FOR AGENDA

EBD/92/282

November 20, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Issues of State Succession Concerning Yugoslavia in the Fund

Attached for consideration by the Executive Directors is a paper on issues of state succession concerning Yugoslavia in the Fund. This matter is proposed to be taken up at the Board meeting scheduled for Friday, December 4, 1992.

Mr. Gianviti (ext. 38329) or Mr. Francotte (ext. 37798) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Issues of State Succession Concerning Yugoslavia in the Fund

Prepared by the Legal Department

(In consultation with other Departments)

Approved by François Gianviti

November 20, 1992

On September 11, the Executive Board decided that, by November 15, 1992, it would "review the status of Yugoslavia in the Fund with a view to making a finding of dissolution or continuation of Yugoslavia as a member of the Fund and deciding on other issues of state succession concerning Yugoslavia" (EBM/92/115, (9/11/92)). The issues relating to the secession of territories or the dissolution of a member in the Fund were examined in general terms in the staff paper prepared for that meeting ("Secession of Territories and Dissolution of Members in the Fund", EBD/92/146, (7/15/92)).

In clarifying the status of Yugoslavia, the Fund must first determine whether Yugoslavia continues to exist as a country or whether it has been dissolved.

In case of continuation, the former Socialist Federal Republic of Yugoslavia (SFRY) would continue to exist, as the Federal Republic of Yugoslavia (Serbia/Montenegro), with a smaller territory and population; the other republics of the former SFRY that have become independent countries would be regarded as having seceded from the SFRY. The Federal Republic of Yugoslavia (Serbia/Montenegro) would then continue as a member of the Fund, with all the assets and liabilities, as well as the full quota, of Yugoslavia in the Fund. The seceding countries would inherit no part of the assets and liabilities of Yugoslavia in the Fund and their applications for membership would be processed in accordance with Article II, Section 2.

In contrast, if it is found that Yugoslavia has been dissolved, it would cease to be a member of the Fund, its assets and liabilities in the Fund would have to be allocated among all the successor states, and the Fund would have to decide whether membership in the Fund by the successor states can be obtained by way of admission under Article II or by way of succession to membership.

It is for the Fund to determine for its own purposes whether or not Yugoslavia has been dissolved, and therefore has ceased to be a member. However, the Fund's determination would obviously be expected to reflect the position of the international community on the matter. In this connection, it appears that a number of Fund members, including the members of the European Communities and the United States, have taken the position that Yugoslavia has been dissolved. 1/ Similarly, the Security Council of the United Nations has stated that it considered "that the state formerly known as the Socialist Federal Republic of Yugoslavia has ceased to exist". 2/ The European Bank for Reconstruction and Development has also concluded that Yugoslavia has been dissolved. Furthermore, four of the republics that constituted the SFRY have indicated that they considered that Yugoslavia has been dissolved, and the Federal Republic of Yugoslavia (Serbia/Montenegro), which initially claimed to be the continuator of the SFRY, now agrees that it is not the sole successor state of the SFRY. 3/

As indicated above, a finding of dissolution would require an allocation of assets and liabilities and a determination of the membership process available to the successor states (admission or succession to membership). These three decisions, which could be taken by the Executive Board, are related in terms of both timing and substance. After describing the relationship between these decisions,

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1/ With respect to EC countries, this position was expressed in the declaration on Yugoslavia of July 20, 1992, which stated that "the Community and its member States welcome the advice of the Arbitration Commission of the Conference on Yugoslavia, chaired by M. Badinter. It is for Serbia and Montenegro to decide whether they wish to form a new Federation. But this new Federation cannot be accepted as the sole successor to the former Socialist Federal Republic of Yugoslavia".

