

CONFIDENTIAL

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COMMITTEE ON RULES FOR THE ELECTION OF EXECUTIVE DIRECTORS

Meeting 00/1

3:00 p.m., July 13, 2000

O.-P. Lehmussaari, Chairman

**Executive Directors**

S.M. Al-Turki  
A. Barro Chambrier  
T. Bernes

B. Esdar  
A.M. JuL

H. Oyarzabal  
W. Kiekens  
K. Lissakers

M. Portugal  
A.S. Shaalan  
V.L. Kelkar  
G.F. Taylor

Y. Yoshimura  
K.-T. Hetrakul

**Alternate Executive Directors**

W. Szczuka

A.G. Zoccali  
G. Schlitzer, Temporary

G. Bauche  
C. Rustomjee  
A. Lushin  
S. Collins

E.J.P. Houtman

K. S. Friedman, Secretary  
M. Vindiola, Assistant  
P. Cirillo, Assistant

**Also Present**

Legal Department: R. C. Baban. S.C. Ho. Secretary's Department: S.J. Anjaria, Secretary; A. Mountford. Advisors to Executive Directors: B. Couillaut, A. R. Ismael,

N. Jadhav, C. Josz, M. Lundsager, M.F. Melhem, f. Zurbrugg. Assistants to Executive Directors: K. Gobe, K. Ongley, C.-P. Schollmeier, A. Stutt

## **1. RULES FOR 2000 REGULAR ELECTION OF EXECUTIVE DIRECTORS—DRAFT REPORT OF COMMITTEE**

The Chairman stated that the rules proposed for the 2000 election were essentially unchanged from the previous election in 1998. There were only a few procedural changes regarding when and how the ballots would be issued during the Annual Meetings. The Committee's main task was to agree on the recommendations with respect to two issues: the number of Executive Directors to be elected, and the minimum and maximum percentage of eligible votes required for election. At a recent meeting the World Bank Board had recommended that the number of elected Executive Directors remain at 19.

After a brief discussion, the Chairman noted that all Committee members agreed with the proposed decision.

Mr. Yoshimura said that he supported the decision on the number of Directors to be elected. However, according to the draft report, the decision was based on Board of Governors Resolution 36-3, which considered the composition of the Executive Board appropriate for various reasons, including the desirability of broadly maintaining the Board's existing geographical balance. He held a different view on the desirability of the existing regional distribution, and thus did not endorse the wording of Resolution 36-3.

Ms. Lissakers agreed with Mr. Yoshimura that the formulation of the report accompanying the draft Resolution to Governors was problematic. It gave no indication that there had been an intense public debate among governments at the time of the previous quota increase about whether or not the quota formula was sufficiently flexible to allow the adjustment of representation in accordance with changes in the global economy and the relative positions of member countries. There was also an ongoing debate among members about the representation on the Board. The report needed to take account in some way of that debate, and should signal that the Committee was taking the current decision as an exception to the Articles of Agreement, thus not changing the number of Directors or the distribution, while it further considered the quota formula and representation issues. The report should include some reference to those two issues, or it would create a misleading impression.

Mr. Bauche commented that the Committee should not mix the technical debate with the much more political issue of the distribution of quotas. The forthcoming debate would be on quotas, not on representation at the Board; thus he supported the current proposal.

Mr. Kiekens remarked that some Directors wanted to change the existing number of Executive Directors and the geographical balance of the Board, but that would not necessarily have the desired outcome. If the number of Directors were increased, it would probably not have the desired outcome, and if the number were reduced it would certainly not. Thus, the decision to maintain the number at 24 was precisely in the spirit of the agreement at the Annual Meetings in Hong Kong to preserve the representation of those who wished to be represented, which he fully supported.

Ms. Lissakers responded that the questions of the quota formula and representation were mixed. They were explicitly embedded in the decision as noted in paragraph 3.2 of Annex I of the report, which the Committee was currently discussing. It was not deciding on the Resolution language but the report that accompanied it. That report said in effect that the Board was not changing the formula or the composition of the Board because it was satisfied with the distribution. However, many members were not satisfied with the current distribution, and the report should note that in light of the Board's intention to carry forward the review of quota and representation issues, the Committee had decided not to change the composition of the Board for the 2000 election. That would be a more accurate reflection of Directors' views.

Ms. Jul commented that her understanding was that at the time of the Eleventh General Review of Quotas, the Board had decided that there would be no reopening of the issue of the size and composition of the Executive Board, and nothing had changed since then. There had not been a discussion on quotas, and no changes had been approved. Therefore, the decision and the understanding remained in effect. Once changes were made, they would be incorporated. As Mr. Bauche had said, it was not appropriate to mix the technical and political issues.

Ms. Lissakers noted that the discussion in Hong Kong there had included a complex, protracted, and controversial debate about the quota formula. The decision on the quota formula was not a straightforward decision to increase quotas by a certain amount. There had been a redistribution aspect, which in fact had reduced the shares of some developing countries. That had been a controversial issue, and in that context the Board had agreed and given assurances that it would not use the redistribution in the context of that quota decision to change the structure of the Board. In the Hong Kong discussion, Mr. Zoccali had expressed disappointment about the distribution, and said that he would support the consensus on the assumption that the quota formulas would be reviewed and revised. He had said that although developing countries were to lose 1.5 percent of relative quota share as a result of the decision on the quota increase, they would in fact not lose representation. The decision about not opening the issue of representation on the Board had been in the context of that redistribution formula. Many Directors had said that they did not like the consensus and wanted to review the formula as it was not considered representative, in addition to which the Board of Governors had already asked the Board to move expeditiously to review the quota formula immediately following the 1997 decision. That point had thus been raised, although in a way that was not reflective of the current reality, the state of debate, or the attitudes among members. Mr. Yoshimura was making the point that the language of the draft report should reflect that reality.

