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## Becoming a Universal Institution: Expansion of Membership

ANY MEMBER OF THE UNITED OR ASSOCIATED NATIONS IS ELIGIBLE FOR MEMBERSHIP IN THE Fund provided it agrees [to the conditions in the Articles]. . . . No restrictions as to membership should be imposed on grounds of the particular economic structure adopted by any country. . . . [In particular,] to exclude a country such as Russia would be an egregious error.

Harry Dexter White<sup>1</sup>  
United States Treasury  
1942

**W**hen representatives of 45 allied countries met at Bretton Woods, New Hampshire, in July 1944, their intention was to create a set of institutions that would be open to all of those countries as soon as the Second World War was won. Eventually the new Bretton Woods institutions—the IMF and the World Bank—would be open to all other countries as well, including the “enemy states” and any future “liberated states . . . so long as they are willing to agree to conduct their international economic affairs in accordance with principles acceptable to the United Nations” (Horsefield, 1969, p. 73).<sup>2</sup> By the deadline at the end of 1946, 40 of them had become “original members” of the IMF. The Soviet Union and four other countries chose for various reasons not to join. Over time, IMF membership grew gradually, but many countries remained outside, unable or unwilling to commit to the institutional requirements.

Nearly half a century would pass before Harry White’s vision of a universal financial institution would finally be realized. By the end of the 1990s, only a few countries—notably Cuba and the Democratic People’s Republic of Korea (North Korea)—were

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<sup>1</sup>The quotation is from the April 1942 “White Plan” for a Stabilization Fund, reprinted in Horsefield (1969), pp. 63 and 72. Harry Dexter White was the U.S. Treasury official in charge of negotiating a treaty to create the IMF and the World Bank.

<sup>2</sup>The United Nations did not yet exist as a formal institution. (It was created in 1945.) The term “United Nations” in the White Plan referred to the allied countries fighting against the Axis in the Second World War.

still nonmembers of the IMF. This chapter chronicles the events that drove up membership from 152 countries at the end of 1989 to 182 countries a decade later.<sup>3</sup> Particular attention is paid to the former Soviet Union and to the breakup of Yugoslavia, two cases that raised uniquely important issues.

## Universalization of the IMF

The surge in IMF membership in the early 1990s was the biggest jump since the influx of newly independent African countries in the early 1960s. By the time it was over, almost all states that would qualify—those with control over their external relations—were in the fold. For the first time since the mid-1950s, the membership of the IMF was almost indistinguishable from the membership of the United Nations (UN). At the end of the 1990s, only seven UN members were not members of the IMF. Neither Cuba nor North Korea had applied for membership, presumably because those governments understood that any such application would be doomed by political opposition led by the United States.<sup>4</sup> The Federal Republic of Yugoslavia (Serbia and Montenegro) had not yet fulfilled the obligations of membership, owing to international sanctions. The other holdouts were extremely small countries: Andorra, Liechtenstein, and Monaco in Europe, and Nauru in the South Pacific. One country—Switzerland—became a member of the IMF in 1992 but did not join the UN until 2000.

On average, the new members in the 1990s (Table 2.1) also were relatively small countries. While the number of members rose by almost 20 percent, the size of the Fund (total quotas) rose by less than 8 percent as a result. Five very small states joined the Fund during this period: three Pacific island countries (the Marshall Islands, Micronesia, and Palau); the oil-rich East Asian sultanate, Brunei Darussalam; and the Republic of San Marino. The latter state covered just 62 square kilometers, had a population of fewer than 24,000 people, and was surrounded by Italy, whose currency it used. Its application to join the IMF was part of an ongoing program to broaden the republic's independent international relations.<sup>5</sup>

The driving force behind the rise in Fund membership was the breakup of the Soviet Union. That event, discussed further below, replaced one nonmember country with 15 new countries, all of which quickly applied for membership. Even before the formal breakup, four countries—Albania, Bulgaria, Czechoslovakia, and Mongolia—that

<sup>3</sup>For an overview of the changes in IMF membership from 1946 to 1989, see Boughton (2001), pp. 963–67.

<sup>4</sup>As discussed below (pp. 76–77), Cuba was an original member of the IMF but withdrew in 1964.

<sup>5</sup>For background, see “San Marino—Calculation of Quota,” EB/CM/San Marino/92/1 (August 19, 1992).

had depended on the Soviet bloc for a large portion of their international trade and now needed to reform their economic systems joined the IMF. In addition, the largest economy in Europe—the Federal Republic of Germany (West Germany)—absorbed the provinces of the nonmember German Democratic Republic (East Germany) in October 1990. That merger, which followed from the dismantling of the Berlin Wall the year before, did not change the membership of the Fund but significantly expanded its geographic coverage.<sup>6</sup>

In Africa, the end of civil war in Namibia brought that country into the IMF in 1990. At that point, every country in Africa was an IMF member, and the process of accretion that had started at Bretton Woods but had begun in earnest with the independence of Ghana in 1957 was finally complete. Four years later, Eritrea's secession from Ethiopia added one more African member.

Several more new members resulted from the dissection of existing states, including Yugoslavia (which became five separate countries in 1992, all of which eventually became IMF members), Czechoslovakia (two countries at the end of 1992), and Ethiopia (two countries after the secession of Eritrea in 1994). Offsetting that trend was the merger of the Yemen Arab Republic and the People's Democratic Republic of Yemen, forming the single Republic of Yemen in June 1990.

Two new memberships, both in Europe but with very different histories, raised important issues and are worth examining in more detail: Czechoslovakia and Switzerland.

## Czechoslovakia

Czechoslovakia was not an entirely new member. In fact, its role in the Fund dated from the Second World War, when the Czech government-in-exile participated actively in the negotiations leading to the Bretton Woods conference of 1944. When the war ended and that government resumed power in Prague, Czechoslovakia was one of the 29 countries to ratify the Articles of Agreement and bring the IMF into being on December 27, 1945. The ascendance of a Stalinist regime in 1948 brought this early cooperation to a halt. From 1955 to 1989, Czechoslovakia was remembered at the Fund primarily as the only member that had been forced to withdraw.<sup>7</sup>

<sup>6</sup>Several other countries changed names in the 1990s without altering their membership status. Those changes are listed in the Appendix to this chapter.

<sup>7</sup>Formally, Czechoslovakia was expelled for changing its exchange rate without first consulting with the IMF and for then refusing to provide the data required by the Articles of Agreement, which the Fund needed to assess the new rate. Essentially, Czechoslovakia decided to cease cooperating with the Fund, and the institution then had little choice but to compel the country to withdraw from membership. Pursuant to a decision by the Executive Board and a resolution approved by the Board of Governors, Czechoslovakia's original membership formally ceased on December 31, 1954; see Horsefield (1969), pp. 359–64.

**Table 2.1. Changes in IMF Membership, 1990–99**

Country	Date	Number of Members	Classification	Department	Constituency <sup>a</sup>	Size (rank) <sup>b</sup>
Republic of Yemen <sup>c</sup>	January 1, 1990	152				
	May 22, 1990	151	Low income <sup>d</sup>	Middle Eastern	North Africa and Middle East	82
Czech and Slovak Federal Republic <sup>e</sup>	September 20, 1990	152	Transition	European I	Belgium	(37)
Bulgaria	September 25, 1990	153	Transition	European I	Netherlands	54
Namibia	September 25, 1990	154	Low income	African	Anglophone Africa	105
Mongolia	February 14, 1991	155	Low income, transition	Central Asia	Australia	150
Albania	October 15, 1991	156	Low income, transition	European I	Italy	152
Lithuania	April 29, 1992	157	Transition	European II	Nordic-Baltic	103
Georgia	May 5, 1992	158	Low income, transition	European II	Netherlands	101
Kyrgyz Republic	May 8, 1992	159	Low income, transition	European II	Switzerland	127
Latvia	May 19, 1992	160	Transition	European II	Nordic-Baltic	112
Marshall Islands	May 21, 1992	161	Other developing	Southeast Asia and Pacific	Australia	182
Estonia	May 26, 1992	162	Transition	European II	Nordic-Baltic	142
Armenia	May 28, 1992	163	Low income, transition	European II	Netherlands	125
Switzerland	May 29, 1992	164	Advanced	European I	Switzerland	14
Russian Federation	June 1, 1992	165	Transition	European II	Russia	9
Belarus	July 10, 1992	166	Transition	European II	Belgium	61
Kazakhstan	July 15, 1992	167	Transition	European II	Belgium	63
Moldova	August 12, 1992	168	Low income, transition	European II	Netherlands	113
Ukraine	September 3, 1992	169	Transition	European II	Netherlands	32
Azerbaijan	September 18, 1992	170	Low income, transition	European II	Switzerland	99

**Table 2.1. (continued)**

Country	Date	Number of Members	Classification	Department	Constituency <sup>a</sup>	Size (rank) <sup>b</sup>
Uzbekistan	September 21, 1992	171	Low income, transition	European II	Switzerland	77
Turkmenistan	September 22, 1992	172	Transition	European II	Switzerland	133
San Marino	September 23, 1992	173	Advanced	European I	Italy	159
Socialist Federal Republic of Yugoslavia ceases to exist as a state	December 14, 1992	172	Other developing	European I	Netherlands	(33)
Czech Republic	January 1, 1993	172	Transition	European I	Belgium	51
Slovak Republic	January 1, 1993	173	Transition	European I	Belgium	66
Croatia	January 15, 1993 <sup>f</sup>	174	Transition	European I	Netherlands	65
Slovenia	January 15, 1993 <sup>f</sup>	175	Transition	European I	Belgium	84
Former Yugoslav Republic of Macedonia	April 21, 1993 <sup>f</sup>	176	Transition	European I	Netherlands	141
Tajikistan	April 27, 1993	177	Low income, transition	European II	Switzerland	130
Micronesia, Federated States of	June 24, 1993	178	Other developing	Southeast Asia and Pacific	Australia	180
Eritrea	July 6, 1994	179	Low income	African	Anglophone Africa	162
Brunei Darussalam	October 10, 1995	180	Other developing	Middle Eastern	Southeast Asia	102
Bosnia and Herzegovina	December 20, 1995 <sup>f</sup>	181	Transition	European I	Netherlands	97
Palau	December 16, 1997	182	Other developing	Southeast Asia and Pacific	Australia	181

Sources: *Annual Reports* and author's calculations.

