

## "Membership Requirements in the IMF: Possible Implications for Cuba" [\[1\]](#)

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This paper gives an overview about the requirements and procedures that a country must follow in order to become a member of the International Monetary Fund (IMF). The first section explains the main purposes and characteristics of the IMF as an international organization. A second section explains the role of the member's quotas in the Fund and the procedures for their determination. A third section presents a historical remembrance of Cuba's past relationship with the IMF. A fourth section discusses recent developments in the membership of the Fund. A fifth section provides some information on the Fund's financial activities. A sixth, and final section draws some possible implications for Cuba of membership in the IMF.

### **What is the International Monetary Fund (IMF)?**

The IMF is a cooperative intergovernmental monetary and financial institution. Its name assigns it to the dry, remote domain of monetary matters, balance of payments and the international monetary system, with its seemingly archaic problems. But the reality is that these activities are very close to every day life, and that no country can ignore them. The job of the Fund is to cope with international monetary problems and to seek a cooperative approach among nations in resolving these problems. The policies and activities of the Fund are guided by its charter, known as the Articles of Agreement. Article I establishes as one of the main purposes of the Fund: "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

When the founders of the IMF specified its mandate in this way, they sought to ensure that the world would not repeat the mistakes of the inter-war years, especially the proliferation of restrictions on trade and payments, which had greatly aggravated the impact of the Great Depression and ultimately contributed to the social and political problems that led to World War II. In the 45 years since then, the world has successfully avoided such disasters, although--of course--many other problems have emerged. The successes achieved so far are due in part to the development of a more open system of international trade, but they are also due to the fact that the major participants in the world economy--governments, business, and workers--have more generally accepted the key principles of responsibility, mutual support, and cooperation. Today everyone knows that, in an interdependent world, each partner has an essential role to play, and none can play it alone. Every country, no matter how small, carries a responsibility for the overall success of the world economy, and its own successes will only be partial or precarious without the support and cooperation of the others.

The Fund is unique among intergovernmental organizations in its combination of regulatory, consultative, and financial functions. These functions derive from the various tasks that the IMF was assigned to carry out by its founders:

--to facilitate the balanced growth of international trade;

--to promote exchange rate stability; and

--to assist in the establishment of a multilateral system of payments

in respect to current international transactions between members and in the elimination of foreign exchange restrictions that hamper the growth of world trade.

To help achieve these goals the Fund has available and can provide to its members financial resources to enable them to correct balance of payments disequilibria without resorting to trade and payments restrictions, and it provides a forum for consultation and collaboration among its members toward the solution of international monetary problems.

The Fund is thus concerned with the economic and financial problems of individual countries, as well as with the working of the international monetary system. Its activities are focused on promoting policies and strategies through which its members can achieve balance of payments viability on an individual basis and work together to ensure a stable international financial system and sustainable economic growth of the world economy.

Aside from its responsibilities associated with overseeing the international monetary system to ensure its effective operation, the Fund exercises specific surveillance over the exchange rate policies of its members. It is the guardian of an agreed international code of conduct with respect to these policies. The procedures for surveillance adopted by the Fund are designed to identify and encourage the correction of inappropriate exchange rate policies, and each member upon joining the institution must accept the obligation to provide the information necessary for such surveillance.

The Fund maintains a large pool of financial resources from which to help finance temporary disequilibrium imbalances in the balance of payments of its members. These resources are primarily derived from the currencies subscribed by its members through their quotas and they can become available to those members having a balance of payments need on a temporary basis while the member adopts the adjustment policies required to correct its balance of payments problems. In addition, the Fund may supplement these resources by borrowing. To use Fund resources a member must represent that it has need of them, because of the evolution of its balance of payments, or because its reserve position is weak, or is being affected by factors beyond its control, and that it is taking appropriate policy actions to improve its balance of payments situation.