Ms. Jul said that the summing up of the meeting in Hong Kong apparently supported that changes would be made.

Ms. Lissakers noted that an 85 percent majority was required to continue to make an exception to the Articles. She was not proposing to her authorities that they exercise a veto over that decision. Nevertheless, she and other Directors wanted some language in the report

accompanying the Resolution that reflected the current state of the debate among members. It was not clear whether the quota formulas would be changed or whether there would be grounds for changing the composition of the Board, although the situation had changed since the Resolution was adopted in 1981; the draft report did not reflect that. There was also nothing in the Hong Kong decision that precluded changing that language or the structure of the Board. However, that was not the issue. She was not proposing changing the decision, only the draft report to reflect the current state of debate. A number of Governors, including the U.S. Governor, had said that the issue should be examined to see whether the quota formulas were reflective of economic reality and whether the representation on the Board was correct, without prejudging the outcome. There should be some language in the report that reflected those points.

Mr. Esdar said that he had a problem with the proposal, because including a sentence saying that the Board had been asked to look into the quota formulas, then recommending that the Board representation be kept as it was, gave the impression that the quota formulas also referred to representation. It gave the indication that the outcome of the quota discussion was not only a question of the distribution of quotas among members, but also an issue of representation on the Board. However, it was difficult to establish that link. There had been an understanding at the Hong Kong meeting that as long as the quota structure was agreed, there would be no further discussions on representation, which was reflected in the report currently under discussion. However, there had also been a request by the Governors to look into the quota formulas. Including a comment about the issue in the report might give the impression that, after the reconsideration of the quota formulas, there would probably be a different representation rule and number of Directors. Paragraph 3.4 could include a footnote saying that the Board of Governors had asked members to look into the calculated quotas, but that that discussion had not yet been concluded.

Mr. Szczuka said that his position was close to that of Mr. Kiekens. He wondered what Ms. Lissakers sought to achieve by inserting the reference to the quota issue in the report. It was not new information, as it was generally known that there had been a discussion on quotas and there would be separate information to the Board of Governors on the quota issue. Inserting the reference to quotas into the draft report could undermine the credibility of the Board and create a difficult situation for members.

Mr. Taylor said that he presumed that there was no intention on any side to change the composition of the Board at the meeting. However, like Mr. Yoshimura, he had a good deal of difficulty approving wording about the desirability of broadly maintaining the existing geographical balance in the composition of the Executive Board, as well as the references in paragraph 3.4. The circumstances and context had changed considerably from when the wording of Resolution No. 36-2 had been drawn up. However, the proposed Resolution was intended to be a technical one, and was meant to move the issue along through the Annual Meetings until the next period when there would be a policy debate. Therefore, rather than injecting the policy debate into the report and expanding its wording, perhaps some of it should be deleted.

Mr. Yoshimura recalled that there had been an argument in favor of changing the composition of the Executive Board at the Hong Kong meeting, but the then Managing Director had said that that issue should be discussed after the quota formulas were reviewed. Thus, the composition of the Board and the quota formulas were closely related. That was why there should be some reference to the quota formula review, which would be coming up for discussion. That information would be especially useful for the Board of Governors when the report was submitted at the Annual Meetings.

Mr. Bernes said that he agreed with Mr. Taylor. The third sentence in paragraph 3.4 should be deleted, so that it would say that the circumstances prevailing at the time of the elections in 1992, 1994, 1996 and 1998 were substantially unchanged. He would also delete the words in the next sentence "in taking note of the sentiments of the Board of Governors expressed in Board of Governors Resolution 36-3" and say that the Executive Board recommended that there should continue to be 19 elected Executive Directors.

Ms. Lissakers commented that the second sentence in paragraph 3.4 would be incorrect, as the circumstances had changed.

Mr. Bernes suggested that the reference to the number should remain. It should say that the Board recommended that there should continue to be 19 elected Executive Directors. That was without prejudice to all of the other questions. The Board needed to have a policy debate.

Ms. Lissakers said that rather than deleting the second sentence, it should be replaced with a statement saying that, in light of the Board's review of the quota increase and in consideration of representation issues, there would not be changes for the 2000 election.

Mr. Collins said that the question of the quota formulas and the size of the Board were brought together in one sentence, which Mr. Esdar appeared to want to avoid.

Ms. Lissakers commented that the two issues were already joined in the report in a way that was misleading vis-à-vis the state of the public debate and the level of dissatisfaction with the system.

Mr. Esdar said that he strongly supported Mr. Bernes's idea. According to the text, the circumstances prevailing at the time had to be interpreted to say that there had been no conclusive Board discussion, although some authorities might have second thoughts; thus the circumstances would change only if the Board, in the policy discussion, came to the conclusion that there had to be a change. However, the Board had not had such a discussion, and the outcome of the discussion should not be prejudged. He would prefer to keep the language of paragraph 3.4 as it was, but in order to assist Ms. Lissakers and Mr. Yoshimura, he would accept the deletion proposed by Mr. Bernes.