2/ Resolution No. 777 (1992) of September 19, 1992. On the separate matter of the membership of the Federal Republic of Yugoslavia (Serbia/Montenegro) in the United Nations, the General Assembly, in its Resolution 47/1 (1992) of September 24, 1992, has stated that it "considers that the Federal Republic of Yugoslavia (Serbia and Montenegro) cannot continue automatically the membership of the former Socialist Federal Republic of Yugoslavia in the United Nations; and therefore decides that the Federal Republic of Yugoslavia (Serbia and Montenegro) should apply for membership in the United Nations and that it shall not participate in the work of the General Assembly". In the same resolution, the General Assembly has also taken note "of the intention of the Security Council to consider the matter again before the end of the main part of the forty-seventh session of the General Assembly".

3/ Thus, in a recent letter to the Managing Director, dated November 5, 1992, the Deputy Prime Minister of the Federal Republic of Yugoslavia stated: "I would like to confirm once again the position of my Government according to which the F.R. Yugoslavia does not consider itself as the only successor of the S.F.R. Yugoslavia".

the paper examines the implications of a finding that Yugoslavia has been dissolved concerning, first, the distribution of the assets and liabilities among the successor states, and, secondly, the membership of the successor states in the Fund.

A. Relationship between finding of dissolution, allocation of assets and liabilities, and membership process

(a) In terms of timing, when the Fund makes the finding that Yugoslavia has been dissolved, it should decide at the same time on the allocation of its assets and liabilities in the Fund among the successor states. Otherwise, while the Fund would have claims against, and liabilities to, the successor states for their respective shares of Yugoslavia's liabilities and assets in the Fund, neither the Fund, nor the successor states, would know the extent to which each successor state has inherited these liabilities and assets of Yugoslavia. The nonallocation of liabilities could only lead to arrears to the Fund. As for the nonallocation of assets, it could give rise to complaints by the successor states that the Fund has failed to return to them the share of net assets that they have inherited from Yugoslavia. Such a complaint could be brought against the Fund before an arbitration court.

Moreover, the decision on whether membership by succession will be available to the successor states must be taken at the same time as the finding of dissolution is made. Indeed, if a finding of dissolution were made without a decision to offer succession to membership to the successor states, Yugoslavia's account with the Fund would have to be settled, and the SDRs that have been allocated to, and not used by, Yugoslavia would have to be canceled immediately. 1/ Admission would then become the only available procedure for membership. Thus, the Fund, if it wishes to follow the succession approach rather than the admission approach, must so decide at the time of the finding of dissolution. 2/

1/ See, EBD/92/146, pages 7-8.

2/ It would also not be possible to admit a former republic of Yugoslavia to membership under Article II, Section 2 without having first determined whether Yugoslavia has been dissolved or not. In fact, the admission to membership of such a state under Article II, Section 2 without a prior finding of dissolution would be tantamount to a finding that Yugoslavia has not been dissolved as of that date. The state in question would, therefore, be treated as a seceding state and would not inherit any part of the assets and liabilities of Yugoslavia in the Fund. While this would not preclude a subsequent finding of dissolution of Yugoslavia, such a finding would not affect the states that had already seceded from Yugoslavia as of that date.

(b) The decisions on allocation of assets and liabilities and on membership are related in at least three substantive ways. First, the same allocation key would be used for the calculation of both the respective shares of the successor states in Yugoslavia's assets and liabilities in the Fund and their respective quotas in the Fund. Secondly, the assets and liabilities of Yugoslavia to be allocated among the successor states would depend on the membership process that is followed: in case of succession to membership, the SDRs allocated to Yugoslavia would not have to be redeemed or canceled and the successor states would inherit the potential claim of Yugoslavia to the capital gains on the Fund's gold; in contrast, in case of admission, the SDRs would have to be canceled or redeemed and the potential capital gain on the gold would be lost. Thirdly, the willingness of a successor state to agree to its share of the assets and liabilities may be affected by the membership procedure determined by the Fund. The allocation of Yugoslavia's assets and liabilities should preferably be agreed upon by the Fund and each of the successor states, because, if one or more of the successor states disagreed with their allocated share of the assets and liabilities, the dispute would have to be submitted to arbitration and the Fund would incur a financial loss if, as a result of the arbitration, some liabilities remained unallocated. The risk of a dispute would be reduced if the allocation of assets and liabilities were accompanied by an offer of succession, since the successor states would have a greater measure of assurance that they would be able to obtain membership without the financial disadvantages of the admission approach. 1/