Use of the Fund's resources is based on an equivalent and nondiscriminatory treatment of members, with due regard to their domestic, social and political objectives. Fund policies try to encourage members to have recourse to the Fund's financial facilities at an early stage of their balance of payments problems. The financial assistance provided by the Fund is designed to allow members to correct their payments disequilibrium without having to resort to trade and payments restrictions that affect the well being of other members. The Fund also acts as an important catalyst of financial resources for its members, insofar as policy adjustments implemented by members undertaking Fund-supported programs help to generate additional financial assistance from other sources, such as private and official creditors. Moreover, the granting of the stamp of approval of the Fund to a country's economic adjustment program is often sufficient to expedite access to significant credits from other sources of financing.

The catalytic role of the Fund has been enhanced significantly since the development of the international debt crisis. Since 1985, there has been a sharp reduction in voluntary flows of financing from commercial banks and other sources to developing countries in general, and to highly-indebted countries in particular, and the Fund has played an important role in mobilizing financial resources for those members that have adopted adjustment programs.

The Fund maintains close contacts with other international organizations, particularly its sister Bretton Woods institution, the International Bank for Reconstruction and Development (also known as the World Bank). Although relations with the Bank are mainly of a nonfinancial character--since each institution has separate funding, purposes, functions, and operations--there is also a structural link of a legal character in that the Bank's Articles of Agreement (Article II, Section 1) restrict the membership of the Bank to countries that have become members of the Fund; however, a country is not required to join the

Bank once it joins the IMF. Based on the Articles of the two institutions, guidelines have been established for collaboration between the two organizations, with the Fund's activities centering on the provision of temporary balance of payments assistance and focusing on the macroeconomic aspects of the member's economies, whereas the Bank is more concerned with longer term projects and financing of economic development.

In terms of policy areas, the Fund has primary responsibility for working with members on the aggregate aspects of macroeconomic policies, including policies on public sector spending and revenue, wages and prices, money and credit, interest rates, and exchange rates. The Bank, on the other hand, has primary responsibility for policies on development strategies, sector and project investments, structural adjustment programs, and the efficient resource allocation in both public and private sectors. The two organizations also collaborate closely in efforts to mobilize resources from official and commercial sources in support of strong programs of macroeconomic adjustment and structural reform undertaken by members and endorsed by the Fund and the Bank.

There is also close collaboration between the Fund and the General Agreement on Tariffs and Trade (GATT). Article XV of the GATT provides that: "The CONTRACTING PARTIES shall seek cooperation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a coordinated policy with regards to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES."

As part of its normal activities in support of member countries, the Fund also provides technical assistance to its members. Such assistance normally consists of providing highly qualified and experienced economic experts to work with a country on particular problem areas. In this context, since 1989 the Fund became an Executing Agency for the United Nations Development Program (UNDP); this cooperative arrangement has enabled the Fund to expand the amount of technical assistance it provides, as well as to help UNDP achieve its development aims. Under this arrangement, the UNDP finances some of the project cost while the Fund provides technical management and direction.

The Fund's Articles do not permit it to engage its general resources in guarantee or reinsurance schemes, including those for commercial bank lending or suppliers' credits; nor does the Fund participate as a party in negotiations between debtor countries and banks. There are, however, various links that have emerged between Fund financial arrangements with member countries and the loan agreements between private banks and these members. For example, such loan agreements may stipulate that the borrowing country should be "a member in good standing of the Fund" and be "eligible to use the Fund's resources." Also, the Fund--at the request of the member--may provide information to the banks about the eligibility of the member to make purchases under Fund arrangements, or help explain the nature of the economic program being undertaken by the member. From the onset of the debt crisis, commercial banks generally have been more willing to extend loans to debtor countries if the Fund has approved an arrangement for that country, because the approval of such arrangement is seen as a sign that the adjustment program is adequate to the circumstances of the country.