Mr. Taylor said that he would not call the deletion a compromise, as Mr. Esdar had done. He supported the deletion and a corresponding deletion in paragraph 3.2. A

compromise position would be to use the wording that Ms. Lissakers had mentioned, which was neutral and factual, and put it in a footnote.

Mr. Kiekens remarked that there was no need to mix the issue of the number of Executive Directors with the quota formulas. In light of the existing quotas, the Governors had to decide how many Directors they wanted, but there was no consensus on that. There was only one solution, to have 24 members. If Ms. Lissakers wanted to propose a level of 23 members to the Board of Governors, she should explain why. If a Director wanted to propose 25, that, too, should be explained. The decision of the Board of Governors had to be made in the context of the existing voting power.

Ms. Lissakers commented that the current structure violated the voting formula of the Articles of Agreement, because a number of Directors fell below the 4 percent threshold. It could not be said that the issue of quotas was unrelated to representation on the Board. That was why paragraph 3.2 was constructed in the way that it was. The justification for the decision on the Board structure was based on a discussion about the distribution and the size of constituencies. The report should reflect the fact that not everyone was content with the distribution. Therefore, the current decision reflected the fact that the Board had still not resolved what it was going to do, if anything, with the quota formula and representation issues. The report should accurately reflect that situation. Mr. Taylor's suggestion of the footnote and deletions was quite constructive.

Mr. Houtman said that he agreed with Messrs. Kiekens and Esdar that the two issues should not be mixed. The discussion on the quotas had not yet formally taken place in the Fund. As long as that was the case, the Board should retain its formal legal position, not refer to some sort of vague discussion going on in the public, when no decision had been made.

Mr. Esdar commented that Mr. Taylor's proposed compromise was not really a compromise. It was important to put things together in a comprehensive way. There were two elements involved in the Board of Governors' decision taken in Hong Kong, the part quoted in the report and the request to look into the calculated quotas issue. He was prepared to retain paragraph 3.4 and to mention in a footnote that the Board of Governors had asked the Board to examine the matter. In that way, the Board would be comprehensive with regard to the results of the Hong Kong meeting, and would report on both of the elements.

Ms. Jul said that she supported Mr. Esdar's suggestion of leaving the paragraph as it was and adding a footnote.

The Chairman observed that there was not a consensus on how to amend the text of the report. Mr. Bernes's proposal to slightly redraft paragraph 3.4 would take into account the fact that the number of elected Directors would remain the same, at 19, and would accommodate the discussion of the quotas through a footnote saying what the Governors had themselves decided on the matter. It was not news to the Governors that the quota discussion was going to take place, because they had put the matter forward.

Ms. Jul said that she understood Mr. Esdar to say that the text of paragraph 3.4 should not be amended. If the third sentence were deleted, someone could present a challenge to the structure of representation, because it would no longer stipulate that the current representation should remain in effect. Ms. Lissakers had said that the issue was not based solely on the quota issue. If that sentence were dropped, that could perhaps affect the representation of the developing countries, which had been protected by the undertaking not to adjust the representation. Therefore, the matter should be left until there was a new quota review and a new decision.

Mrs. Hetrakul stated that she supported Ms. Jul's proposal to leave paragraph 3.4 as it was.

Ms. Lissakers remarked that she had two problems with paragraph 3.4. First, it said that the circumstances prevailing at the time of the election in 1992 remained substantially unchanged, which was not factually correct. Second, the sentence that said that there had been a decision at the Hong Kong meeting not to change anything was also not correct. There had been a decision not to use the redistribution of quotas agreed in Hong Kong as a reason for changing the structure of the Board at that time. However, the sentence in paragraph 3.4 was much more open-ended, as if the Board had decided that there would, for the foreseeable future, not be any change in the Board's structure. That was unconstitutional, in the sense that the Articles of Agreement required an affirmative decision every two years to have more than 20 Directors on the Board. That was the decision the Board was discussing. The sentence was therefore a distortion both of the history of what had happened at the Hong Kong meeting and of the legal facts.

The staff representative from the Legal Department said that paragraph 3.4 was factually correct the way it was drafted and did not raise a legal question. Regarding the second sentence of paragraph 3.4, the circumstances prevailing at the time of the elections of 1992 to 1998 remained substantially unchanged. The key word was "substantially." Moreover, even if the quotas and the formulas were to be changed, that did not necessarily mean that the number of Executive Directors would change. Thus, the statement was factually accurate, but Directors could amend it.

Mr. Portugal said that he had come to the meeting thinking that the proposals were merely a technical matter, but they had proved much more difficult than that. He had not participated in the Hong Kong discussion. However, the issues raised thus far would be difficult for all Directors; therefore, it was important to get as much consensus as possible. There was no need to include the second sentence of paragraph 3.4, as there was no need to say that the circumstances remained the same, or were different, in order to make a recommendation. Rather than discussing changes to the second sentence, it could be eliminated instead of the third one, as had been proposed. Ms. Lissakers did not object to the third sentence if it referred only to the Eleventh Quota Review; she had objected to the reference to the future period of time. Perhaps one way to deal with the matter would be to say that Executive Directors confirmed that there was no intention to reopen the issue of the size and composition of the Executive Board and the existing representation, because that

would make it clear that the issue was limited to the decision on the Eleventh General Quota Review.