B. Allocation of assets and liabilities in the Fund

(a) An allocation of assets and liabilities must be made among all the successor states; it could be determined on the basis of a key reflecting notional quotas calculated by the Fund for this purpose. In the present circumstances of Yugoslavia, it appears that there would be five successor states. The determination by the Fund of the existence of a successor state is based on whether or not a country has emerged within the territory of Yugoslavia. If a country has in fact emerged, it is a successor state. The Fund, in making that determination, will be guided by the position of the international community. In this regard, it is clear that those states that have taken the position that Yugoslavia has disappeared accept that five countries have emerged from it. This acceptance by these states that there are five successor states is distinct from, and is without prejudice to, their position on the diplomatic recognition of some of these successor states (in particular, the Federal Republic of Yugoslavia (Serbia/Montenegro) or

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1/ To the extent that the succession would be subject to certain conditions, there would not be a complete assurance for the successor states.

the former Yugoslav Republic of Macedonia). 1/ This diplomatic recognition is being withheld by these states on the grounds that those two successor states do not meet certain criteria (related to the compliance with certain political conditions in the former case and the name of the country in the latter). For the purposes of the Fund (allocation of assets and liabilities and membership), it is the finding that a country exists that is relevant, not that diplomatic recognition has been granted.

In addition, if the Fund decided that the Federal Republic of Yugoslavia (Serbia/Montenegro) and the former Yugoslav Republic of Macedonia are not successor states, it would mean that the liabilities and assets of Yugoslavia would have to be allocated exclusively among the other three successor states. Even if the Federal Republic of Yugoslavia (Serbia/Montenegro) and the former Yugoslav Republic of Macedonia were later considered to be countries by the Fund, they would not be in a position to succeed to Yugoslavia, and, therefore, they would not inherit at that time any part of the liabilities and assets of Yugoslavia in the Fund.

(b) Preferably, the allocation of assets and liabilities by the Fund would be accepted by each successor state for its share. If a successor state disagreed with its allocated share, the matter would have to be resolved by way of arbitration. 2/ In order to protect its financial interests, the Fund could make it a condition of membership by any successor state, whether by admission or succession, that each successor state agree to its allocated share of Yugoslavia's assets and liabilities in the Fund. This acceptance would foreclose any risk of future challenge by any of the successor states against the Fund in an arbitration procedure.

1/ For instance, the members of the EC, while not recognizing the Federal Republic of Yugoslavia (Serbia/Montenegro) because it does not meet certain political conditions, have concluded that it is a "successor state", although not the sole successor state, of Yugoslavia; this approach is consistent with the one reflected in the United Nations in Security Council's Resolution No. 777 (1992) of September 19, 1992 and in General Assembly's Resolution No. 47/1 (1992) of September 24, 1992. Also, with respect to the former Yugoslav Republic of Macedonia, the EC and its member states have stated that "they are willing to recognise that State as a sovereign and independent State, within its existing borders, and under a name that can be accepted by all parties concerned" (Declaration on the Former Yugoslav Republic of Macedonia of May 4, 1992).

2/ See EBD/92/146, page 6.

C. Membership of the successor states

Upon finding that Yugoslavia has been dissolved and allocating the assets and liabilities among the successor states, the Fund would have to decide under which approach the successor states could obtain membership in the Fund: admission to membership in accordance with Article II, Section 2 or succession to membership. As noted above, failure to decide on this matter at the time of dissolution would mean that Yugoslavia's account with the Fund must be settled. It would preclude any future application of the succession approach discussed below; only the admission approach could then be envisaged for each of the successor states.