Other multilateral organizations and governments also have indicated a preference to provide financing for adjustment programs if such programs are supported by the Fund. The Paris Club, [\[3\]](#) in particular, has made the existence of a Fund arrangement almost a sine qua non for proceeding with their debt rescheduling operations. Such mechanisms exemplify the role of the Fund as a catalyst in generating additional international credit and capital in support of its members.

## **Fund quotas**

The subject of Fund quotas is of great interest to any country considering membership in the Fund. Each Fund member is assigned a quota which determines its financial and organizational relations with the institution. Quotas determine the member's subscription to the Fund, its relative voting power, its maximum access to financing from the Fund, and its share in any SDR allocations.[\[4\]](#)

The amount of a member's quota is expressed in terms of SDRs and it is equal to the subscription the member must pay to the Fund. Up to 25percent of the subscription has to be paid in international reserve assets specified by the Fund (these are usually SDRs or convertible currencies which are easily usable in international transactions), and the remainder can be paid in the member's own currency. This latter part usually is deposited in an account in the name of the Fund in the member's central bank, or equivalent monetary institution.

Each member has 250 basic votes plus one additional vote for each SDR100,000 of quota. A member's voting power is important for two reasons. First, many of the principal policy and operational decisions of the Fund require a certain majority of votes. (For example, an increase in member's quotas needs an 85percent majority, while the determination of charges on use of Fund credit requires a 70percent majority.) Second, the voting power of a member has a bearing on the member's representation in the Executive Board. Each of the five members with the largest quota, as well as each of the two members with the largest net creditor positions in the Fund over the two years preceding the regular biennial elections, are entitled to appoint an Executive Director. The remaining Directors are elected by groups or constituencies of members.

Access to Fund resources under the various Fund lending windows (i.e., facilities) are usually specified in terms of member's quotas. For example, the limits on access to Fund resources under stand-by or extended arrangements are currently 110 percent of quota on an annual basis, or 440percent of quota on a cumulative basis (the latter defined net of outstanding obligations).

The Articles of Agreement do not specify how a member's quota should be determined. However, from the start of the Fund, quotas have been related to--although not strictly determined by--economic factors. Under the Articles, the Board of Governors is required to conduct a general review of quotas at intervals not longer than five years and to propose any adjustments that it may deem appropriate. [\[5\]](#) Such reviews provide an opportunity to consider the adequacy of the Fund's resources to fulfill its systemic responsibilities and to respond to the temporary balance of payments needs of its members, while maintaining the revolving character of its resources. In connection with the latest review of quotas (the Ninth Review), five quota formulas were agreed to serve as broad measures of the member's relative position in the world economy. These formulas use economic data relating to the member's gross domestic product (GDP), current account transactions in the balance of payments, the variability of current receipts from international transactions, and the level of official international reserves. The Board of Governors is also the one who holds the power to admit new members. However, it delegates the power of running the Fund on a daily basis to the Executive Board.

When a country applies for membership, relevant macroeconomic data on its economy are collected, and a quota range is calculated. Data are then compared with those of existing members of comparable economic size and characteristics, and an initial quota or quota range is proposed by the Fund staff. This quota can be expected to be within the same range as the quotas of members the Fund considers to be in a comparable situation. The other terms of membership, such as the proportion of subscription to be paid in reserve assets, are to be set so as not to discriminate in other respects between applicants and existing members in similar circumstances.

A member is not eligible to use the Fund's resources until it has paid its subscription in full. Likewise, a member's quota cannot be increased until it has consented to the increase and paid the subscription in

full. These requirements ensure that the Fund's paid-up capital equals its authorized capital, and there is therefore no component of "capital on call" as is the case of some domestic financial institutions or even some international development banks.