Mr. Schlitzer commented that the second sentence in paragraph 3.4 was simply meant to indicate that in 1992 the Fund had reached universal membership. Thus, since 1992, although transition economies had joined the Fund, there had not been a substantial change in the membership. He preferred to leave paragraph 3.4 as it was, and would thus support the suggestion of Mr. Esdar to include a footnote referring to the revision of quota formulas.

Ms. Lissakers asked why such information should be included in a footnote.

Mr. Schlitzer replied that it was not appropriate to put a reference to a modification of theoretical quotas in the text of paragraph 3.4; it was more appropriate to include it in a footnote.

Ms. Lissakers commented that Directors could not say that the Hong Kong decision had been taken in the context of the an agreement not to change the structure of the Board, then say that they did not want to make any reference to the state of the current quota discussions and relate the quota review to the current size of the Board. There were three elements involved in the Hong Kong decision, which were referred to in the resolution. The first one was to change the quotas, both the size and the distribution. Second, it was decided in that context not to reopen the number and distribution of seats on the Board. Third, the Interim Committee had reiterated its view that the formulas used to calculate quotas should be reviewed by the Board promptly after the completion of the Eleventh General Review. During the Hong Kong discussion, Directors said that they would support that outcome on the grounds that they would review whether the quota formulas reflected world economic reality. Either references to the Hong Kong agreement should be eliminated, or the Board should accept that there was that kind of linkage. There was a quota formula review underway and it had future implications for the Board. It was important to be factually correct and up to date. The problem with the draft report was that it said that nothing had changed or would change. However, the issue was on the table, and it did have future implications.

Mr. Esdar remarked that Ms. Lissakers had given a strong commitment to the existence of 24 chairs, which he appreciated. It was true that the Board could not have it both ways. Therefore, Mr. Bernes's proposal to eliminate the reference to the Hong Kong agreement was still valid. That was a compromise proposal.

Ms. Jul said that she disagreed with that view, as she concurred with Ms. Lissakers that more information should be included, although the issues related to quotas could be put in a footnote, because they were less relevant to the issues at stake. That would still provide a full explanation, which was important and might affect issues in the future. It would thus be known that the situation might change in accordance with the outstanding request to review the quota formulas at the end of Eleventh Review of Quotas. There should not be a problem including that information as a footnote and thus providing a complete explanation.

Mr. Szczuka noted that the consideration of the quota formulas was under way, which was the changed circumstances to which Ms. Lissakers had referred. The Board of Governors' decision in 1997 was to review the quota formulas. Mr. Portugal's proposed amendment to the third sentence would make sense, because the decision was in light of the Eleventh Quota Review; thus there should be some kind of clarification that the decision on the Eleventh Quota Review should not lead to any readjustment in the structure of the Board.

Mr. Yoshimura agreed that during the discussion on the Eleventh Quota Review, the size and composition of the Board had been an issue. However, as Ms. Lissakers had emphasized, the understanding reached then was not meant to be permanent. And certainly, that issue was related to the quota formulas review, as had been mentioned in a communiqué of the Interim Committee. In 1998, there had not been an external review of the quota formulas. However, there was now to be such a review, and the Board would have a discussion of the report by the time of the 2000 Annual Meetings. Therefore, the relevance of the quota formulas review discussion increased significantly between 1998, when there was no substantial discussion, and the 2000 Annual Meetings in Prague, when there would be a substantial discussion on the quota formulas review. Mention of such developments should be made in the report.

The Chairman said that there was broad consensus that the reference to the review of the quota formulas could be included as a factual footnote. He proposed that footnote 2 say that the Board of Governors had also asked the Executive Board to review the quota formulas, and that review was ongoing.

Ms. Lissakers said that if the second and third sentences of paragraph 3.4 were deleted and the paragraph took note and the fact that the Executive Board recommendations focused on the 2000 election, not as a footnote but as part of the paragraph, she could support the text.

Mr. Kiekens suggested that Directors from developing countries should not agree with Ms. Lissakers's proposal. However, he could support the report if it mentioned that 19 Executive Directors were proposed and that the Board had been instructed to review the quota formulas, which gave an implicit message that, once the quota formulas had been reviewed, the agreement reached in Hong Kong on the composition of the Board under the Eleventh Quota Review would no longer be valid. However, that would not be fair. What had been agreed in Hong Kong was that, under the Eleventh Quota Review, the Board would remain as it was, which meant that the issue would be reopened when there was a Twelfth Quota Review. Whether the formulas were revised or not was not relevant. What was relevant when the Board took a decision on the number of Directors in a politically realistic way was voting power, not the quota formulas, which was totally different.

Ms. Lissakers remarked that Mr. Kiekens was taking legal license, because nowhere in the language of the Hong Kong agreement did it say that the intention was not to have any change until the Twelfth Quota Review. The discussion had focused on the redistribution of quotas, which caused some developing countries' share to fall.

Mr. Taylor asked whether the wording of the third sentence was exactly the wording used in 1997.

Ms. Lissakers replied that in 1997 there had been a long paragraph about the formulas, the distribution, and the overall increase, which involved a number of complicated elements. It also been said that, in reaching the complicated agreement, Directors had confirmed that there was no intention to reopen the issue of the size and composition of the Board, and the existing representation should not be affected by the change in the quota distribution.

