56 million for Mozambique.

The figures considered in calculation of the quota are those of a period in decline due to war situation, natural disasters, and other negative factors affecting the average situation of Mozambique.

Chapter VIII paragraph 2 of referred document clearly indicates that both GDP and reserves for 1980 are underestimated. Both GDP and reserves are critical elements in quota calculation.

On the other hand, comparisons with different countries do not lead to a correct situation as these countries are running in their normal course (of course, affected by international crisis) but are not affected by war. Before the sanctions on Rhodesia, Mozambique's reserves were significantly higher than those of 1980. Rhodesian aggressions and South African destabilization reduced the reserves.

We think that this specific situation of Mozambique should not penalize the quota calculation and hence the possible advantages deriving from our eventual membership.

The Chairman remarked that Mr. Mtei had pointed out two different problems of concern to the Committee. First, the estimates of GDP and reserves were low, partly because of statistical difficulties and partly

because of the disturbances that had affected economic output. In addition, the composition of reserves in Mozambique was unusual. Therefore, it would be helpful if the staff could determine the calculated quota range on the assumption that GDP had been 10 percent higher and 25 percent higher than the figure used in the staff paper. Furthermore, what would the calculated quota range be if it were assumed that the composition of Mozambique's reserves was in line, on average, with that of other member countries?

How the actual quota should be determined compared with the calculated quota was another matter of concern to Mr. Mtei, the Chairman noted. On the basis of the information in Table 11, the staff had suggested an actual quota for Mozambique of SDR 56 million. Mr. Mtei considered that it would be more appropriate to consider the ratio of actual to calculated quotas of those countries that were close neighbors of Mozambique--Zambia, Zimbabwe, Tanzania, Malawi, Swaziland, and Madagascar. Could the staff provide the ratios of actual to calculated quotas of those countries?

Mr. Tshishimbi stated that he agreed with many of the points made by Mr. Mtei. On a technical question, the staff, after explaining the difference between the two methods of estimating GDP, seemed to indicate that--even if the UN system of national accounts were used--the GDP figure would still be on the low side. Was the figure in Table 9 based on the UN system, or had the staff taken into consideration the authorities' calculation of GDP? The authorities, in their cable to Mr. Mtei, had indicated that the figure for GDP put forward by the staff was too low.

The staff representative from the Treasurer's Department stated that the GDP figures used in the paper had been provided by the Mozambican authorities, who had themselves estimated GDP on the basis of the UN system of national accounts. The staff had not manipulated the authorities' figures, but, where appropriate, it had converted them from meticals to SDRs. The staff's statement on page 35 of EB/CM/Mozambique/84/1 that the estimate of GDP was likely to be on the low side had been based on evidence that the estimate of consumption was probably low; however, it was difficult to say by how much. The GDP figures of many countries might underestimate their productive capacity, but, in calculating quotas, actual output rather than the productive capacity of a country was the relevant concept.

The established practice of the Fund, reaffirmed in the course of the Eighth Review of Quotas, was that all gold holdings of members were valued at SDR 25 per fine ounce, the staff representative continued. Although the staff could make many illustrative calculations based on different compositions of reserves, they might not have much of an impact on the calculated quota. For example, if the reserves were increased by 5 percent to SDR 47 million, the calculated quota would change only marginally; if the GDP figure were increased by 5 percent, the calculated quota range would also increase only slightly. Furthermore, new calculations would not be consistent with the policies and procedures followed in quota

calculations. Even though the staff considered the figure for GDP to be on the low side, a precedent might be set if the GDP figure were increased arbitrarily for quota calculation.

The reserve figures had also been provided to the staff by the Mozambican authorities, the staff representative from the Treasurer's Department indicated. In fact, the staff had derived gross reserves from net reserves on the basis of information provided by the authorities. It had tried to obtain quarterly and monthly data on Mozambique's reserves, but they had not been available. The figures that Mr. Mtei had referred to had been calculated from the balance of payments side; they were not based on the gross reserve concept used in the quota calculations.

The Chairman commented that, in considering an appropriate quota for Mozambique, Committee members must exercise judgment. The state of disruption in Mozambique had affected the level of GDP, and the country maintained a large proportion of its reserves in gold. He was not suggesting that the Committee should depart from Fund policy with respect to the valuation of gold at SDR 35 per ounce. Nevertheless, it would help the Committee if the staff would undertake the illustrative calculations along the lines that he had suggested. It would then be up to the Committee to determine whether that information was relevant to the issue being considered.

Mr. Mtei stated that he had examined the composition of reserves of those countries included in Table 11 of the staff paper; few of them had any gold holdings at all. It would, therefore, be relevant to recalculate Mozambique's quota on the basis of a composition of reserves suggested by the Chairman.

The staff representative from the African Department, referring to Mr. Tshishimbi's question, noted that the authorities had derived their GDP estimate from the demand side, although consistently with the UN system of national accounts. Indications were that private consumption had been underestimated. Furthermore, services might also have been underestimated. In 1982 and 1983, the percentage of services in total GDP had been much higher than in 1980; if the 1983 ratio had applied, GDP in 1980 might have been about 20 percent higher.

The Committee members agreed to resume their discussion in the afternoon.

APPROVED: November 20, 1984