<sup>a</sup>If the Executive Director for the constituency normally comes from one particular country, the country is listed. Otherwise, the general characteristic is listed.

<sup>b</sup>Based on membership and quotas at end-1999. Figures in parentheses, listed for countries dissolved before the end of the decade, are calculated at the time of new membership or dissolution.

<sup>c</sup>Successor state, following the merger of the Yemen Arab Republic and the People's Democratic Republic of Yemen.

<sup>d</sup>Low-income countries are defined here as those members eligible to borrow through the IMF's concessional lending facilities.

<sup>e</sup>Split into two separate states, the Czech Republic and the Slovak Republic, on January 1, 1993.

<sup>f</sup>Retroactive to December 14, 1992.

As the pressure for economic and political reform pushed across central Europe in the second half of the 1980s, the communist regime in Prague began to explore its options for expanding relations with the established market countries to the west. In 1987, the authorities made discreet inquiries to the World Bank, only to be informed that they would first have to join the IMF. On several occasions in 1988, Czech officials and other apparently well-connected individuals approached Fund staff informally to get information on the way the Fund worked and how a membership application might be received.<sup>8</sup> The first official approach came in March 1989, though not in the expected manner. An official in the Czech delegation at the UN walked unannounced into the IMF liaison office in New York and read from a document he had received from Prague expressing his government's interest in becoming a member of the Fund. The startled lone staff member present in the office at the time, Festus L. Osunsade (Advisor, External Relations Department), immediately informed his superiors in Washington, initiating a somewhat tortured process.<sup>9</sup>

The government soon made a more formal request for the Fund to receive an official delegation in Washington. When that news was circulated in the Fund, it quickly became apparent that some of the main creditor countries, including the United States, would oppose Czech membership because of their political opposition to the communist regime. That put the staff in a bind. The Fund could not legally oppose an application on political grounds, but it would make no sense to encourage a government that had no chance of gaining the Board of Governors' approval. After an internal debate, the Managing Director, Michel Camdessus, agreed that the Fund should take the position that it would have to take time—perhaps a lot of time—to study the Czech economy before it could recommend a quota and complete the membership process.<sup>10</sup>

On May 23, 1989, a five-man delegation came to the Fund, led by Jiri Vetrovsky, director of the foreign exchange department in the ministry of finance. The IMF staff team was led by Patrick de Fontenay (Deputy Director, European Department). Neither the Managing Director nor his Deputy joined the discussions. After three days of

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<sup>8</sup>The initial approach is described in a memorandum from L. Alan Whittome (Director, European Department) to the Managing Director, "Eastern Europe," March 26, 1987. For the series of 1988 inquiries, see memorandums for files by Barbara Owen, "Request for Information about Membership Procedures," April 20, 1988; by Ronald Hicks, "Czechoslovakia—Request for Information about Membership Procedures," June 29, 1988; by Graham Newman, "Czechoslovakia," July 27, 1988; and by L.G. Manison, "Czechoslovakia: Contacts with the Fund," August 3, 1988. These documents are in IMF archives, EUR/AI Country Files, Box 8, "Czechoslovakia, 1964–1989."

<sup>9</sup>Memorandum for files by Osunsade, "Czechoslovakia: Enquiries about the Fund," March 3, 1989; IMF archives, EUR/AI Country Files, Box 8, "Czechoslovakia, 1964–1989." Also see report by Camdessus to the Executive Board, in minutes of EBM/89/43 (April 24, 1989).

<sup>10</sup>See memorandum from Leo Van Houtven (Secretary and Counsellor) to the Managing Director, "Czechoslovakia," May 12, 1989, with handwritten response from Camdessus; IMF archives, OMD-AD, Accession 1994-0043-0002, "Czechoslovakia 1989."

cordial and detailed meetings, the Czechs went away disappointed. The message was clear: a resumption of Czech membership was not in the cards.<sup>11</sup>

By November 1989, the permanence of the communist government in Prague was increasingly under threat, as was becoming true in countries throughout the region. In those circumstances, the Czech government stepped up the piecemeal attempts at introducing economic reforms, and it decided to renew the case for membership in the IMF. On December 8, a delegation led by Tibor Gedeon, deputy minister of foreign trade, arrived at the Fund and was received by a staff team led by Jack Boorman (Deputy Director, Exchange and Trade Relations Department). Boorman tried to discourage them again, noting tactfully that the approval process would proceed along “two tracks,” one economic and the other political.<sup>12</sup> But even as this meeting was taking place, the regime in Prague was being pushed aside. Weeks of massive popular demonstrations had forced the government to open the political process, and a series of small concessions were quickly accumulating into a “velvet revolution” that would soon bring Václav Havel—a leading intellectual in the democracy movement, a world-famous dissident playwright, and a former political prisoner—to power as president.

The velvet revolution obliterated the tentative explorations of the old regime, but it also initiated a serious inquiry that was warmly received in Washington. From that point on, progress was swift. Czechoslovakia applied for IMF membership in January 1990, began receiving technical assistance from the staff in May, held its first free elections in June, and joined the Fund in September.<sup>13</sup>

The resumption of membership for Czechoslovakia was not the end of this convoluted path. Within a year, a separatist movement gained steam in the Slovak region of the federation. When Havel realized he was powerless to stop it, he resigned as president. The two republics then negotiated an amicable divorce, and Czechoslovakia ceased to exist as of January 1, 1993.

At the last minute, a seemingly minor glitch threatened to derail the IMF's efforts to enable the Czech Republic and the Slovak Republic to assume membership smoothly as successor states. According to the Fund's customary formulas, the staff calculated that the quota, the assets, and the liabilities of Czechoslovakia should be divided so that 69.61 percent would go to the new Czech Republic and the rest to the Slovak Republic. Initially, the governments of both republics agreed to that formula, but a political backlash flared up in the Slovak Republic when the agreement was announced. For all other purposes, the two had agreed to split assets and liabilities so that two-thirds would go to the Czech Republic (66.67 percent, not 69.61). The Slovak

<sup>11</sup>Memorandum for files by Hellmut Hartmann (Assistant Director, External Relations Department), “Visit of Delegation from Czechoslovakia,” May 26, 1989; IMF archives, OMD-AD, Accession 1994-0043-0002, “Czechoslovakia 1989.”

<sup>12</sup>Memorandum for files by Gardner, “Meeting with Czechoslovakia Officials,” December 8, 1989; IMF archives, OMD-AD, Accession 1994-0043-0002, “Czechoslovakia 1989.”

<sup>13</sup>The official name of the country at that time was the Czech and Slovak Federal Republic, but Czechoslovakia was in common usage.

authorities appealed to the Fund to reconsider, stressing that the difference was of “enormous significance” for them and that they “cannot proceed on this basis.” Nonetheless, on December 30, 1992, the Executive Board decided not to budge. For the Fund, the principle of not allowing countries to decide for themselves how to allocate their quotas overrode the political sensitivities of this specific situation.<sup>14</sup> Fortunately, the Slovak authorities did not pursue the matter, and the succession concluded without further ado.