1. Admission or succession to membership

(a) Under the admission approach, Yugoslavia would not be replaced as a member of the Fund by the successor states. To become a member of the Fund, each of the successor states would have to apply for membership, and its application would be processed in accordance with Article II, Section 2. The quota of each successor state and the terms and conditions of membership would be determined by the Board of Governors in accordance with the procedure applied to new members. Since the dissolved member would not be replaced, its account with the Fund would have to be settled. For the successor states, this would mean that each would have to redeem its share of the SDRs that have been allocated to Yugoslavia (minus Yugoslavia's remaining holdings of SDRS, which would have to be canceled immediately). 1/ In addition, each of them would lose the benefit of the potential capital gains in the event of disposition of the Fund's gold. 2/ The allocation of assets and liabilities and the modalities of succession could be determined by the Executive Board.

(b) Under the succession approach, the successor states would be given the opportunity to replace Yugoslavia as members of the Fund, each with a share of Yugoslavia's quota equal to its share in the assets and liabilities. There would be no settlement of account with the states that succeed to membership. Therefore, they would not have to redeem the SDRs allocated to Yugoslavia, and they would not lose the potential benefit of capital gains on the Fund's gold. 3/

1/ Once canceled, these SDRs could not be recreated later for allocation to the new members.

2/ See EBD/92/146, pages 7-8.

3/ See EBD/92/146, pages 9-10.

2. Modalities of succession

(a) Conditions

The offer of succession to membership must be made to all successor states. 1/ The Fund may attach conditions to its offer, but these conditions must be the same for each successor state and must be relevant to the Fund, because in accordance with Article I of its Articles, the Fund must be guided in all of its decisions by its own purposes. 2/ Therefore, the Fund may not attach to the offer conditions that are of a political character or that are otherwise not relevant to the Fund. For instance, membership in other international organizations or compliance with decisions of other organizations could not be made a condition for membership in the Fund. However, the Fund could take into account the effects of decisions of other international organizations to the extent that those decisions prevent a country from meeting membership conditions that are relevant to the Fund. For example, a successor state may be unable, as a consequence of U.N. sanctions, to comply for some time with the condition of being current with the Fund (i.e., to have settled its share of any arrears on liabilities of Yugoslavia to the Fund), but this would not preclude the Fund from attaching that condition to the offer of succession.

Different types of conditions that have been discussed informally by Executive Directors are examined below in the light of these principles.

(i) Membership in the Fund is open only to countries that are able and willing to fulfill their obligations under the Articles. 3/ In the practice of the Fund, this finding is made implicitly, at the time of the offer of membership, except for the explicit requirement that the country take the necessary legislative and procedural steps to accept the Articles and fulfill its membership obligations. A similar approach could be followed in the case of succession to Yugoslavia's membership: each successor state would have to give appropriate evidence that it has adopted any necessary legislation to accept the offer and to carry out its membership obligations. On the same basis,

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1/ The name "former Yugoslav Republic of Macedonia" would be used provisionally by the Fund until another name is agreed upon between the country and the Fund; thus, the offer would be made to the "former Yugoslav Republic of Macedonia".

2/ The existence of a successor state as a country could not be made a "condition" attached to the offer, since the making of an offer would itself presuppose such a finding of existence.

3/ They include not only financial obligations, but also nonfinancial obligations, such as the obligation to furnish information under Article VIII, Section 5.

another condition could be imposed, namely, that each successor state be current with the Fund at the time of succession.

Even though it has not been its practice so far, whether in the context of admission or succession, the Fund could decide to condition succession not only on the adoption of appropriate legislation and clearance of the arrears, but also on an explicit finding by the Fund that the successor state meets the conditions of willingness and ability to fulfill the obligations under the Articles. This finding would include an assessment of the probability that the successor state is, and will remain in the foreseeable future, able to fulfill its obligations, including its financial obligations to the Fund. In this respect, the expected effect on the country of international sanctions would be relevant.