### **Cuba's past relations with the IMF**

Cuba was one of the founding members of the International Monetary Fund (IMF). It should be of particular interest to this group that a Cuban delegation attended the Bretton Woods Conference that gave birth to the IMF and the World Bank. It was composed of men who are well known in Cuban and international economic circles:

Eduardo I. Montouliou J.M. Menocal

Oscar Garcia Montes Miguel A. Pirez

Ramiro Guerra Eduardo Durruthy

Luis Machado Felipe Pazos

In fact, Mr. Montouliou became the chairman of the Credentials Committee at Bretton Woods, and the Cuban delegation took a very active part in the deliberations of the conference, helping to shape the foundations of the IMF. Luis Machado became an Executive Director at the World Bank and Felipe Pazos joined the staff of the Fund in its early years, before returning to Cuba to help establish the Cuban National Bank.

Cuba officially joined the Fund on March 14, 1946. At that time, it was assigned a quota of US\$50 million. Other countries being assigned a similar quota at the time were New Zealand, Norway, and Chile; meanwhile, Greece's quota was set at US\$40 million, Egypt's at US\$45 million, and Yugoslavia's at US\$60 million. [\[6\]](#) Cuba accepted the obligations of full convertibility of its currency under Article VIII of the Articles of Agreement in December 1953.

Cuba withdrew from membership in the Fund on April 2, 1964. This withdrawal was the culmination of a period of difficulties in Cuba's balance of payments starting in 1959. Cuba had drawn US\$25million from the Fund in September 1958, undertaking to repurchase this sum within six months. However, it repeatedly asked permission to defer repurchasing, and the Executive Board of the Fund agreed in March and April 1959, in March 1960, and in December 1961, to set new dates for the repurchase obligations to fall due. During the three years 1959-61, however, the process of converting the island into a communist state disrupted both its internal organization and its economic relations with the Western world, resulting in a sharp deterioration of its economy in general, and of its balance of payments position in particular.

The agreement reached in December 1961 provided that Cuba would make three purchases of US\$5million each at half-yearly intervals beginning in September 1962, and to agree with the Fund before the latter date on arrangements for the repurchase of the final US\$10million within the five-year period that ended in September 1963. However, in August 1962 the Cuban authorities asked the Fund for a further deferment, undertaking to make a first repurchase in March 1964. In doing so, it drew attention to paragraph 2 (d) of the Executive Board's Decision No. 102-(52/11, of February 13, 1952) which read as follows:

"When unforeseen circumstances beyond the member's control would make unreasonable the application of the principles set forth .... [that repurchases should be made within an outside range of three to five years], the Fund will consider extensions of time."

In a subsequent letter, Cuba supported its plea for deferment by pointing out that since December 1961, when it entered into its undertaking to repurchase from the Fund, the United States had placed a total embargo on all interchanges of goods and services with Cuba, resulting in so marked a decline in Cuba's international assets as to prevent it from fulfilling its commitment. It was hoped, however, that a prospective increase in its exports in 1963, especially sugar, together with a decline in its needs for imports, would enable Cuba to start repurchases in 1964.

In replying to these communications, the Managing Director of the Fund stressed that five years was regarded as the maximum period for repurchases. The Cuban authorities failed to respond and in September 1963 the Managing Director sent a notification to the Executive Board to report that Cuba was not fulfilling its obligations under the Fund Agreement. He informed the Board that five years had elapsed since Cuba's drawing from the Fund, but that no part of the drawing had been repurchased, although all the charges had been paid. Further, since July 1961 Cuba had stopped supplying the monetary, banking, and balance of payments data required under Article VIII, Section 5 (a), of the Articles of Agreement and no data on monetary reserves had been supplied since the Fund's 1959/60 financial year. Finally, since June 1960, Cuba had furnished no information about its foreign exchange practices, nor had it removed the exchange restrictions imposed since late 1959, which it had been formally enjoined to discontinue by the Fund because it was in contravention of the obligations under Article VIII. The Executive Board agreed that the Managing Director should inquire into Cuba's intentions regarding these defaults, and he did so by letter on October 11, 1963 and again on December 3, 1963.