Mr. Taylor noted that the language was the same, but as time passed, circumstances changed, and the wording was quite likely to be read in a different way. Perhaps the problem was not the wording but the fact that it could be misread. It was important to find some drafting that would fit everyone's position, which meant devising the shortest possible version. It appeared to be difficult for some Directors to eliminate the third sentence, so perhaps if that sentence were retained, it was possible to remove any capacity for it to be misread. The second sentence was less troubling, but it was possible to see how saying that circumstances remained substantially unchanged could be misread, thus that sentence could be eliminated. The most troublesome aspect of the paragraph was that it took note of the sentiments of the Board of Governors expressed in Resolution 36-3, which seemed to cast the issue into the indefinite future. If those words were removed, and the footnote written in the fairest possible way, as the Chairman had proposed, the text could work.

Mr. Kiekens said that the first part of Mr. Taylor's suggestion was acceptable. The second part was also acceptable but it was not wise, as it gave either in the text or in the footnote the wrong impression that once the quota formulas were reviewed, the composition of the Board would be reviewed as well. That was not what many Directors wanted to see as a consequence.

Mr. Bernes suggested that the paragraph could start with the first sentence, then continue with a sentence essentially noting the understanding reached in Hong Kong, and the fact that there was a quota formula review under way, and therefore, the Executive Board recommended that there should continue to be 19 Executive Directors for the 2000 election.

Mr. Esdar said that he had some problems with saying that there was a quota formula review under way. The review under way was examining the calculated quota formula, which was a different and difficult issue. The reference to the Hong Kong meeting should be eliminated and a recommendation made to keep the Board as it was. The second and third sentences and the reference to Resolution 36-3 could be eliminated, so that only the first and last sentences would be retained.

Ms. Jul said that Mr. Portugal's proposal vis-à-vis the third sentence, drawing the connection to the Eleventh General Review of Quotas, would be appropriate, and would indicate that the situation would not last forever. It was difficult to see why the reference to Resolution 36-3 should be dropped, as it reflected what had happened in the past.

The staff representative from the Legal Department said that, as Mrs. Jul had pointed out, the Resolution adopted in 1981 was an expressed direction to the Executive Board in setting the number of Directors for each regular election. The report to the Board of Governors should include all of the necessary factors, such as Resolution 36-3, so that the Board of Governors might reflect on what it did in 1981 and on the basis for the Board's decision to include only 19 Directors in the election. That fact was already included in paragraph 3.2. The reference in paragraph 3.4 could be removed and put into a footnote if necessary.

Ms. Jul wondered why the reference to Resolution 36-3 should be removed, as it did not refer to the issue of the Hong Kong agreement.

The staff representative from the Legal Department replied that he was not suggesting that the reference to Resolution 36-3 be removed but that it should stay in the report, as it was a direction by the Board of Governors.

Ms. Jul noted that Mr. Taylor had suggested removing the reference.

Mr. Yoshimura said that he did not see that it was necessary to refer to Resolution 36-3 in the report, especially because that Resolution did not accept that 19 Directors be included in the election, which the Board was going to adopt.

Mr. Bernes commented that the paragraphs preceding paragraph 3.3 dealt with the history and facts. Paragraph 3.3 said that there had been a decision in 1992 to increase the number of elected Executive Directors to 19. That information referred to all of the Board of Governors Resolutions that were still in effect and gave guidance to the Board's work. Given that Directors agreed on the precise recommendation, there were two choices in paragraph 3.4 that were factual and could find agreement. It could say, as Mr. Esdar had suggested, that since 1992 the Board of Governors had decided to maintain the number of elected Directors at 19, and thus the Board recommended that there should continue to be 19 elected Directors in the 2000 election. Or there could be a reference to the Hong Kong understanding and the fact that there had been a review of the quota formulas. He preferred the first, simpler solution.

Mr. Barro Chambrier agreed with Mr. Bernes that there was a consensus on the first and last sentences of the paragraph. A question remained about the information in the middle. He had the same recollection as Mr. Kiekens that the representation issue was not closed forever. There would be a Twelfth Review of Quotas, and there was a possibility—if there was a majority—of reopening the issue, although that would be difficult. concerned about the redistribution issue. It was premature to present an issue of changing the structure of the Board, as it would be extremely difficult to get a consensus on that. The matter before the Committee was technical in nature, and the current discussion should not be prolonged. That did not preclude the fact that the Board could reconsider the structure of the Board following the Twelfth Quota Review, as the Board could make whatever decision it wished. There was a deal struck in Hong Kong and it should be respected. Not doing so would create

a problem for subsequent discussion. There should be a way to present some factual points on the compromise in Hong Kong and to give some confidence that there would be changes following the Twelfth Quota Review, but it would be dangerous to have a conclusion on that. Directors could probably strike a compromise based on the third sentence, where a proposal had been made, or the footnote proposed by Mr. Esdar. It was clear that there would be a review, but the Board should not send a message without knowing clearly what it would do.

Ms. Lissakers said that, as Mr. Taylor had pointed out, the extrapolation from the Hong Kong language in paragraph 3.4 was open to interpretation. Mr. Bernes's proposal to remove the two sentences and add the footnote on the reference to the review of the quota was appropriate, although it should refer to the review of the quota formulas, as Mr. Esdar had said.

The Chairman noted that there were two proposals. One was to take the straightforward way, as Mr. Bernes had suggested, of streamlining the text, but moving the reference to the Eleventh Quota Review to a footnote. The second was the question as to whether to keep the reference to the Eleventh Review in the sentence in paragraph 3.4.