In addition, in order to protect its interests, the Fund could make the succession by any successor state conditional upon an acceptance by all five successor states of their respective shares of the assets and liabilities as allocated by the Fund. If agreement by all successor states was not made a condition, the risk of a future challenge before an arbitration court would have to be taken into account and the Fund would have to consider how to avoid a financial loss in case of unfavorable arbitral decision, such as a clause for automatic adjustment of the respective shares of the successor states in such an event.

(ii) An alternative has been suggested to the condition of a finding by the Fund that the successor state is able and willing to fulfill the obligations of membership, namely that membership would be open to the successor state "at such time as the Fund deems appropriate", with the membership of a successor state being deemed inappropriate if there is "strong opposition among the members of the Fund" to its membership. 1/ Reference has been made in this respect to Article II, Section 2, which provides that membership shall be open to countries "at such times" and in accordance with such terms as may be prescribed by the Board of Governors. It must be noted at the outset, however, that Article II, Section 2, which governs the admission procedure, does not apply directly to succession. In particular, the period of time that is inherent in the admission process between the application and the making of an offer of membership by the Board of Governors cannot exist in the succession process where the finding of dissolution and the offer of succession must coincide.

1/ This condition would be in addition to the conditions of adoption of appropriate legislation and clearance of the arrears.

The question of the authority of the Fund to determine the timing of membership was discussed in 1977 in a staff paper concerning the admission of small states to membership in the Fund. 1/ The paper concluded that, while Article II, Section 2 provides that membership shall be open at such times as may be prescribed by the Board of Governors, this does not imply that the Fund has the absolute power to delay membership of an applicant. 2/ Specifically, the paper stated that:

> "Once again, however, the power to establish the time of admission does not imply the right to act arbitrarily or to establish a time at so distant a future as would, in effect, frustrate membership. If a distant date were established for an applicant that met the criteria for membership for a reason that could not be eliminated, such as one related to size, the exercise of the power to determine the time of admission would not be bona fide.
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> It is concluded, on balance, that the words 'membership shall be open' require the Fund to admit applicants that meet the criteria for membership, in accordance with terms and at a time that are prescribed by the Fund in the bona fide exercise of its powers to prescribe the terms and date". 3/

A distinction must be made between delays that would take place before a finding has been made that the criteria for membership have been met and delays after such a finding. 4/ In practice, there have been occasional delays between the application for membership and the making of the offer of membership (that is, the membership resolution of the Board of Governors), possibly because doubts existed that certain criteria were met, such as the criteria of being able and willing to fulfill the obligations of membership. There have, however, never been delays imposed after the finding had been made by the Board of Governors: the Fund has never incorporated in an offer of membership a clause that would delay membership when the criteria of membership are met. The only clauses on timing that have been incorporated in offers of membership have established a deadline for membership (i.e., a specified period, generally 6 months, for the acceptance of the offer of

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1/ "Legal Aspects of Admission of Small States to Membership in the Fund", SM/77/64 (3/24/77).

2/ As was noted in SM/77/64 (page 11), the significance of the phrase "at such times" is unclear: it may have been contemplated either for political reasons or for technical reasons, that is, to postpone the decision on membership until it could be discussed adequately at an annual meeting.

3/ SM/77/64, page 11.

4/ As explained in SM/77/64, there are four criteria for membership: that the applicant be a country, in formal control of its external relations, able, and willing to fulfill the obligations of membership.

membership). The incorporation of a clause delaying membership for an indefinite period after it has been found that the criteria for membership have been met would not be consistent with a bona fide exercise of the authority granted under Article II, Section 2 to prescribe terms and dates.