No reply was provided by the Cuban authorities to these enquiries, and on April 2, 1964, the Cuban authorities announced that they were withdrawing from the Fund. At that time, they proposed to settle the sum due to the Fund by handing over title to Cuba's gold subscription (equivalent to US\$12.5million) and repaying the remainder in five annual installments of US\$2.5million, with interest at 2percent per annum, beginning on July 1, 1964. The Managing Director recommended that this proposal be accepted, even though 2percent was a low rate of interest, in order to secure a quick settlement. This was accepted by the Executive Board and Cuba completed payments under this settlement in January 1969.

### **Evolution of membership in the Fund**

At the time of its founding the Fund had 40 members. The membership has risen over the years and has now reached 155 members. Of the 159 nations belonging to the United Nations (UN), 152 are Fund members. Moreover, three countries (Kiribati, the Republic of Korea, and Tonga) are members of the Fund even though they are not members of the UN. A membership resolution for another country, Switzerland, which is not a member of the UN has been approved.

To apply for membership to the Fund, the applicant must be a country in control of its own foreign affairs, and both willing and able to meet the obligations of membership contained in the Articles of Agreement. Under those obligations, a member must conduct its exchange rate policy and related economic and financial policies in accordance with the Articles, and provide requested economic and financial information to the Fund. A member must also pay a subscription--its quota. Although member countries do not have to adopt a market-type economic system to qualify for membership, nor do they need to adhere to a particular exchange rate regime, they are expected to pay regard in their foreign exchange policies to the purposes of the IMF and to take steps toward lifting any existing exchange restrictions, as soon as possible. Moreover, the Executive Board's decision to consider an application and subsequently submit it to the Board of Governors depends on whether it is considered that the country can meet the obligations of membership; thus, an applicant must have sufficient political support from the membership at large. Therefore, potential applicants tend to explore carefully the likely response of various important member countries and groups of countries before formally submitting an application.

The actual timing of the acceptance of the application may hinge on domestic political and economic events.

Once an application has been received, the IMF sends a fact-finding mission to the country to collect the necessary data for quota calculations and to prepare documentation on the economic and financial system of the country, its history and current policies. At the same time, the mission informs the country about the IMF's rules and policies, as well as about the financial, legal, and procedural steps of membership. The World Bank may also participate in such a mission, and it will use the quota arrived at by the IMF to determine the prospective member's capital subscription for the Bank.

The information gathered by the Fund's mission is used to prepare a "quota paper" for consideration by a committee of members of the Fund's Executive Board. Based on the data supplied to the mission on national accounts, gold and foreign exchange reserves, and current payments and receipts of the balance of payments, five different formulas are used to estimate a calculated quota. Actual quotas, however, are on average smaller than calculated quotas, and the initial quota of a new member has to be fitted into the structure of the existing quotas of members of comparable economic size. Comparisons are made also with other subgroups of countries that have similar characteristics. This normally results in a recommended quota range. The staff's recommendations as regards the quota and the proportion of the subscription to be paid in international reserve assets are then considered by a committee of the Executive Board. The committee of Executive Directors is the body that has the power to recommend a quota.

Once the applicant agrees to the quota recommended by the committee, the quota and other terms of membership are considered by the Executive Board as a whole, which submits a resolution to the Board of Governors for a vote. To be adopted the resolution requires a simple majority of the votes cast, but two-thirds of the membership must vote. After approval of the resolution, the country must enact any legislation necessary to enable it to sign the Articles of Agreement, after which it becomes a member. When a country that previously was a member re-applies, it is treated in the same manner as a new applicant.

In recent years the Fund has received a flurry of membership applications, particularly as a result of the economic and political changes in the eastern bloc. New applicants have included:

Angola: applied to the Fund in October 1987 and became a member in September 1989 with a quota of SDR 145 million.

Albania: applied to the Fund in January 1991; its application is being processed.

Bulgaria: applied to the Fund in February 1990 and was admitted in September 1990 with a quota of SDR 310 million.

Czechoslovakia: originally joined the Fund in December 1945 but had ceased to be a member in December 1954; submitted applications for membership in the Fund and the World Bank in January 1990 and was readmitted to the Fund in September 1990 with a quota of SDR590million.

