SM/Zimbabwe

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COMMITTEE ON MEMBERSHIP - ZIMBABWE

Meeting 80/1
June 12, 1980

B. Kharmawan, Chairman

| Executive Directors | Alternate Executive Directors |
|---|---|
| J. Anson | |
| B. J. Drabble | M. Casey |
| | K. A. Al-Eyd |
| F. Garcés | J. Fajgenbaum |
| | S. Siwatibau |
| F. G. Mogae | S. Kiingi |

R. S. Franklin, Secretary

Also Present

IBRD: H. P. Crevier. African Department: J. B. Zulu, Director; M. E. Edo, C. Puckahtikom, V. R. Sertic. Legal Department: S. A. Silard. Secretary's Department: J. A. Kay, B. J. Owen. Treasurer's Department: D. Williams, Deputy Treasurer; M. Bhuiyan, T. Taya. Assistants to Executive Directors: E. M. Ainley, E. P. Fine, G. B. Lind.

1. MEMBERSHIP FOR ZIMBABWE

The Committee members had before them a staff paper on the calculation of a quota for Zimbabwe (EB/CM/Zimbabwe/80/1, 6/3/80).

The Chairman noted that Zimbabwe had also applied for membership in the World Bank.

Mr. Anson observed with satisfaction, first, that one of the earliest decisions of the newly elected Government in Zimbabwe had been to apply for membership in the Fund and the World Bank and, second, that the Fund had been so prompt in sending a mission to discuss the matter. There were some difficulties in discussing a quota because the previous isolation of Zimbabwe from international trade--resulting, inter alia, from sanctions--had distorted the underlying statistics. The calculations in the staff memorandum had been based on the usual formulas and on comparisons with other member countries thought to have features in common with Zimbabwe. The most striking comparison was that with Zambia, which had a quota at present of SDR 141 million; yet Zimbabwe's gross national product (GNP) was larger than that of Zambia, and its international trade in 1978 had been marginally higher. Even

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in 1979, according to the latest estimates available, Zimbabwe's international trade had been almost 87 per cent of that of Zambia. The other main component used in the quota calculations was the variability of trade, which was greater for Zimbabwe in the earlier period, covered in Table 12 of the staff memorandum, but closer to the average for other countries for the most recent period 1964-76, covered in Table 13, a period for which the data were however likely to be less reliable. Given the degree of development and general pattern of trade and other data in Zimbabwe by comparison with those in Zambia, he could support a higher quota than the one proposed by the staff, say, SDR 120 million.

Mr. Drabble remarked that, although the quota calculations were based on precise formulas, the recent data suggested that there might be marked disparities in the way in which countries' quotas compared with their current economic performance. While the quota proposed for Zimbabwe might look conservative by comparison with that of Zambia, it seemed to be on the high side compared with the quotas of other countries shown in Tables 12 and 13, such as Viet Nam, Ivory Coast, Jamaica, or Kenya. Moreover, the proposed quota was close to the top of the quota range of SDR 73-104 million, which included an increase of 21 per cent for the equivalent of a general increase for developing countries under the Sixth General Review, as noted on page 25 of the staff memorandum. Even if account was taken of the fact that some other countries had quotas that were somewhat above those yielded by the calculations, the range would still be SDR 89-102 million.

Nevertheless, Mr. Drabble commented, as mentioned both by the staff and by Mr. Anson, the trade figures, which had a high weight in the calculations, had undoubtedly suffered from some distortion in recent years as a result of economic sanctions and other difficulties, including the disruption of communications, which had also affected neighboring countries. On balance, therefore, he was prepared to support the proposed quota, even though it was generous in relation to the quotas of existing members with economies of comparable size, in order to give adequate weight to the special circumstances that had affected Zimbabwe in the past few years.

Mr. Garcés joined Mr. Anson in welcoming the application of Zimbabwe for membership in the Fund although, like Mr. Drabble, he took the position that the proposed quota was on the high side. It seemed clear from the staff memorandum that an important element of judgment had to be exercised in deciding on an initial quota for Zimbabwe within the wide range resulting from the calculations. In that regard, Tables 12 and 13 deserved close attention, as did the comparisons set out in the last two paragraphs of page 25 of EB/CM/Zimbabwe/80/1; countries with similar levels of national income had an average quota of about SDR 85 million; those with comparable total trade figures averaged SDR 80 million; and those with similar total current transactions--namely, Sri Lanka, Ghana, Kenya, and Tunisia--had an average quota of SDR 89 million. In contrast, the high variability of Zimbabwe's exports during the period 1960-72 would indicate a quota above that of Ghana, although during the period

1974-76, five other countries--excluding Zambia--with quotas averaging about SDR 76 million, had a significantly higher export variability than Zimbabwe. While the earlier period was relevant for determining the initial quota, the later data in Table 13 should serve as a guide in making a judgment and as an instrument for avoiding unfair treatment among countries, especially at a time when the Seventh General Review of Quotas was so close to taking effect.