## Switzerland

One other European country joined the IMF in this period. Switzerland had a centuries-old tradition of neutrality and independence from international alliances and memberships. As a neutral country in the Second World War, it did not participate in the Bretton Woods conference, and it stayed out of the UN as well.<sup>15</sup> On a wide range of financial matters, however, Switzerland played important roles. Beginning in 1964, the Swiss National Bank was affiliated with the Group of Ten central banks and with the General Arrangements to Borrow. In 1983, it became a full member of the General Arrangements to Borrow (see Boughton, 2001, pp. 898–99). Despite not being a member of the IMF, Switzerland also was a direct creditor to the Fund, lending to support the Oil Facilities, the Supplementary Financing Facility, and stand-by arrangements for Italy and the United Kingdom in the 1970s; the “enlarged access” policy in the 1980s; and the Enhanced Structural Adjustment Facility Trust beginning in 1987. The end of the Cold War lessened the imperative for neutrality and enabled a gradual shift in Swiss public opinion toward deepening this relationship.<sup>16</sup>

The Swiss government applied for Fund membership in May 1990. Acceptance of that application took an unusually long time, owing to a battle over the size of Switzerland’s quota and concerns about the effect of its membership on the composition of the Executive Board (see Chapters 15 and 17). Nearly a year later, in April 1991, the Board of Governors finally approved a resolution offering Switzerland membership in the IMF.<sup>17</sup>

That was not the end of the story. Because of persistent opposition to membership by a significant portion of the Swiss population, the Fund recognized that acceptance

<sup>14</sup>Minutes of EBM/92/157 (December 30, 1992), pp. 3–17. The quotations are from a letter sent to Jacques de Groote (the Executive Director for the constituency that included the Slovak Republic) by the Slovak finance minister “under instruction from the Prime Minister.” De Groote read the letter into the minutes of the Board meeting (pp. 3–4).

<sup>15</sup>Beginning in 1948, Switzerland had Observer status at the UN and maintained a mission at the UN’s New York headquarters.

<sup>16</sup>Kaeser (2004) offers a detailed account of the domestic background to Switzerland’s growing internationalism.

<sup>17</sup>See “Switzerland—Membership,” EBD/91/71, Suppl. 1 (March 21, 1991), and “Membership for Switzerland,” EBD/91/71, Suppl. 2 (April 24, 1991).



of membership by Switzerland still faced hurdles. Instead of the usual six-month deadline, the resolution approved by the Board of Governors gave Switzerland 12 months to accept the offer of membership. In response, the government quickly submitted legislation to parliament, which adopted it in September 1991. Under Swiss law, however, any group of citizens could call for a referendum on the legislation if it could collect 50,000 signatures by petition. A coalition of civil and religious groups succeeded in doing so, partly by appealing to isolationism and partly by denouncing the IMF as an enemy of the poor and disadvantaged because of its allegedly harsh loan conditions. Government officials responded with strong public appeals that the time had come for Switzerland to take a responsible seat in international forums and institutions.

On May 17, 1992, Swiss voters approved by a healthy margin (55 percent in favor) the decision to join the IMF and the World Bank. Less than two weeks later, but a full two years after the initial application, Switzerland finally became a member of the IMF on May 29.<sup>18</sup> With the fourteenth largest quota, Switzerland was the second largest country to join in the 1990s (after the Russian Federation, ninth largest quota on the list).

## **The Soviet Union and Its Successor States**

The major development that transformed the IMF in the 1990s was the breakup of the Soviet Union in 1991. Until then, the absence of one of the largest and most politically powerful countries in the world had by itself prevented the IMF from having the universal role the founders had foreseen.

The Soviet Union had intended to join when the IMF was founded. In January 1944, the Soviet government accepted an invitation from the U.S. administration to send a team of experts to Washington to discuss the draft Articles of Agreement for the Fund and the World Bank. For the Soviets, the object of those several months of meetings with the U.S. Treasury was both to understand the proposal and to ensure that the institutions were designed to accommodate the peculiar features of their economy: central planning, bilateral exchange, and nonmarket pricing. Joining the Fund would potentially give access to credits, but not automatically, and would be accompanied by the downside of revealing to the world how weak the Soviet economy was at the end of the war. It would also give the Soviet government access to information about the U.S. and other economies, but would require it to reveal much about its own. The balance between these considerations was not obvious, but White—as leader of the U.S. Treasury team—did his best to persuade the Soviets that it was in their interests to join. He personally felt

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<sup>18</sup>On April 10, 1992, the Executive Board granted Switzerland a six-month extension of the original deadline for acceptance.

very strongly that U.S.-Soviet economic cooperation was critical to securing the peace and that Soviet membership in the Bretton Woods institutions was essential for that cooperation to flower.<sup>19</sup>

White's diplomacy succeeded up to a point. At Bretton Woods, the Soviet delegation was satisfied with the outcome, and the head of the delegation—M.S. Stepanov, the deputy minister of foreign trade—seconded the motion proposed by Britain's John Maynard Keynes to adopt the Articles as the Final Act of the conference. Along with all of the other 43 heads of delegations at Bretton Woods, Stepanov signed the Articles *ad referendum*. Soviet membership now depended only on the signature of Joseph Stalin as head of government, which was expected to be given before the ratification deadline at the end of December 1945. Although Stalin's advisors continued to recommend approval almost right up to the deadline, Stalin personally decided against joining an organization that would force him to disclose basic data about the Soviet economy and that would likely be dominated by the United States and its western European allies.<sup>20</sup>

For four decades—until Mikhail Gorbachev came to power in 1985 and began to open and transform the Soviet economy—no further serious consideration was given to Soviet membership in the IMF. Although the Fund's membership rose from 40 countries at the outset in 1946 to more than 150 in the late 1980s, the Soviet bloc mostly stayed away (Boughton, 2001, pp. 964–65). The Soviet leaders who succeeded Stalin had little incentive to try, and the United States would have blocked any initiative if they had. Gorbachev, however, ushered in a new era that by 1989 made *perestroika* (restructuring) and *glasnost* (openness) into English and not just Russian words. He was keenly interested in getting economic cooperation from the other major industrial countries, and he was prepared to seek membership in the IMF as part of that more general quest. That Hungary (from 1981) and Poland (from 1986) had clearly benefited from their entry into the Fund and were using it to strengthen economic and political ties to the west was an added incentive.

## Getting Acquainted

Although Gorbachev's emissaries approached Fund officials on a few occasions in the late 1980s, nothing could come of the effort until the Soviets overcame the

<sup>19</sup>For discussions of these negotiations and of White's interactions with Soviet officials, see Mikesell (1951, 2000); van Dormael (1978); Boughton (2002); and Boughton and Sandilands (2003).

<sup>20</sup>See James and James (1994), which was based on previously unavailable archival documents.

opposition of the U.S. government.<sup>21</sup> The election of George H.W. Bush in November 1988 to succeed Ronald Reagan as U.S. president, and the dismantling of the Berlin Wall a year later, provided the first real opportunity to do so. When senior U.S. officials, including Alan Greenspan (Chairman of the U.S. Federal Reserve System) in October 1989, began traveling to Moscow regularly to meet with their Soviet counterparts, they saw firsthand how the political system was becoming more open and receptive to cooperation with the west.<sup>22</sup> Gorbachev then saw an opening as Bush was preparing to host the annual summit meeting of the Group of Seven (G7) in Houston, Texas. On July 4, 1990, just one week before the summit was to begin, Gorbachev wrote to Bush, asking for a dialogue with the G7 leading toward “long-term agreements on large-scale credit and investment cooperation” aimed at helping the “transition to a market economy in the USSR.” As part of that process, Gorbachev noted with satisfaction, “Soviet contacts with the International Monetary Fund, the World Bank, and the Organization for Economic Cooperation are on the increase.”<sup>23</sup> Bush responded quickly and positively by persuading his counterparts at the G7 summit to ask the IMF to convene a multiagency task force to prepare a study of the Soviet economy. The study would, of course, mean little by itself, but it would be an essential first step toward financial and other assistance. It would provide potential donors, investors, and creditors with some guidance on the state of the Soviet economy, and it would provide a test of Gorbachev’s willingness and ability to open the country’s books to outside scrutiny for the first time.

Michel Camdessus, who happened to be at a meeting in Geneva when the G7 communiqué came out, avidly seized the opportunity. One of the IMF’s strengths was its ability to act swiftly and decisively when presented with a new challenge, and this was no exception. Within a week, Camdessus had named Alan Whittome (Special Counsellor to the Managing Director) as his personal representative to coordinate work with the other involved agencies: the European Bank for Reconstruction and Development

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<sup>21</sup>Staff members from the European Department made a few trips to Moscow in the late 1980s for informal meetings. In November 1988, a Soviet delegation visited IMF headquarters in Washington to collect information about the way the institution functioned and related to its members. The following March, Thomas A. Wolf (Senior Economist, European Department) met with several mid-level officials in Moscow for a further exchange of information. Another occasional contact was Jacques de Groote (Executive Director for Belgium). De Groote traveled frequently to Hungary, which had been a member of his constituency since 1982. In Budapest and other regional capitals, he met informally with Soviet economic officials and provided basic information to them about the IMF. At no time in the 1980s, however, did these officials directly raise the issue of Soviet membership.

<sup>22</sup>For an account, see Greenspan (2007), Chapter 6.

<sup>23</sup>Letter by President Gorbachev to President Bush, July 4, 1990, unofficial translation (by USSR); IMF archives, “USSR Mission and Reports by Mr. Whittome,” Accession 91/118, OMD, Box 1, File 21. This letter was cited by Camdessus to Executive Directors as a basis for increased cooperation with the Soviet Union; see minutes of IS/90/16 (July 16, 1990).

in London, the Organization for Economic Cooperation and Development (OECD) in Paris, and the World Bank in Washington.<sup>24</sup> Camdessus had also named Teresa Ter-Minassian (Deputy Director, Fiscal Affairs Department) to direct the work of the interagency task force that would produce the study and to assemble a team of economists from across the Fund. He had spoken with the heads of the other agencies and had arranged for them to meet in New York on July 21 and then to send a joint letter to Gorbachev formally proposing to do the study.