Marshall Islands: applied to the Fund in May 1991, but its international status is currently being reviewed by the Fund.

Mongolia: applied to the Fund in July 1990 and was admitted in

February 1991 with a quota of SDR 25 million.

Namibia: became a sovereign nation in 1990; it applied to the Fund in June 1990 and was admitted in September 1990 with a quota of SDR70million.

Switzerland: which, although an important center of international finance, is neither a member of the Fund nor of the United Nations, applied for membership of the Fund and the World Bank in May 1990. The Board of Governors has adopted the membership Resolution and Switzerland's membership will become effective when the legislative steps necessary for it to sign the Articles of Agreement have been completed.

The only other UN members which are not members of the Fund are: Brunei, the Byelorussian Soviet Socialist Republic, Cuba, Liechtenstein, North Korea, the Ukrainian Soviet Socialist Republic, and the Union of Soviet Socialist Republics. The latter has recently indicated its interest in joining the Fund, and procedures are being discussed; its formal application for membership was received on July 22, 1991. (The Soviet Union was one of the principal negotiators at the Bretton Woods Conference in 1944 which adopted the original Articles of Agreement by the Fund, but it did not accept and sign the treaty as an original member.)

### **Fund financial activity**

There are currently 78 member countries with outstanding credits from the Fund for a total of SDR 25.6 billion. Of these, 45 countries have ongoing adjustment programs being supported by the Fund. Over the last year, particularly, there has been an upswing in Fund financial activity in connection with new financial arrangements between the Fund and East European member countries in support of major economic restructuring programs. Fund arrangements are now in place with Bulgaria, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia. In the first half of 1991 the Fund entered into new commitments for a total of SDR 7.6 billion, of which SDR4.7billion was to East European countries.

### **Possible implications of membership in the Fund for Cuba**

Membership in the IMF can help bring a country into the mainstream of the international economic and financial activities. It gives it access to valuable information about the economy and economic policies of other countries and about the general economic developments in the world economy. It involves potential access to substantial resources, both human--in terms of technical assistance and economic advice--and financial. Such resources are not limited to the Fund alone, since membership in the Fund opens the doors to membership in the World Bank and the potential for easier access to other international financial institutions (such as the Inter-American Development Bank) and to the world financial community as a whole. Access to such types of assistance would be particularly important if the country was engaged in a major transformation of its economy as has been the case for the East European countries.

At the same time, membership requires a willingness on the part of the prospective member to adopt a cooperative approach to its international financial relations, open its economy to international transactions, free its economic system of restrictions, share with other members information about its economy, and be prepared more generally to engage in a frank discussion of the appropriateness of its economic policies.

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[1] This paper has been prepared for presentation at the First Annual Meeting of the Association for the Study of the Cuban Economy (ASCE) in Miami, Florida on August 16, 1991.

[2] The views expressed in this paper are those of the author and in no way represent the official views of the International Monetary Fund.

[3] The Paris Club is the forum where representatives of the main creditor countries get together to consider rescheduling proposals for official bilateral debt of debtor countries.

[4] SDRs are international reserve assets that were created in 1969 to enable the Fund to meet long-term needs to supplement global liquidity by adding to international reserves of members. The SDRs are valued in relation to a basket of major members' currencies. The quotas of the Fund and members' transactions with the Fund are denominated in SDRs; currently, one SDR is worth about US\$1.30.

[5] Currently Fund quotas amount to SDR 91.1 billion, but a 50 percent increase has been proposed under the Ninth Review of Quotas.

[6] The quotas of these countries have been adjusted over time in line with the general revisions of the Fund's quotas and their own individual economic performance. Currently the quotas of these countries are: New Zealand (SDR462million); Norway (SDR 699 million); Chile (SDR 440 million); Greece (SDR 400 million); Egypt (SDR 463 million); and Yugoslavia (SDR613million)