It is, in any event, questionable whether the stipulation that membership would be open when the Fund deems it appropriate is a clause on the timing of membership in the sense of Article II, Section 2. The phrase "as such times" in that provision connotes a delay until the occurrence of a fact that is certain to occur in the future. Facts which are not certain to occur (that is, cases where the question is "if", not just "when", the fact will occur) are conditions, not time delays. Since it is possible that the Fund would never deem appropriate the membership of a successor state, the requirement of such a finding is not a time delay, but a condition.

A new condition for membership would, therefore, be added to the four criteria that have been derived from the Articles. In this connection, it was concluded in SM/77/64 that the criteria for membership that an applicant has to satisfy in order to be admitted to membership are stated in, or can be derived by necessary implication from, the provisions of the Articles. These criteria are that the applicant must be a country, in formal control of its external relations, able and willing to fulfill the obligations of membership; the Fund could not add other criteria. It was further concluded that when an applicant meets these criteria, membership is open to it. These conclusions were based in part on the International Court of Justice's Advisory Opinion on the Conditions of Admission of a State to Membership in the United Nations. 1/ In this Advisory Opinion, the International Court of Justice concluded that there were five conditions for membership in the United Nations (that the applicant be a state, be peace-loving, accept the obligations of the Charter, be able to carry out these obligations, and be willing to do so), and that these conditions were necessary and sufficient. Other conditions could not be added, because to permit them would be incompatible with both the letter and the spirit of the Charter. It has to be recognized that, in some exceptional circumstances, such as the readmission of a former member or the succession to a dissolved member where there exist outstanding obligations to the Fund, certain additional conditions that relate to these obligations may be justified. Thus, in the case of the readmission of Indonesia in 1967, the membership resolution conditioned membership upon certain payments having been made by Indonesia. These payments pertained to financial obligations by Indonesia to the Fund that arose in the context of the settlement of account that had taken

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1/ I.C.J. Reports 1948, page 57; see SM/77/64, pages 9-11.

place after Indonesia had withdrawn from the Fund in 1965. 1/ Similarly, in the case of succession to membership, the Fund may add certain conditions directly related to the consequences of dissolution, and in particular the avoidance of a financial loss for the Fund as a result of the dissolution of the member, such as the condition that all successor states agree to their respective shares of the assets and liabilities or, as in the case of complete succession, that all members simultaneously succeed to membership. 2/ However, additional conditions that would not be directly related to the dissolution itself could not be imposed.

The condition under consideration would be that membership is open when the Fund deems it appropriate, and the Fund would deem the membership of a successor state inappropriate if there was strong opposition among members to its membership. This raises the question of whether it would be the Fund or members that would decide that the condition for membership is met. Both alternatives would face legal difficulties. The Fund may not delegate to any third party the power to take decisions that are entrusted to its organs by the Articles, or confer a veto power on their decisions, including decisions on membership in the Fund. It could not, therefore, be decided that an applicant's membership in the Fund shall be open when a certain number of members cease to object to its membership. If it is for the Fund (that is, the Executive Board, or the Board of Governors if the Executive Board decides to refer the decision to it) to determine whether membership is appropriate, then the decision of the Fund containing this condition would not legally be an offer of succession. Indeed, by delaying the effectiveness of its offer until such time as it deems membership appropriate, the Fund would place itself in the same situation as if it did not make an offer. An offer that remains subject to the entire discretion of the offeror is not a conditional offer; it is not an offer at all. Similarly, an offer of succession that would become effective when the Fund decides that membership is appropriate is not legally an offer of succession, because, even if the offer was accepted, there would be no obligation whatsoever (even conditional) for the Fund. Actually, the offer of succession would only be made when the Fund decides that membership has become appropriate. Until then, there would be no offer, as is the case in admission procedures before the Board of Governors proposes membership on specified terms and conditions to the applicant country. In the absence of an offer of succession at the time of the finding of dissolution, Yugoslavia's account with the

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1/ See paragraphs 5 and 10 of Resolution No. 21-12 on Membership for Indonesia, adopted September 30, 1966.