A few days later, Camdessus, Whittome, and Ter-Minassian flew to Moscow. For Camdessus, it was the first of the dozen or so trips he would make to Russia as Managing Director. The team met with Prime Minister Nikolai Ryzhkov and other senior officials to secure arrangements for doing the study and getting access to data. That visit was followed by a large and unwieldy fact-finding mission involving more than 20 experts, mostly IMF macroeconomists, in mid-August. (Subsequent missions were smaller and broader.) In September, a five-man delegation of Soviet officials headed by Viktor Gerashchenko, the chairman of the Gosbank (the Soviet state bank), attended the IMF/World Bank Annual Meetings in Washington as “Special Invitees” for the first time.<sup>25</sup> Before the end of the year, the task force completed its work, and the first-ever detailed study of the Soviet economy (IMF and others, 1990, 1991) was published.

Even the initial budgetary consequences of this undertaking were far from trivial. The joint study alone drew in some two dozen IMF staff members on a full- or part-time basis, many of whom were working at least double time to keep the project on schedule. In August, a new division was established within the European Department, with responsibility for relations with just one member country (Romania); three nonmembers (Albania, Bulgaria, and the Soviet Union); and the Soviet-bloc trade organization, the Council for Mutual Economic Assistance (CMEA, also known as COMECON). Some staff positions were shuffled into the European Department from other departments, but the Executive Board also approved the immediate creation of five new positions. The leading staff expert on the Soviet economy, Thomas Wolf, was put in charge of the new division. This flurry of activity seemed dramatic at the time, but it was only a small down payment on the much larger increases soon to come.

The study by the joint task force opened a window onto the Soviet economy, but it also served to reveal how little was known and how much more had to become known before the Fund or the G7 or anyone else could provide much help. The 1980s had been a rough decade for the Soviet economy, owing to the disastrous occupation of Afghanistan, the weak prices for Soviet oil exports compared with the boom years of

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<sup>24</sup>In an effort to reduce tensions among the four institutions, the G7 communiqué did not specifically designate the IMF as the lead agency. Instead, it suggested obliquely that the study “should be . . . convened by the IMF.”

<sup>25</sup>Curiously, it was Viktor Gerashchenko’s father who had made the case to Stalin in December 1945 for accepting Soviet membership in the IMF and the World Bank (James and James, 1994).

the 1970s, the pressures of trying to keep up with military and technological advances in the west, and seriously incompetent management of the domestic economy. Even Gorbachev's celebrated but piecemeal moves to liberalize the economy had been costly, because the old command structure had weakened without an effective plan to replace it with market institutions. At the end of this long downward slide, what was the real market value of Soviet output, and how much did each republic contribute to it? How badly had the Soviet Union's gold and foreign exchange reserves been depleted? How large were the fiscal and external deficits, and how would they evolve in the next few years? The data were poor, and the bureaucracy that collected them was—to say the least—unaccustomed to the practice of disclosure.

Despite the uncertainties, the joint study suggested some tentative answers, and it conveyed some important policy messages. Perhaps its core recommendation was that it was simply not possible to transform the Soviet economy quickly into a market system—along the lines of the abrupt shift known as the “big bang” already well under way next door in Poland—because the underlying institutions did not yet exist. The rule of law was not well established, industrial regulation and oversight would have to be developed from scratch, the tax system was rudimentary at best, and the central bank lacked the tools to regulate monetary and credit expansion other than by direct allocation and rationing. What was both possible and necessary was to let prices rise rapidly to market-determined levels, establish a social “safety net” to help the poor absorb the shock, and then move aggressively to stabilize the economy.<sup>26</sup>

## Special Association

Completion of the joint study led directly to the next question: Was the rest of the world ready to end the isolation of the Soviet Union and accept it as a full member of the international community? At the close of 1990, suspicions still ran deep, especially in the U.S. government but also in Russia's western European neighbors. The clearest symbol of acceptance would be membership in the IMF. The U.S. government was not ready to drop its formidable opposition to that giant step, but it wanted to encourage and help Gorbachev to keep moving in the right direction. With that in mind, on December 12—just a few days before the study was to be released—President Bush announced that the United States wanted the IMF and the World Bank to establish a “special association” with the Soviet Union.<sup>27</sup>

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<sup>26</sup>For an overview and discussion, see the minutes of SEM/MTG/91/1 and SEM/MTG/91/2 (January 18, 1991).

<sup>27</sup>At a White House press conference following a meeting with the Soviet Foreign Minister Eduard Shevardnadze, President Bush announced, “I will propose that the World Bank and the IMF work out with the Soviet Union a special association to give the USSR access to the considerable financial and economic expertise of those institutions”; see U.S. Department of State Dispatch, Vol. 1, No. 16 (December 17, 1990); accessed at <http://dosfan.lib.uic.edu/ERC/briefing/dispatch/1990/html/Dispatchv1no16.html>.

(This initiative came from within the U.S. government and does not seem to have been discussed with the IMF or others before the president's announcement.) Even that level of recognition was opposed by the British and German governments.<sup>28</sup> They would eventually come along, but in the meantime, the U.S. announcement did not lead to any specific follow-up.

During the next several months, while the IMF and other agencies continued sporadically to send expert teams to Moscow to get a deeper understanding of the state of the economy, the unraveling of the political fabric of the Soviet Union began to accelerate. The three Baltic states were already acting much like independent countries, a status that would be officially acknowledged by Moscow in September 1991. More broadly, a power-sharing agreement was signed on April 23, 1991, at the presidential dacha outside Moscow by Gorbachev and the heads of nine of the Soviet republics. Ignoring a boycott by the Baltic countries and three other republics (Armenia, Georgia, and Moldova), the agreement effectively reconstituted the Soviet Union as a federation of sovereign states, each of which could choose freely whether to stay in the union or leave. At the same time, a parallel Russian government was emerging alongside the Soviet one in Moscow, a process that culminated in the direct election of Boris Yeltsin as president of the Russian Republic in June. By that autumn, the Fund missions to Moscow were meeting with both sets of officials, including those of two separate and independent central banks (the Soviet Gosbank and the Central Bank of Russia).

Gorbachev was powerless to stop this rising tide. Instead, he tried to channel it by developing a plan to restructure the Soviet economy as a federation of semiautonomous republics, with a common currency and a common strategy for macroeconomic management. This plan, developed largely by Grigory Yavlinsky, a bright young economist with ties to both Gorbachev and (to a lesser extent) Yeltsin, underwent several transformations. It started as a "400 Days" and then a "500 days" reform plan in 1990 and reemerged a year later as a "Window of Opportunity" and then as a "Grand Bargain" involving a plea for large-scale financial support from the west in exchange for radical internal reforms.<sup>29</sup> In May 1991 and again in June, Yavlinsky went to Washington to try to sell the idea to skeptical U.S. officials and to a more receptive IMF.<sup>30</sup> After being appointed as a deputy prime minister, Yavlinsky spent much of the second half of 1991

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<sup>28</sup>File memorandum by Whittome (January 22, 1991) on the January meeting of G7 finance ministers and central bank governors; IMF archives, Accession 91/118, OMD files, "USSR Mission and Reports by Mr. Whittome," Box 1; file "26. G7 Relations."

<sup>29</sup>The fullest treatment is in Allison and Yavlinsky (1991). Many of the details of the plan were developed by a team of academic economists based in Cambridge, Massachusetts, working with Yavlinsky. Leading team members included Graham Allison, Jeffrey Sachs (both of Harvard University), and Stanley Fischer (of the Massachusetts Institute of Technology).

<sup>30</sup>For the U.S. reaction, see Baker (1995), p. 478. For the Fund's reaction, see file memorandum by Wolf, "USSR—Visit of Delegation with the Managing Director" (May 30, 1991); IMF archives, "Russia 1991 - (1)," Country Files, Box 21980, Accession 1995-0180-0007.

developing a plan for Gorbachev (known more simply as the Yavlinsky Plan) for sharing responsibility among the Soviet republics for managing the common currency and the economy of the union.

As the G7 prepared for its next summit meeting, to be held in London in mid-July 1991, relations between the Soviet Union and the outside world had reached a critical moment. On one side was Gorbachev's conception of reforming and liberalizing the Soviet economy with support from the west in the form of large-scale financing and active cooperation on policy advice and technical assistance. Accepting the Nobel Peace Prize on June 5, Gorbachev stressed the "vigorous steps" being taken "to open the country up to the world economy through ruble convertibility and acceptance of civilized 'rules of the game' adopted in the world market, and through membership in the World Bank and the International Monetary Fund."<sup>31</sup> On the other side was an emerging consensus in the G7 to offer public encouragement for reform but only limited financial assistance and only limited recognition in the form of the Special Association with the Bank and the Fund. The rising star of Yeltsin—who traveled to Washington in June to meet with President Bush—complicated Gorbachev's case and strengthened the resolve of the skeptics in the G7.