Ms. Lissakers remarked that the reference should be to the quota formulas. Whether the reference was in a footnote or the main body of the paragraph, it was still open to misinterpretation because it was out of context.

Mr. Barro Chambrier said that he did not see any room for misunderstanding. No one was saying that the issue was closed forever.

Ms. Lissakers said that Mr. Kiekens had asserted that the issue was closed until the Twelfth General Review.

Mr. Esdar noted that that review would be in the current or following year.

Ms. Lissakers said that there had been no agreement on that matter and it was thus open to misinterpretation. There was disagreement about the language that should be used. There was no commitment to not reopen the issue before the Annual Meetings.

Mr. Esdar noted that the Twelfth General Review would be concluded in 2001 or 2002, and it was already in the process of being prepared. Directors could come to the conclusion that nothing would change as a result of it, but the review had to be concluded in 2002, according to the Articles.

Ms. Lissakers said that she was making the point that there had been a commitment in Hong Kong, but other Directors suggested that the issue was off the table until the Twelfth General Review had been completed. There had been no such agreement.

Mr. Portugal noted that there was agreement on the first and last sentences, and no strong objection to dropping the second sentence. Therefore, the discussion focused on the

third sentence. The text could say that Executive Directors confirmed that there was no intention, with the decision on quotas in 1997, to reopen the issue of the size and composition of the Board. They need not say whether there was an intention to reopen the issue in other contexts but could be silent about that and only reflect what had actually happened.

The Chairman asked whether Mr. Portugal's proposal was acceptable to the Committee.

Mr. Kiekens said that he supported it and suggested that it could say that, at the time of the Kong Kong meeting, the then Chairman had observed that Directors had concurred with his view that the question of the size and composition of the Executive Board would not be reopened as a result of the approval of the increase in quotas.

Ms. Lissakers pointed out that the agreement in Hong Kong had been not to consider at that time the matter of the size and composition of the Board; the agreement did not mean that the matter could not be reconsidered before the Twelfth General Review.

Ms. Jul remarked that the situation had not changed. It was in order to accept the new quotas that the Hong Kong agreement had been reached. That agreement would hold until there was another increase in quotas.

Mr. Esdar said that there appeared to be a compromise. Mr. Portugal had agreed not to include the original wording with the quota decision, and Ms. Lissakers was prepared to accept the footnote saying that there was a request to look into the quotas formulas.

Mr. Kiekens asked what conclusion the Governors should draw from the revision of the quota formulas with respect to the number of Executive Directors once the quota formula had been reviewed.

The Chairman suggested that the point could be factual and the link not made.

Mr. Kiekens remarked that it only made sense to draw the Governors' attention to facts when they were relevant to the decisions they had to take, including the decision as to whether there should be 19 or 24 Executive Directors for the 2000 election. If other facts were added, the Governors would ask what purpose that information had for their decision, and there was none. One could go a step further and say that the next time that the quota formulas were reviewed, there would be a changed situation on which the Governors would have to reflect. Directors from developing countries should ask themselves whether they wanted to send the message that the protection they had obtained in Hong Kong could be lost because the quota formulas had been reviewed.

Ms. Lissakers considered that Mr. Kiekens was reading into the decision something that was not there. Nowhere did it say that as long as the Eleventh Quota Review prevailed, there would be no change in the size and composition of Board. That had not been decided in Hong Kong. What the Chairman had just said was correct and was in accordance with the

agreement that the size and composition of the Board would not be reopened as a result of the approval of the increase in quotas. That decision was not going to be used as an excuse for reopening the discussion on the composition of the Board. It had not been decided that the composition of the Board would remain the same as long as the Eleventh Quota Review prevailed, or until the Twelfth Quota Review. Thus, as a legal matter, Directors were proposing that the Governors could take a decision on the composition of the Board if they had to. The Articles of Agreement required an explicit, affirmative decision every two years. Therefore, to say that the Governors were bound by the quota review was not the intention or the original language, which was being misinterpreted.

Ms. Jul said that if the review of the quota formulas was not the relevant context in which to make a change, then the Board should not focus on it but just say that no agreement had been possible. If the agreement were not tied to the existence of the Eleventh General Review of Quotas, to what was it tied?

Mr. Esdar asked what the timing of the Twelfth Quota Review would be. If a Twelfth Quota Review were not concluded, would the Eleventh Quota Review remain in effect, or would the process automatically move to the Twelfth Review? What was the legal consequence of the five-year period in which that quotas were in effect?

The staff representative from the Legal Department replied that the Articles specified that a general review of quotas must be conducted every five years. There had been situations where the five-year period had slipped. A decision had to be made to extend the timing. Pending the completion of the review, the existing quotas remained in effect.

Mr. Barro Chambrier recalled that there had been a decision not to change the structure of the Board until there was a review of quotas. That was why the developing countries had joined the consensus in Hong Kong. The Twelfth Review of Quotas would take place before December 2002, and the next election of Executive Directors would be in September 2002. He could support the proposal by Mr. Portugal. However, it was important to remember that there had been a deal and to respect its spirit. The issue at hand was a technical one, and nothing precluded any Board member from reopening the representation issue in two years or even the following day.