2/ In contrast, the conditions of adoption by a successor state of appropriate legislation, clearance of its arrears, and acceptance of its own share of assets and liabilities are not additional criteria, but specific manifestations of the criteria of ability and willingness to fulfill the obligations of membership.

Fund would have to be settled, with all ensuing consequences, including the immediate cancellation of SDRs, which would preclude any possibility of subsequent succession. Admission under Article II would become the only available procedure for membership in the Fund for all successor states.

(iii) Yet another approach that has been suggested would be to grant simultaneous succession to some of the successor states, while the succession of another successor state would be delayed. As explained in EBD/92/146, it is for the Fund to decide whether it makes an offer of complete succession (i.e., succession by all successor states simultaneously when all meet the specified conditions) or of partial succession (i.e., succession by a successor state as soon as it meets all the specified conditions, thereby allowing for sequential succession by the successor states). In either case, the offer of succession must be made to all successor states on the same terms, and it would therefore not be possible to offer complete succession to some successor states and delayed succession to the others. It is of course possible that an offer of partial succession subject to the conditions described in subparagraph (i) above will in practice lead to simultaneous or almost simultaneous succession of some successor states as they meet the specified conditions, while the succession of another successor state is delayed because it does not yet meet the specified conditions.

(b) Other Modalities

(i) The offer of succession could contemplate sequential succession, with each successor state succeeding to membership as soon as it fulfills the conditions set forth in the offer (the approach referred to as "partial succession" in EBD/92/146). Alternatively, the offer could require simultaneous succession by all five successor states, by specifying that no successor state can become a member until all meet the conditions of the offer (the approach referred to as "complete succession" in EBD/92/146).

(ii) The offer of succession would be valid for a specified period of time (say, 3 or 6 months), which could be later extended on a uniform basis by the Fund. If a successor state did not fulfill the conditions by the specified deadline, it could not succeed to membership and its account with the Fund would be settled; membership by way of succession would thereupon be precluded for this successor state.

The offer could specify a shorter deadline (say, one month) for the acceptance by each successor state of its share of Yugoslavia's assets and liabilities as allocated by the Fund. This shorter deadline would create an incentive for the successor states to accept their respective shares of assets and liabilities even before they are in a position to comply with the other conditions of the offer. The offer could specify that, unless this allocation has been accepted within that period of time by each successor state, the offer of succession would expire for

all the successor states. Alternatively, it could be prescribed that the offer would then expire only for the successor states that have not accepted their allocated shares. The prospect of expiration of the offer for all successor states in case of failure by any of them to accept its share would minimize the risk for the Fund that a successor state shall fail to agree to its share; at the same time, it would give a form of veto power to each of the successor states over succession by the others. In view of this, the Fund could prescribe initially that the offer would expire for all successor states, but reserve its right, as long as the offer has not expired, to modify this condition in the light of the circumstances to specify that the offer would expire only for the successor states that have not accepted their shares.

(iii) There would be an intermediate period between the offer of succession and the actual succession, since succession would become effective only when the Fund is satisfied that the specified conditions are met. During that intermediate period and pending succession to membership, the successor states would not be members, and, therefore, would not have the rights and obligations attached to membership. For instance, they could not use Fund resources, appoint Governors to cast votes, or have their proposed quota increased. 1/ However, when at the end of the intermediate period a successor state succeeds to membership, it will be considered to have been a member without interruption since the dissolution, which will avoid any gap in membership between dissolution and succession. 2/

1/ An extension of the period for payment of quota increases under the Ninth General Review, which would have to be uniform for all members, might, therefore, have to be considered in order to enable the states succeeding Yugoslavia as members of the Fund to pay for their respective shares of the quota increase which has already been consented to (but not paid for) by Yugoslavia.

2/ If the admission approach were followed, there would be a hiatus between the dissolution and the membership of the successor state.