It was thus a weakened Gorbachev who was invited to attend the London summit. Plaintively, the Soviet leader wrote to each summit leader on July 12 (three days before the meeting was to start), "I am pinning high hopes on the upcoming meeting in London. There is every reason to believe that it may mark a turning point in the efforts to bring about the Soviet Union's organic incorporation into the world economy." Acknowledging that the Soviet economy was in crisis, he continued, "It is our strong feeling that the crisis can be overcome if we make a radical shift toward market economy, carry out destatization and privatization of property, remove multiple bans and constraints, stimulate work effort and business activity, support and foster entrepreneurship." The letter concluded by stressing the importance of membership in "international economic organizations" including the IMF and indicating his willingness to take all necessary steps toward that end. In response, however, all that the unimpressed G7 was prepared to put forward was a vague offer "to assist the integration of the Soviet Union into the world economy" and an invitation to hold further discussions.<sup>32</sup>

In a last-ditch effort to retake control of the process, Gorbachev took both the IMF and the G7 by surprise by formally applying for full membership as soon as the summit

<sup>31</sup>Mikhail Gorbachev, "Nobel Lecture" (June 5, 1991); accessed at [http://nobelprize.org/nobel\\_prizes/peace/laureates/1990/gorbachev-lecture.html](http://nobelprize.org/nobel_prizes/peace/laureates/1990/gorbachev-lecture.html).

<sup>32</sup>"Personal Message from President Mikhail S. Gorbachev to Heads of State or Government Attending the G7 Meeting in London"; and the summit communiqué, "Economic Declaration: Building World Partnership"; accessed at <http://www.G7.utoronto.ca/summit/1991london/>.

concluded.<sup>33</sup> Despite a negative reaction from the U.S. government (Treasury Secretary Nicholas Brady publicly called the application “a tactical error” and “counterproductive”), Camdessus responded favorably and quickly sent John Odling-Smee (Deputy Director, European Department) to Moscow to open discussions on establishing a formal Special Association as a first step toward membership.<sup>34</sup>

On August 19, 1991, a putsch against Gorbachev by hardliners in the Soviet leadership, and Yeltsin’s central role in quashing the coup, altered the dynamics of the Soviet drive toward IMF membership. Within the G7, at least three countries—France, Germany, and Italy—now reportedly favored rapid acceptance of Gorbachev’s application, though the British and the Americans continued to favor a more limited approach. As a compromise, on August 29 President Bush and Prime Minister John Major met at Bush’s summer home in Kennebunkport, Maine, and agreed that the Special Association agreement should be accelerated. The idea was that the Soviets would first work out a credible reform program in conjunction with the IMF and the World Bank. The implementation of that program would induce an increasing level of support from the G7 and other countries and would lead eventually to full membership. Major flew to Moscow to convey the Anglo-Saxon strategy to Gorbachev,<sup>35</sup> followed a few days later by U.S. Secretary of State James Baker. Even without full concord in the G7, the road was clear for the Fund to proceed.

Now under intense pressure from the United States to move quickly in the face of mounting instability in Moscow,<sup>36</sup> Camdessus raced to get the Special Association finalized before the IMF/World Bank Annual Meetings began in Bangkok in mid-October. On September 12, Massimo Russo (Director, European Department) and other staff arrived in Moscow to negotiate the final text of the proposed Special Association. They quickly reached agreement with Yavlinsky, and while they were still

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<sup>33</sup>The application was dated July 15, 1991, the opening day of the summit, but it was not delivered to the IMF until July 22; see “Union of the Soviet Socialist Republics (U.S.S.R.)—Application for Membership,” EBD/91/225 (July 23, 1991).

<sup>34</sup>See memorandum from Massimo Russo to management, “USSR—Back-to-Office Report” (August 13, 1991); IMF archives, “Russia 1991- (1) Country Files,” Box 21980, Accession 1995-0180-0007.

<sup>35</sup>Major’s rather dispiriting message, in the words of the British ambassador to Moscow, was “pay your debts, tighten your belt, and then we *might* be able to help” (Braithwaite, 2002, p. 249); emphasis added.

<sup>36</sup>Less than two months after complaining about Gorbachev’s “counterproductive” application for membership, Brady told reporters in mid-September that he felt the IMF was “dragging its feet. . . I’m a little disappointed in the bureaucratic inertia . . . it’s the most important event in the last 100 years and . . . we still haven’t got started” (*Financial Times*, September 18, 1991, p. 2). He then harangued the staff in Moscow and the Managing Director on the same theme, arguing that the Fund should just “invade the place” with staff and advice and not worry about the details or the eventual outcome; see memorandum from Russo to the Managing Director, “USSR—Back-to-Office Report” and attachments (September 24, 1991); IMF archives, OMD files, “Russia 1991- (1) Country Files,” Box 21980, Accession 1995-0180-0007.



in Moscow, Gorbachev agreed to the text<sup>37</sup> and submitted it on September 30 to the State Council for final approval. That set the stage for the Executive Board to approve it on September 25 and for Camdessus to go to Moscow on October 5 for a signing ceremony with Gorbachev.<sup>38</sup>

For the rest of 1991, even though the Soviet Union had already unraveled as a viable political entity, both the G7 and the IMF continued to treat it publicly as if it were on its way to becoming a full participant in the world economy. At the beginning of November, the Fund established a permanent office in Moscow, headed by Jean Foglizzo, a former official of the French finance ministry. For the next several weeks, a massive number of Fund staff from seven different departments, along with external consultants and experts from the World Bank, the OECD, the Bank for International Settlements, the European Communities, and western central banks, descended on Moscow. Their goal was to gather detailed information in preparation for designing a comprehensive reform program and helping the Soviet Union—or its successors—prepare for IMF membership. In December, Camdessus announced that he was establishing an entire new department with five divisions “to conduct work on the USSR and its constituent republics, and the Baltic states.” Odling-Smee was picked to head the new “European II” department.<sup>39</sup>

Meanwhile, the republics that constituted the Soviet Union were gradually but steadily gaining sovereignty. On September 5, the Soviet Congress of People’s Deputies voted to transfer most state powers from the central government to the republics, and it established a State Council to carry out the transfer. The Council then recognized the independence of the three Baltic states as its first official act. Of the 12 remaining republics, 10, including Russia, soon signed a treaty of economic union, based on the Yavlinsky Plan. On October 28, Yeltsin announced his own plan for reforming and liberalizing the Russian economy. On December 8, Russia, Ukraine, and Belarus signed an agreement in Belavezha, Belarus, establishing the Commonwealth of Independent States, a loose association that almost all the other republics would soon join, at least temporarily.

With shocking suddenness, the door had blown open. On December 25, 1991, Gorbachev resigned as president of the Soviet Union. On December 26, the Supreme Soviet formally dissolved the union. U.S. President Bush extended diplomatic recognition to the Russian Federation as the successor state to the USSR and announced his support for Russia to assume the Soviet Union’s permanent seat on the UN Security Council. Before the sun set that day, the Soviet embassy in Washington notified the

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<sup>37</sup>On October 5, 1991, President Mikhail Gorbachev and Managing Director Michel Camdessus exchanged letters, giving force to the Special Association agreement. The text of the agreement may be found at <http://www.imf.org/external/pubs/ft/history/2011/index.htm>.

<sup>38</sup>See minutes of EBM/91/125 (September 18, 1991), EBM/91/132 (September 25, 1991), and EBM/91/142 (October 11, 1991). The draft agreement was circulated as “Special Association between the U.S.S.R. and the Fund – Terms and Conditions,” EBS/91/161 (September 18, 1991).

<sup>39</sup>Also see Chapter 17 on this change in the context of the IMF’s organizational structure.



Michel Camdessus (left) and Mikhail Gorbachev shake hands after signing the Special Association agreement in October 1991. (IMF photo)

IMF that Russia was assuming all the rights and obligations of the Soviet Union in its relationship with the Fund, including the Special Association.<sup>40</sup>

### **Fifteen New Members**

In the end, the Soviet Union never did become a member of the IMF, but all 15 of the countries that emerged from it (Figure 2.1) soon did. The three Baltic countries applied first. Within three weeks of recognition of their sovereignty by the State Council of the Soviet Union in September 1991, Estonia, Latvia, and Lithuania submitted letters to the Fund applying for membership. Ukraine applied as soon as the union was dissolved in December, going so far as to have a letter from President Leonid Kravchuk hand delivered to the Fund on December 27. Russia submitted an application on January 7, 1992, and the other 10 newly independent countries followed suit within two months.

The IMF's initial reaction to this influx of applications was to redeploy staff and other resources from throughout the institution to work on this region. The new

<sup>40</sup>See "Russian Federation—Communication Regarding Special Association," EBD/91/325 (December 27, 1991). Paragraph 6 of the Special Association agreement (which may be accessed at <http://www.imf.org/external/pubs/ft/history/2011/index.htm>) provided for relations to develop with the republics and not just with the union.

**Figure 2.1. The Baltic Countries, the Russian Federation, and Other Countries of the Former Soviet Union**



Source: IMF graphics section.