Mr. Taylor commented that although he supported Mr. Esdar's solution of retaining only the first and last sentences of the paragraph, Directors had to accept the validity of what Mr. Barro Chambrier had said about the deal that had been made. It was important to agree upon the wording of the paragraph, however there must be no possibility of it being misinterpreted.

Mr. Portugal considered that the first sentence should be kept as it was. The second sentence could say that the Executive Board had recalled that in reaching the agreement on quota increases under the Eleventh General Review of Quotas in 1997, Executive Directors had confirmed that there was no intention with that decision to reopen the issue of the size and composition of the Board and that the existing representation of developing countries

should not be affected. The next phrase would say that the Executive Board recommended that there should continue to be 19 elected Executive Directors for the 2000 election.

Ms. Lissakers said that, with regard to the formulation of the reference to the Eleventh General Review, the language of the Chairman at the time could be used, saying that there was no intention to reopen the issue of the size and composition of the Executive Board as a result of the approval of the 1997 increase in quotas.

Mr. Portugal suggested that the sentence could say that there was no intention with that decision to reopen the issue, which would be a different formulation.

Ms. Lissakers asked what would be done about the review of the quota formulas.

Mr. Portugal replied that no consensus had yet been reached on that matter. Directors were discussing covering that matter in a footnote, as Ms. Lissakers had suggested and Mr. Kiekens had objected to.

Ms. Lissakers remarked that the two issues were related. The backdrop to the consensus in Hong Kong was that many DirectorsCincluding those from a number of emerging market countriesC had complained about the lack of adequate representation. Directors had said that they were only supporting the quota increase because there would be a review of the quota formulas. There was no problem with representation. However, her Governor had made a commitment to make sure that the formulas would be adapted to the changing realities in the global economy, and that the institution was representative. Countries were complaining about not having an appropriate voice and were pushing to have a separate institution. That should be reflected, in the report although not everyone could be satisfied.

Mr. Yoshimura noted that the deal that Mr. Barro Chambrier had referred to was that the size and composition of the Executive Board at that time would not be affected by the decision on the Eleventh General Review. On that point there had been different views concerning the composition of the Executive Board, but that was why the quota formula review issue had been raised; thus, the quota formula review had been part of the deal. Because of that review, there had been an agreement not to change the composition of the Board, as there was a need for a more relevant quota formula system to consider the composition and reflect the realities of the global economy.

Mr. Esdar said that it would be fair for the footnote to say that the compromise had also included the request by the Governors to look into the quota formulas.

Mr. Kiekens said that he would abstain, but observed that the compromise that should be reflected was not on the composition of the Board but on the quota increase.

Ms. Jul said that it would be acceptable to include that information. If there was any doubt about what the compromise had been, it could be stated as a fact that it was also agreed

at that time that there would be a review of the quota formulas. If, as Mr. Kiekens had said, that meant that the Board's composition would change, then it should, because that was in the spirit of the agreement. If it was determined to be in the context of the Eleventh Quota Review, that would be an issue for the subsequent review.

Mr. Barro Chambrier noted that there appeared to be a consensus forming. The only point remaining was a factual issue with regard to the quota formulas. If Mr. Kiekens could accept the point as a footnote, that would show that the spirit of the deal was as important as the letter. The Board should have the same understanding. Reviewing the issue of the quota formulas, even following the Twelfth Quota Review, would not trigger the question of the structure of the Board. That was a political choice that the Board had to make, so there was no link. The structure could be changed without taking into account the outcome of the Twelfth Quota Review. For example, there could be a change to have 25 seats in order to have more representation of developing countries. The main concern was related to the percentage that had been attributed to the developing countries in terms of the outcome and the ad hoc redistribution during the Eleventh Quota Review. The issue now was with regard to the footnote referring to the Governors' indications, and he had no problem with that.

Mr. Kiekens reiterated that the review of the quota formulas should not be the trigger to remove from the developing countries the protection that they had achieved at the Hong Kong meeting on the composition of the Board. The composition should not be changed, at least until the developing countries no longer needed that protection, which had been given because their voting power had declined. It would be acceptable if those countries were given the assurance that reviewing the quotas and changing the voting power structure would not be used to change the composition of the Board, so that the deal in Hong Kong would stay as it was agreed.

Mr. Taylor suggested that Directors express their views on Mr. Portugal's wording, with or without the footnote.

Ms. Lissakers remarked that Mr. Kiekens had convinced her to support Mr. Taylor's position that less was better. Thus, everything in paragraph 3.4 should be deleted, except the first sentence and the last part of the last sentence, which said that the Executive Board recommended that there should continue to be 19 elected Executive Directors for the 2000 election.

The staff representative from the Legal Department said that Ms. Lissakers's latter proposal was to amend the beginning of paragraph 3.2 by saying that, in exercising its powers to increase or decrease the number of Executive Directors to be elected, the Fund was guided, instead of saying it had been or shall be guided.

Ms. Lissakers reiterated that it should say that the Board of Governors had decreed in the Resolution that the Fund should be guided "by the objectives of ensuring."

The staff representative from the Legal Department explained that the first part of paragraph 3.2, subparagraphs (a) to (e), was taken from the report on the Second Amendment in 1976. Those factors were reaffirmed in Resolution 36-3 in 1981. That was the context in which the whole paragraph had been structured.

Ms. Lissakers suggested that the paragraph could read: "in exercising its powers... the Fund should be guided by," and then quote the Second Amendment, instead of raising the issue of 1993.