For that reason, Mr. Garcés said, his conclusion was that Zimbabwe should be offered a smaller initial quota than the one suggested by the staff, say, about SDR 80 million. He could go along with the suggested procedures for the subscription payments.

Mr. Mogae said that he also welcomed the request of the Zimbabwe authorities to become members of the Fund and World Bank so soon after independence, and he was pleased by the staff's prompt response. He could go along with the proposals in the staff memorandum; although the indicators were not decisive, his own feeling was that the proposed quota was on the low side. The trade figures in particular were not a reliable measure of the size and structure of Zimbabwe's economy, which was much larger and more diversified than the economies of some other countries in Africa with which he was familiar. The data on GNP and on the variability and level of trade were not true measures for comparison because of the distortions relating to the recent period of civil war as well as to the earlier period when Zimbabwe had been part of the Federation of Rhodesia and Nyasaland. In the absence of more consistent quantitative data, however, the proposal by the staff was probably a reasonable compromise, and he was able to support it.

Mr. Al-Eyd expressed appreciation for Zimbabwe's decision to apply for membership in the Fund and the World Bank. The staff had prepared a useful memorandum containing statistics of unusual quality for a newly independent country. It was nevertheless difficult to decide whether the proposed quota was on the high or the low side, and the wisest course would probably be to accept the staff's recommendation. He could also accept the procedure proposed for the subscription payment.

His only question, Mr. Al-Eyd remarked, concerned the use of the formulas for calculating initial quotas. If, as he understood it, the same formulas were used in connection with regular quota reviews--which often yielded figures indicating that member countries' actual quotas were considerably out of line--new members might be receiving the benefit of a larger initial quota than was justified, unless it was adjusted to conform to the quotas of other members.

The staff representative from the Treasurer's Department explained that the quota calculations for the purpose of general quota reviews were designed to provide a guideline for determining the likely increase in the overall size of the Fund and its distribution among Fund members. Calculated quotas were often taken as indicators of the degree to which members' quotas were out of line; but if the calculated quota for a country

exceeded its actual quota in the context of a review, there was no automatic provision for increasing that quota to the full extent of the excess to bring it into line with those of the membership as a whole.

The practice since 1962/63 for determining the quotas of new members, the staff representative recalled, had been to apply the formulas to find a range of calculated quotas, compare the results with the quotas of members of similar size, and then determine the member's quota, taking into account the general increase in quotas in the preceding review. Sufficient data had been provided in the staff memorandum to show where the calculated quota for Zimbabwe fell within the present structure of Fund quotas. It might be useful to note that, whenever there was a special quota increase of a general nature, the excess of a member's calculated quota over its existing quota was taken as the basis for distributing special increases. Under the Sixth General Review, which was pertinent in the present case, no special increases had been granted to members whose calculated quotas were equal to or less than their present quotas, although practically all members received a minimum increase of 21 per cent. The quota recommended for Zimbabwe was in accordance with that principle.

Mr. Al-Eyd commented that, while he understood the principles according to which general increases in quota were distributed among members based on the available formulas, in the absence of a provision for special or selective increases, members' quotas were likely to remain out of line either because the total size of the Fund did not provide room for adjustment or because of changes in their individual economic circumstances. His question was whether the calculation of a quota for a new member was based entirely on the usual formulas or whether it too was tailored to the total size of the Fund.

The staff representative from the Treasurer's Department explained that a distinction should be drawn between the size of the Fund, as shown by the quota calculations resulting from the application of the Bretton Woods formula, and the total of Fund quotas determined as a matter of policy under each general quota review. The Bretton Woods formula was also a part of the formulas used to calculate the initial quota of a new member. If the new member's quota had been added to the total of quotas calculated in connection with the previous general review, the calculated size of the Fund would have increased by a small margin; since the amount would be insignificant--less than one quarter of 1 per cent--adjustment for that factor would not have made any difference in the final outcome.