Note: In most commentaries of the early 1990s, including in the IMF in 1992, these 15 countries were usually referred to simply as “the former Soviet Union,” or FSU. The Baltic countries resisted that label because their status was different from the others. They had been forcibly annexed to the Soviet Union in 1940, and most major countries had never acknowledged the legitimacy of the annexation. Consequently, the IMF eventually decided not to use the term “former Soviet Union” by itself, nor the abbreviation FSU. Instead, it settled on the awkward phrase, “the Baltic countries, Russia, and other countries of the former Soviet Union.” The acronym BRO was deemed to be acceptable in internal documents but not in publications.

department, European II, absorbed most of this shift, and the main technical assistance departments—Central Banking, Fiscal Affairs, Statistics, and the IMF Institute—redeployed staff within their own units and stepped up their hiring of outside consultants. For the next fiscal year, which began in May 1992, the Executive Board approved a substantial budget increase (14.5 percent more than the previous year) so that work on other areas would not suffer and so that the Fund could continue to expand its work on the new members, including setting up small Resident Representative offices in each capital city.

The Special Association agreement provided a framework for the Fund to offer technical assistance to each of the countries of the former Soviet Union without waiting for them to complete the process of becoming IMF members. To get the membership process under way, a critical task for the Fund was to calculate a set of quotas. The difficulty was that many of the statistics upon which the Fund would usually base those calculations—GDP, international trade, exchange rates, and

official reserves—were missing, outdated, or unreliable. After collecting all available data, the staff computed an aggregate quota for the whole of the former Soviet Union and then divided it up based on a “distributive key” that represented a best guess as to the relative sizes of output, trade, and finances of each country. Those calculations then were scaled upward to give Russia 3 percent of total Fund quotas, following the political agreement discussed in Chapter 7. Because Russia accounted for an estimated 63 percent of the total for the former republics, that decision resulted in an aggregate quota for the group of 4.76 percent of total quotas as of April 1992 (Table 2.2).<sup>41</sup>

On April 27, 1992, the Board of Governors approved membership resolutions for 14 of the 15 countries. Azerbaijan’s application was delayed slightly by ongoing political turmoil there, but the Governors approved that resolution a week later.<sup>42</sup> Each country then had to accept the conditions before it could become a member. Lithuania responded within a few days, and the others completed the process through the spring and summer of 1992. By the time Turkmenistan became a member on September 22, the whole of the former Soviet Union was in the Fund except for one former republic. Tajikistan was embroiled in a civil war that delayed the government’s response for a full year. It became the last of the group to join, on April 27, 1993.

Another issue had to be resolved quickly. Russia’s quota was large enough that it could elect an Executive Director by itself, and the others all had to join a constituency with other members. Technically, all 14 countries could have banded together to form a new group and elect a Director, but that was not their desire. If they had wanted to stick together, the Fund would have had to find some way to accommodate the new constituency.<sup>43</sup>

As discussed in Chapter 17, this influx of new members could not be accommodated smoothly within the 22-seat structure of the Executive Board. After much debate, the size of the Board was increased to 24 on the understanding that Russia and Switzerland

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<sup>41</sup>For an overview of the Fund’s preparations, see “States of the Former Soviet Union—Status of Membership and Fund Activities,” ICMS/Doc/38/92/6 (April 23, 1992). The total of initial quotas was approximately \$6.3 billion (SDR 4,559 million). A general increase in quotas took effect later in the year, raising each quota by 50 percent.

<sup>42</sup>Azerbaijan’s political situation was discussed at EBM/92/49 (April 9, 1992). Approval of a request for IMF membership required a majority of votes cast by IMF Governors. No Governor voted against or abstained from any of these 15 resolutions.

<sup>43</sup>The group’s proposed quotas, plus their basic votes (250 per country), would have given the 14 countries (excluding Russia) a total of 20,330 votes in an election of Executive Directors. That total was slightly larger than the 18,940 votes of the francophone African countries, which was the smallest existing constituency. Because the presence of the francophone African countries on the Board was essential for the conduct of Fund business, some rearrangement of constituencies would have been required.

**Table 2.2. Russia, the Baltic Countries, and Other Countries of the Former Soviet Union: Entry into Membership, Representation, and Initial Quota Shares**

Country	Application Date <sup>a</sup>	Membership Date <sup>b</sup>	Executive Board Constituency	Initial Quota Share (as of April 1992)	
				Percentage of Group	Percentage of Fund Total
Russian Federation	January 7, 1992	June 1, 1992	Russia	63.1	3.00
Ukraine	December 27, 1991	September 3, 1992	Netherlands	14.6	0.69
Belarus	February 10, 1992	July 10, 1992	Belgium	4.1	0.20
Kazakhstan	January 13, 1992	July 15, 1992	Belgium	3.6	0.17
Uzbekistan	March 3, 1992	September 21, 1992	Switzerland	2.9	0.14
Azerbaijan	January 7, 1992	September 18, 1992	Switzerland	1.7	0.08
Georgia	March 11, 1992	May 5, 1992	Netherlands	1.6	0.08
Lithuania	September 12, 1991	April 29, 1992	Nordic-Baltic	1.5	0.07
Latvia	September 27, 1991	May 19, 1992	Nordic-Baltic	1.3	0.06
Moldova	January 24, 1992	August 12, 1992	Netherlands	1.3	0.06
Armenia	January 13, 1992	May 28, 1992	Netherlands	1.0	0.05
Kyrgyz Republic	January 24, 1992	May 8, 1992	Switzerland	0.9	0.04
Tajikistan	March 3, 1992	April 2, July 1993	Switzerland	0.9	0.04
Turkmenistan	February 26, 1992	September 22, 1992	Switzerland	0.7	0.03
Estonia	September 9, 1991	May 26, 1992	Nordic-Baltic	0.7	0.03
Aggregate				100.0	4.76

Source: *Annual Reports*, IMF documents, and author's calculations.

<sup>a</sup>Date the application was recorded at the IMF.

<sup>b</sup>Date that membership became effective.

would occupy the additional seats. The Russian authorities preferred not to form a multicountry constituency, and in any case most of the other new members were looking westward for their affinity grouping. Five countries joined the new Swiss

constituency; the three Baltic countries became part of the Nordic group; and the others teamed up with either Belgium or the Netherlands (see Table 2.2).<sup>44</sup>

## The Breakup of Yugoslavia

The Socialist Federal Republic (SFR) of Yugoslavia was an original member of the IMF and was one of the few socialist countries that remained in the Fund throughout the Cold War.<sup>45</sup> It was a federation of several dissimilar republics, held together principally through the strong rule and relatively good economic and social management of President Josip Broz Tito. After Tito's death in May 1980, both the economy and the political cohesiveness of Yugoslavia gradually crumbled. Repeated attempts by the IMF throughout the 1980s to prevent an economic and financial collapse by lending money and offering policy advice were ineffective. By the beginning of the 1990s, as Yugoslavia's internal weaknesses were compounded by the collapse of the Soviet-bloc trading system, the outlook was becoming hopeless.<sup>46</sup>

The formal breakup of Yugoslavia began in June 1991 with the secession of Croatia and Slovenia. After the Yugoslav army failed to retake the territory, most major countries recognized both republics as independent states. Slovenia then applied for IMF membership on January 30, 1992. Croatia soon followed suit and applied for membership on April 2. Meanwhile, the Republic of Macedonia declared its independence in December 1991 and applied for Fund membership on June 8, 1992. The Republic of Bosnia and Herzegovina faced a more delicate situation, in that it contained three distinct ethnic populations with different interests and views on independence and on the way the republic should be governed if it did become independent. Nonetheless, a referendum resulted in overwhelming support for a split from Yugoslavia. The government declared independence in March 1992 and applied for Fund membership on April 20. One week later, the two remaining republics, Serbia and Montenegro, announced that they were constituting the Federal Republic of Yugoslavia as the

<sup>44</sup>After these additions, the Nordic constituency became known as the Nordic-Baltic constituency.

<sup>45</sup>The Kingdom of Yugoslavia (1918–41) was dissolved when the country was occupied by the Axis during the Second World War. A new government was established in 1943, and Yugoslavia joined the IMF as the Democratic Federation of Yugoslavia. It became the Federal People's Republic of Yugoslavia the next year. The "Socialist Federal Republic" appellation was adopted in 1963, when a new constitution was approved.

<sup>46</sup>The previous History, Boughton (2001), covers three main strands of the IMF's work with Yugoslavia through the 1980s. The general strategy for designing economic policy and lending conditions in an economy without market-based pricing or conventional indirect macroeconomic policy tools is discussed briefly in Chapter 13, pp. 604–05. The specific strategy for using the real effective exchange rate as a stabilization tool is also covered in Chapter 13, pp. 574–78. The use of "enhanced surveillance" to help restore normal relations between Yugoslavia and its commercial creditors is examined in Chapter 10, pp. 432–35.