The staff representative from the Legal Department replied that Resolution 36-3 already said that, in reaffirming the factors cited in the Second Amendment.

Ms. Lissakers said that it would be best not to make a reference to it but to simply say that the Fund should be guided by the Second Amendment.

Mr. Yoshimura said that it was not absolutely necessary to decide on a number. The number should be deleted and thus a minimalist approach taken, so as not to confuse the discussion.

Mr. Esdar remarked that most governments would not understand the distinction between whether material was included in the paragraph or a footnote. Directors all had strong feelings about the future composition of the Board. Therefore, perhaps it was possible to follow Mr. Taylor's proposal to eliminate much of the information and leave the issue for Governors to decide.

Mr. Bauche said that he agreed with Mr. Esdar.

The Chairman asked the Committee members whether they agreed on the minimalist approach that had been proposed, most recently by Ms. Lissakers.

Mr. Kiekens said that Ms. Lissakers had proposed changing paragraph 3.2 by referring to the Second Amendment instead of the Resolution of the Board of Governors. However, it was not the Second Amendment that was binding in that case. In fact, the Second Amendment changed only the Articles of Agreement. As paragraph 3.2 mentioned, there was a report of the Executive Board to the Governors, but that report was not a binding legal instrument. What was binding was the Resolution of the Board of Governors, and that Resolution should be quoted. That had been the consistent practice for many years, and there was no reason to change it.

The Chairman asked whether Directors could agree to retain paragraph 3.2 as it was.

The Committee Secretary said that the consensus appeared that paragraph 3.4 would read: "In adopting the regulations for the regular elections in 1994, 1996, and 1998, the Board of Governors decided to maintain the number of elected Executive Directors at 19."

Then the final sentence would say that the Executive Board recommended that there should continue to be 19 elected Executive Directors for the 2000 election.

The Chairman asked whether the Committee agreed with that formulation.

Mr. Yoshimura said that in paragraph 3.2, the reference to the desirability of broadly maintaining the existing geographical balance in the composition of the Executive Board was not an essential part of the context of the decision on the number, and should thus be deleted.

Mr. Portugal said that it seemed that paragraph 3.2 was purely historical, stating what had happened in the past and not what should happen in the future. That was made clear by paragraph 3.3, which said that it was in light of the objectives and considerations in paragraph 3.2 that the Board of Governors had decided to adopt the number 19. All of those matters referred to the 1992 decision.

Mr. Taylor said that his preference was to delete paragraph 3.2. It could be made clearer that the point made in the paragraph was historical; if the Board said that it was in light of those considerations that decisions had been made, it would thus not be put in the present or future.

Mr. Collins noted that paragraph 3.3 was contradictory to paragraph 3.2, because the geographical balance had changed when the membership expanded. Therefore, the 1981 Resolution referred to maintaining the existing geographical balance, but by 1992 the existing geographical balance had changed. Perhaps Mr. Yoshimura was right that part of paragraph 3.2 was misleading.

The Chairman suggested the section of paragraph 3.2 starting with the word "furthermore" be deleted.

The staff representative from the Legal Department said that paragraph 3.2 was not contrary to paragraph 3.3. The part that Mr. Collins quoted said that the Executive Directors should continue to be governed by the objectives and the considerations, including the desirability of broadly maintaining the existing geographical balance in the composition of the Executive Board. The operative part was set out in Section 2(a) of Chapter O, which referred back to the factors that the Board had had before it at the time of the Second Amendment, which were the five factors cited in paragraph 3.2. Thus it did not mean that the geographical balance was frozen in 1981, rather it called to the attention of the Executive Board those five considerations in setting the geographical balance.

The Chairman proposed leaving paragraph 3.2 as it was, and noted that there had been agreement on a revision of paragraph 3.4.

Mr. Yoshimura said that Directors had agreed to delete the part of paragraph 3.2 on the geographical composition of the Executive Board, because it was not necessary that it be mentioned. The considerations were stipulated clearly in Section 2(a) of Chapter O. There

was no problem in deleting that part. Without such a change, he would have trouble agreeing with paragraph 3.4.

Ms. Lissakers said that she assumed that Mr. Yoshimura agreed that it was highly desirable to have a balanced composition on the Board. The issue was his assertion that that objective had been achieved. That was why she had suggested amending paragraph 3.2 to reflect the factual statement of what the Governors had stated that that should guide any exercise of the power to increase or decrease the number of Directors, leaving open the question of whether the Board had fulfilled that mandate.

Mr. Collins noted that the staff representative from the Legal Department had said that the five considerations implied the desirability of having a proper geographical balance, but anyone reading the report with the five considerations should conclude that a balanced geographical representation was required.

Mr. Houtman said that everyone agreed that such an objective was desirable. The only question was whether it still applied and should be changed, which was a totally different matter.

Mr. Portugal said that Mr. Yoshimura appeared to be complaining about the word "existing" in the phrase "existing geographical balance" but it could not be removed. Either the entire phrase had to be eliminated and a reference included to refer to Section 2(a) of Chapter O, or the existing drafting should be maintained.

Mr. Yoshimura said that he was concerned that retaining the current drafting would emphasize that the existing geographical balance should be maintained, but he would support the majority view.

The Chairman said that Directors had agreed to revised paragraph 3.4, and not to have a new footnote. The revised report would be circulated to the Board for lapse-of-time consideration.

APPROVAL: April 4, 2001