Mr. Drabble wondered whether the comparison between the quota of a new member and members of similar size could not be made on the same basis, especially as the quotas of present members that were perhaps considerably out of line were only partially corrected as a result of selective quota increases. Comparable treatment had been easier to achieve for a number of smaller members that had joined the Fund in

recent years because, in general, the comparison had been between the quotas of other new members. What was important for Zimbabwe was how its quota compared with the quotas of countries that had been members of the Fund for a number of years. Table 12 was helpful in that respect because it provided more recent data on which to compare the quota of a new member with existing members than the data used in the precise application of the formulas.

Mr. Mogae remarked that, since there were wide variations in the degree of "out-of-lineness" of the quotas of present members, the best way to ensure equal treatment seemed to be consistently to apply the traditional formulas.

The Director of the African Department said that the staff had been able to collect sufficient data to reduce or obviate any element of judgment in recommending a proposed quota for Zimbabwe. The rate of growth of GNP for 1965-74 had been 7.5 per cent annually; the authorities had argued that the economic sanctions had not had a depressing effect on domestic trade. However, Zimbabwe's authorities had imposed many restrictions on exports, which had certainly led to abnormal developments in international trade. In addition, after 1975, the intensification of the civil war had no doubt drawn resources away from the development of the economy. An important factor, of course, was the variability of exports and current payments, which was quite high for Zimbabwe compared with the export variability of other countries in Tables 12 and 13, especially in the earlier years.

The Chairman observed that quota calculations were complicated and few members were ever completely satisfied with the size of their quotas. He looked forward to the possibility of discussing the Fund's general approach to quotas, in response to the request of the Group of Twenty-Four.

With respect to the proposed quota for Zimbabwe, the Chairman commented, the feelings of Committee members had been mixed: some suggested that the proposed quota was too high, while others saw it as too low; at the same time, however, there appeared to be a willingness to accept the proposal put forward by the staff for a quota of the order of SDR 100 million as a compromise. He took it that the Committee also accepted the procedures for the payment of the quota subscription as outlined in the staff memorandum.

The staff representative from the World Bank noted that Zimbabwe had also applied for membership in the World Bank, IDA, and IFC; its proposed subscription in those three institutions would be determined on the basis of the quota in the Fund, when it had been approved.

The Chairman concluded that the consensus of the Committee was in favor of a quota of SDR 100 million, as recommended by the staff. It was also agreed that Zimbabwe should make a reserve asset payment calculated as described on page 28 of the staff paper, which would require a payment equivalent to 19.99 per cent of initial quota, to be made within a period

of six months of acceptance by Zimbabwe of membership in the Fund. The calculation of that reserve asset payment was consistent with recent practice, for instance, with respect to St. Lucia and St. Vincent. In addition, the Committee agreed to propose to the Executive Board that Zimbabwe be given the option to consent to an increase in quota of up to SDR 50 million in accordance with the provisions of the Resolution of the Board of Governors on the Seventh General Review of Quotas; that increase would take effect in accordance with the terms of the Resolution and Zimbabwe would make the subscription payment for any quota increase to which it consented in accordance with Article III, Section 3 of the Articles.

Zimbabwe's authorities would be informed promptly of the recommendations of the Committee with respect to the proposed quota, the Chairman stated; meanwhile, he asked Committee members whether they could give their approval to the draft report to the Executive Board, containing a draft Resolution for submission to the Board of Governors, subject to acceptance of the proposed terms by Zimbabwe.

Mr. Anson suggested that paragraph 5 and paragraph 6 be reversed, in order to make it clear that the requirement under paragraph 6 to the effect that the subscription be paid in full was related to the initial quota of SDR 100 million rather than to the quota of SDR 150 million, which incorporated the proposed increase under the Seventh General Review.

The staff representative from the Legal Department responded that the order of the paragraphs could certainly be reversed, although it was clear from the text that paragraph 6 dealt with the initial subscription. It should be noted, in that connection, that the member had no obligation to consent to an increase in its quota; it had the privilege of doing so.

The Chairman stated that once Zimbabwe had indicated that it could accept the recommended quota, the draft report containing a draft Resolution on the quota and terms of membership for adoption by the Board of Governors would be submitted to the members of the Committee for approval and then to the Executive Board.

The meeting adjourned at 10:55 a.m.

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