Figure 2.2. Successors to the Socialist Federal Republic of Yugoslavia



Source: IMF graphics section.

successor to the larger federation. In a brief period, one country had dissolved into five (Figure 2.2).<sup>47</sup>

This flurry of activity presented the IMF with an unprecedented situation when the several states that emerged from Yugoslavia all wished to continue as separate members. How would one membership be converted into five?<sup>48</sup> The Fund had four options. First, it could declare the SFR Yugoslavia to exist no longer as a state and thereby terminate the membership. Each new country could then apply to become a member in its own right. Second, the Fund could declare the Federal Republic of Yugoslavia (Serbia and Montenegro) to be the successor state and thus the heir of the current membership with all of its quota, assets, and liabilities. In that case, each of the seceding countries could apply for new memberships. Third, the Fund could declare the

<sup>47</sup>In the following decade, the Federal Republic split again, as shown in Figure 2.2, with the secession of Montenegro in 2006 and the separation of Kosovo in 2008.

<sup>48</sup>The closest precedent was the breakup of the United Arab Republic in 1961. That country had been formed in 1958 through the merger of Egypt and Syria. During the three years of the United Arab Republic's existence, the IMF had dealt with it for most purposes as if it were still two states. When the union dissolved, its membership status simply reverted to its former terms; see "Secession of Territories and Dissolution of Members in the Fund," EBD/92/146 (July 14, 1992), pp. 2–3. The breakup of Czechoslovakia, which presented similar issues, came a few months after that of Yugoslavia. The dissolution of the Soviet Union was different in that it had not been a member of the Fund.

former SFR Yugoslavia to be succeeded jointly by the five new states, each of which would automatically be a member with a share of the original member's quota, assets, and liabilities. Fourth, as a variation of that third option, it could divide Yugoslavia's membership but agree to the succession separately for each of the new countries, only after each one qualified.

In September 1992, the UN took the first option, stripping Yugoslavia of its membership and inviting the Federal Republic to apply as a new member.<sup>49</sup> That route was less appealing to the IMF because it would have required activating procedures to dispose of assets and settle liabilities, part of which were by then in arrears (see Chapter 16). The second and third options were even less appealing, in part because of the remote likelihood that the Federal Republic would be able or willing to settle arrears and stay current on its obligations.<sup>50</sup> The UN Security Council was imposing a trade embargo and other sanctions on the Federal Republic as part of an international effort to force a settlement of the armed conflict in Bosnia and Herzegovina, and it was becoming increasingly clear that neither of those two republics would be able to normalize its financial relations with the rest of the world anytime soon.

In December 1992, the Executive Board took the fourth option, which by that time was the only feasible path.<sup>51</sup> It declared that the member state, the SFR Yugoslavia, had been dissolved and had ceased to exist; that is, the new entity, the Federal Republic of Yugoslavia, was not the same country. Each of the five new states would be joint successors and would accede to a share of the Yugoslav membership, but only when each one had fulfilled the requirements of membership. The quota and the financial position of each new member would be a share of the total, with that share being determined by the Fund using its standard quota-based formulas. The shares proposed by the staff and ultimately accepted by the Executive Board and all the new members were as follows:

<sup>49</sup>Each international agency of which Yugoslavia was a member had to make such a determination, based on its own charter and mandate. In addition to the UN, the European Communities and the European Bank for Reconstruction and Development decided that the SFR Yugoslavia had ceased to exist as a state. Those decisions, however, were not binding on the IMF; see "Issues of State Succession Concerning Yugoslavia in the Fund," EBS/92/282 (November 20, 1992), p. 2.

<sup>50</sup>In November 1992, the SFR Yugoslavia had outstanding obligations to the IMF totaling \$216 million (SDR 155.6 million, or 25 percent of quota). It also had used all of its cumulative SDR allocation (SDR 155.2 million). An additional complication under the second option was that the Fund has no power to reduce a member's quota without the member's consent. The full quota of the SFR Yugoslavia would continue to belong to the Federal Republic despite its reduced economic and physical size, while each new state would have to apply for membership and be assigned an additional quota.

<sup>51</sup>These decisions were made "in principle" at EBM/92/146 (December 4, 1992). The staff then prepared a formal decision, which was enacted after further discussion at EBM/92/150 (December 14, 1992).



Federal Republic of Yugoslavia (Serbia and Montenegro)	36.5 percent
Croatia	28.5
Slovenia	16.4
Bosnia and Herzegovina	13.2
former Yugoslav Republic of Macedonia	5.4

Initially, the Fund gave each country one month to agree to its share and to certify that it was prepared to accept the rights and obligations of membership. As expected, the two most economically developed countries—Croatia and Slovenia—met that deadline, paid off their shares of the outstanding arrears, and became members on January 15, 1993 (retroactive to December 14, 1992, the date of the Executive Board decision on succession). Delays in the others forced the Fund to extend the deadline repeatedly for the next eight years.

The Macedonian situation took just a little longer than Croatia and Slovenia because of a political dispute with its southern neighbor. The country applied for membership under the name Republic of Macedonia. The government of Greece objected because it disputed the ethnic identity of the new country and was concerned that statehood under the name of Macedonia could inflame separatist passions in contiguous regions of Greece. In the Fund, Renato Filosa (Italy), the Executive Director whose constituency included Greece, opposed the proposal to offer membership until such time as a name could be agreed on between the Fund and the country “not including the term Macedonia.” That position was not supported by other Directors, but everyone wanted to find an acceptable compromise.<sup>52</sup> Eventually, the Board and the Macedonian government agreed to adopt a provisional name that did include Macedonia but not without qualification. Hence, on April 21, 1993, “the former Yugoslav Republic of Macedonia” or FYR Macedonia became a member of the IMF, bringing total membership to 176. (Part of the compromise was that “former” would be an integral element of the country name but would not be capitalized except in the abbreviation FYR.) Although that name was expected to have a short life, it remained in effect throughout the 1990s and beyond.

The tragic persistence of war between major ethnic groups in Bosnia and Herzegovina prevented that country from forming any normal international relations for more than three years. Finally, after North Atlantic Treaty Organization (NATO) forces intervened with a bombing campaign in 1995, the warring parties initialed a peace accord in Dayton, Ohio (United States), and agreed to have its terms enforced by a NATO peacekeeping force. As described in Chapter 6, the Fund was already at work in Sarajevo while the Dayton negotiations were still being organized. Despite the dangerous physical conditions, the mission quickly arranged for the authorities to be

<sup>52</sup>See minutes of EBM/92/146 (December 4, 1992), particularly pp. 4–10. Also see “Issues of State Succession Concerning Yugoslavia in the Fund,” EBD/92/282 (November 20, 1992).

able to settle their financial obligations and complete the membership process before the end of the year.<sup>53</sup>

The only component of the original member still in abeyance was the Federal Republic of Yugoslavia (Serbia and Montenegro). The president of Serbia, Slobodan Milošević, engaged the country in a number of disastrous military engagements in Bosnia and Herzegovina, Kosovo, and other parts of the former FSR Yugoslavia. Those offensives and the government's incompetence at managing the economy prevented any lasting *rapprochement* with the European Union, NATO, or the UN throughout the 1990s.<sup>54</sup> Not until Milošević was defeated in the 2000 elections (soon followed by his arrest and deportation to the International Court of Justice at the Hague to be tried for war crimes and crimes against humanity) was a new government able to regain international support. The Federal Republic of Yugoslavia (Serbia and Montenegro) finally became a member of the IMF on December 20, 2000.<sup>55</sup>

## The Major Remaining Nonmembers

Neither North Korea nor Cuba applied for membership in the 1990s, but both countries initiated informal discussions aimed at breaking down a part of the diplomatic wall separating them from the international economic, financial, and political systems.

### North Korea

The catalyst for talks between the IMF and North Korea was the latter's application in April 1997 to become a member of the Asian Development Bank. The Republic of Korea (South Korea) publicly welcomed the initiative, but Japan and the United States opposed it. The application lapsed, but in the meantime the North Korean authorities had also expressed interest in learning more about the IMF.

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<sup>53</sup>The settlement of arrears is discussed in Chapter 16. Also see Chapter 5 for a discussion of the Fund's initial lending to Bosnia.

<sup>54</sup>The UN lifted its restrictions in 1996 in response to the Dayton peace accords, but the United States and other countries continued to apply sanctions that prevented the Federal Republic from gaining entry into international organizations. Armed conflict over the Kosovo region of Serbia in 1998–99, a war that eventually drew in NATO forces, further prevented any progress toward peace or stability.

<sup>55</sup>Like the other new states, the date of the Federal Republic's membership was made retroactive to December 14, 1992, to preserve the integrity of the disposition of the former federation's financial position. In 2006, the country split again when Montenegro seceded. Montenegro became a member of the IMF in January 2007. Kosovo seceded from the Federal Republic in 2008 and became a member of the Fund in June 2009.

Because North Korea was a member of the UN, the Fund's liaison office in New York afforded a convenient and discreet venue for making contact. In late July, Justin B. Zulu, director of the New York office, met with North Korea's ambassador to the UN and other senior officials. That meeting led to a formal request for the Fund to send a staff team to Pyongyang on a fact-finding mission. Management responded positively a week later. Up to this point, only a few of the most directly interested Executive Directors were informed of these contacts. The full Executive Board was notified a few days later during an informal meeting.<sup>56</sup>

On September 6, 1997, Margaret R. Kelly (Senior Advisor, Asia and Pacific Department) and two other staff flew to Pyongyang via Beijing for a week of intensive discussions. They provided officials with detailed information about the IMF and its membership requirements, and they received some information and data on the country's economy. Normally, a visit like this would be followed by an application for Fund membership, and there were some indications in that direction. The data the officials provided to the Fund indicated that output had fallen by half in the preceding four years and that the condition of the economy was dire. These officials expressed interest in gaining access to financial help and other assistance from both the IMF and the World Bank.<sup>57</sup>

Shortly after the staff visit concluded, South Korea's Governor in the Fund, Finance Minister Kyong Shik Kang, gave his government's blessing to membership for North Korea. At the IMF/World Bank Annual Meetings in Hong Kong SAR, Kang acknowledged that the idea was "sensitive," but he concluded that it "would expedite [North Korea's] integration into the world economy and contribute significantly to the political and economic stability of East Asia. The Korean Government welcomes North Korea's future participation in these [Bretton Woods] institutions and is ready to support and assist North Korea in the process of meeting the prerequisites of accession."<sup>58</sup>

Support from South Korea did not diminish opposition from Japan and the United States, in the face of which an application from North Korea could not have fared any better than its attempt to join the Asian Development Bank. These exchanges did lead, however, to a formal decision in 1998 for the IMF to provide technical assistance to North Korean officials.<sup>59</sup> Fund staff then made arrangements

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<sup>56</sup>For the background to these developments, see memorandum from Bijan B. Aghevli (Deputy Director, Asia and Pacific Department) to the Acting Managing Director, "North Korea," August 11, 1997; IMF archives, Historian's files.

<sup>57</sup>"Democratic People's Republic of Korea—Fact-Finding Report," EBS/97/204 (November 12, 1997).

<sup>58</sup>Statement by the Hon. Kyong Shik Kang, Governor of the Bank and the Fund for Korea, at the Joint Annual Discussion; Annual Meetings Press Release No. 42, September 23–25, 1997; IMF archives, Historian's files.

<sup>59</sup>"Democratic People's Republic of Korea—Request for Technical Assistance," EBS/98/63 (March 30, 1998), and Decision No. 11703-(98/41), adopted April 6, 1998. In compliance with U.S. law, the U.S. Executive Director abstained from approving the decision.

to conduct a one-week workshop in Beijing for those officials, explaining the IMF in more detail. In principle, that workshop was to be followed later by a longer training course in economics. But just as the staff was completing the arrangements for the workshop, the country's authorities requested that it be postponed. The workshop never took place, and the Fund had no further official relations with North Korea for at least another decade.<sup>60</sup>

## Cuba

Unlike North Korea, Cuba had no official contact with the IMF during this period, but it did seek and have informal discussions with at least one Fund official.

Cuba had earlier spent nearly 20 years as an IMF member. It participated in the 1944 Bretton Woods conference and joined the Fund as an original member the following year. Fulgencio Batista's government borrowed small amounts in 1957 and 1958, and the last of those loans was still outstanding when Fidel Castro overthrew the Batista regime in January 1959. In 1960, the United States reacted to a variety of alleged economic, political, and human rights concerns by imposing a trade embargo that severely limited the opportunities for profitable international trade. From that point on, the Cuban economy became increasingly dependent on financial support from the Soviet Union. The authorities repeatedly sought to delay repayment of the IMF credits, but in 1963 the Fund finally insisted on settlement. Castro refused, and in 1964 he withdrew Cuba from the Fund. Cuba did, however, gradually repay the loans over the next five years (see Horsefield, 1969, Vol. 1, pp. 548–50; and Boughton, 2001, p. 758). Relations then went dormant.

The Soviet Union's demise in 1991 threw the Cuban economy into a recession that was probably as deep as those experienced in the countries of the former Soviet Union and in the former socialist countries of Eastern Europe. Although Castro was not prepared to discard socialism as an economic framework, he did introduce a few reforms to allow some private enterprise and additional relations with market economies. In that context, he put out a tentative feeler for contacts with the IMF.

In 1993, the Cuban authorities invited Jacques de Groote to visit Havana for a series of meetings with officials of the finance ministry and the central bank. De Groote had served as the Executive Director for Belgium and other countries

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<sup>60</sup>See memorandum from Kelly to the Managing Director, "North Korea—Workshop Postponed," October 6, 1998, and related documents on arrangements; IMF archives, OMD-AI, Accession 2002-0270-09, "North Korea through 1999." In 2000, the Fund invited North Korea to send a delegation to attend the Annual Meetings in Prague as "Special Guests." Again, after much discussion, the authorities decided to decline the invitation. The next year, a hardening of diplomatic relations between North Korea and the United States induced the IMF to suspend its efforts to develop further contacts.

since 1973. His constituency had expanded in 1982 to include Hungary, in 1990 to include Czechoslovakia, and in 1992 to include Belarus and Kazakhstan. He was known to have had good relations with Communist Party officials in those and other countries before and during the transition and as a maverick within the IMF in his willingness to deal independently with countries outside his constituency.<sup>61</sup> He therefore was probably viewed in Cuba as someone who might bring an open and positive attitude to the discussion.

De Groote made two trips to Havana, in his personal capacity, in June and November 1993.<sup>62</sup> He met with Castro and other officials and gave them many IMF publications so that they could become familiar with the Fund's work on the process of making a transition from central planning to a market economy. On his return, he reported privately to Camdessus, to the U.S. and European Executive Directors, and to a few staff. Because these visits had been undertaken as a personal initiative, he did not make a formal report to the Executive Board.

Following this initiative, the Cuban government repeatedly sent out indirect feelers to the IMF through the UN's Resident Representative office in Havana. It was not seeking talks on membership, but it was ready to welcome technical assistance from the Fund. Owing to the delicate political status of Cuba, the Fund declined to act on these requests.<sup>63</sup> Even if the Fund had offered its technical advice, it was clear that a return to membership was not an option. As had become clear in the application for membership from Poland in 1981 and in the North Korean episode in 1997, U.S. opposition could constitute a formidable barrier.<sup>64</sup> In this case, though, the expression of interest lapsed without the strength of that barrier being tested.

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<sup>61</sup>Specifically, de Groote had worked closely with the government of Zaïre while serving as Executive Director in the IMF; see Boughton (2001), p. 806n123; and Pound (1990), p. 1.

<sup>62</sup>De Groote was accompanied by Frank Moss, a senior staff member in his IMF office. This account is based primarily on the report that de Groote and Moss prepared for their constituency authorities on their return from the November trip (and later circulated to a number of journalists); see "Winds of Economic Change in Havana," November 23, 1993; IMF archives, OMD-AI, Accession 1996-0129-0002, "Cuba." Also see "Cuba's Slow Road to Reform," *Economist*, February 5, 1994.

<sup>63</sup>See various documents in IMF archives, OMD-OTM, Accession 2002-0270-02, "Cuba." In 1994 and again in 1995, reporters—apparently aware of these feelers—asked Camdessus if the Fund was engaged in membership discussions with Cuba. On both occasions, he denied that any such talks were taking place.

<sup>64</sup>Poland's membership application was blocked from 1981 to 1986 because of the suppression of the Solidarity movement and the imposition of martial law in Poland; see Boughton (2001), pp. 986–91. Although the formal approval of an application requires only a simple majority vote by the Board of Governors, strong political opposition can result in an indefinite delay before a resolution is submitted to the Governors; see Boughton (2001), p. 989n68.

**Appendix: Country Name Changes, 1990–99**

Effective Date <sup>a</sup>	Previous Name	New Name <sup>b</sup>
November 1990	People's Republic of Mozambique	Republic of Mozambique
August 1991	Democratic Kampuchea	Cambodia
October 1991	People's Republic of the Congo	Republic of Congo
February 1992	Mongolian People's Republic	Mongolia
June 1993	Afghanistan	Islamic State of Afghanistan <sup>c</sup>
August 1993	Kyrgyzstan <sup>d</sup>	Kyrgyz Republic
August 1995	Viet Nam	Vietnam
October 1995	Republic of Kazakhstan	Republic of Kazakstan (new spelling only)
February 1996	Republic of Bosnia and Herzegovina	Bosnia and Herzegovina
May 1996	Republic of Georgia	Georgia
June 1997	Zaire	Democratic Republic of the Congo
July 1997	Republic of Kazakstan	Republic of Kazakhstan (reversion to previous spelling)
August 1997	Western Samoa	Samoa

Source: IMF documents.

<sup>a</sup>The effective date is the date an official notice was circulated within the IMF, except in cases in which that notice specified a different effective date.

<sup>b</sup>This table lists changes in the official country names used in the IMF. In some cases, different names were in use in the UN or other international agencies. Changes resulting from the breakup or merger of countries are not included here but are discussed in the text where relevant.

<sup>c</sup>Changed to the Islamic Republic of Afghanistan in 2005.

<sup>d</sup>Within the Soviet Union, this republic was known by various names in English, usually either the Kyrgyz Soviet Socialist Republic or Kirgiziya. On seceding from the union in August 1991, the government changed the country's name to Kyrgyzstan (sometimes spelled Kyrghyzstan). It became a member of the IMF under that name on May 8, 1992. The following year, the government adopted a new name, the Kyrgyz Republic, which the Fund recognized on August 30, 1993.

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