IMF GOVERNANCE: QUOTAS AND VOICE

Lecture 5

LIUC 2008

ORGANIZATION: AN OVERVIEW

- The IMF is governed by the member countries themselves, through the ***Board of Governors***, which consists of one governor from each member country. Governors are usually Ministers of Finance or heads of Central Banks. The Board of Governors meets only during annual meetings.
- The day-to-day affairs of the Fund are guided by the ***Executive Board***, a group of 24 representatives of the member countries, that meets in formal session at least three times a week. Single chair: USA, UK, Fr, Ger, Japan, SA, Russia, China
- The IMF has a staff of about 2500, headed by the Managing Director, D. Strauss-Kahn, a French national. The staff come from over 140 of the IMF's member countries (185)

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FUNDING, QUOTAS AND VOTING: A SNAPSHOT (1)

- The capital base of the IMF consists of membership ***quotas***, the financial contributions made by the member countries. Total quotas amount to about SDR 217,4 billion. (about 341 bil. $)
- Members' quotas are broadly determined by their ***economic position*** relative to other members. A variety of economic factors is considered; these include members' GDP, current account transactions, and official reserves. Quotas are paid 25% in foreign exchange reserves and 75% in a member's own currency.
- The quota "deposits" of members are remunerated, and members pay ***interest*** on the loans they receive from the IMF; the Fund's expenses are paid for by the interest rate spread between the two.

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FUNDING, QUOTAS AND VOTING: A SNAPSHOT (2)

- The Board of Governors conducts regular quota reviews (every 5-year). A quota revision was concluded in April 2008.
- A member's quota determines, in particular, its ***voting power*** and ***access to financing.***
- ***Voting***: 250 basic votes for each member + one vote for each SDR 100.000 (now 750 basic votes)
- ***Access to financing***: The max amount of credit that a member may obtain from the IMF is based on its quota. Ex SBA a member can borrow up to 100% of its quota annually and 300% cumulatively. Access has been increased under exceptional circumstances (Argentina 8 times its quota, Turkey 15 times, recent example Hungary 10 times its quota).

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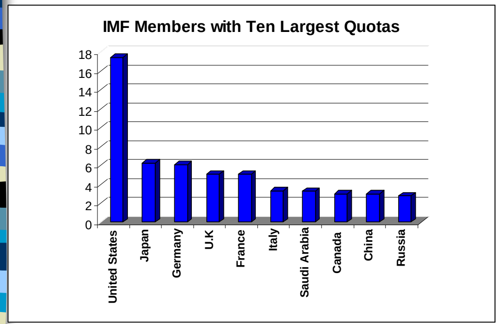

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WHY WAS A CHANGE IN GOVERNANCE NEEDED?

'…The governance of the IMF should evolve along with the world economy, so that countries have a rightful stake in the institution. The world economy has evolved considerably, as some countries have grown more quickly than others and Europe has achieved monetary union and deepened integration.'

(*Timothy D. Adams, US Department of the Treasury*, 23 September 2005)

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QUOTAS MISALIGNMENT

	Act. q	Calc. q
Advanced economies	60.5	65.0
Major advanced economies	45.2	45.4
Of which: US	17.1	16.0
Other advanced economies	15.3	19.6
Developing countries	32.1	29.6
Africa	5.4	2.3
Asia 7/	11.5	17.5
Middle East, Malta & Turkey	7.6	4.8
Western Hemisphere	7.6	5.0
Transition economies	7.4	5.5
Total	100.0	100.0

IMF: Quota –Updates Calculations July 07 (data 2005)

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MAIN ISSUES

- **IMF governance** did not reflect individual country's position in the global economy.
- **Requests**:
  - Asian countries: increase their **quota** and their voting power;
  - Developing countries: increase their **voice** in the institution (quota is just one aspect of the problem).

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THE IMF REFORM: the Medium-Term Strategy

- Launched in 2005 by the Managing Director and focussed on:
- **Surveillance;**
- **Governance;**
- **Budget;**
- **Role of the Fund in emerging markets and LICs;**
- **Technical assistance and capacity building.**
- Endorsed by the IMFC in 2006
- First stage: surveillance and governance (quotas and voice)

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THE REFORM OF GOVERNANCE (2006-2008): Quotas and Voice

- **Two stage-strategy**:
  - **First stage**: Singapore, September 2006.
    Increase of quota shares for the most under-represented countries (China, South Korea, Mexico, Turkey, i.e. *the Singapore Four*);
  - **Second stage** (within Autumn 2008):
    - New formula (simpler and transparent);
    - Realignment of quota shares for under-represented countries based on the new formula;
    - Increase of voice
- **A difficult exercise**: under-and over-representation is widespread and cuts through all groups of countries; under-representation is not concentrated on emerging economies only. Also Ireland, Spain and Luxembourg are under-represented.

THE RESOLUTION ADOPTED IN SINGAPORE (September 2006)

- In September 2006, the Board of Governors adopted a Resolution aimed at better aligning the IMF members' quota shares with their positions in the world economy, enhancing the voice of low-income countries.
- The reform program had the following elements:
  - ad hoc quota increases for a group of underrepresented countries (China, Korea, Mexico, Turkey), with an increase of 1.8 per cent of IMF's total quotas
  - a simpler and more transparent quota formula, to be completed within the 2008 Annual Meetings
  - a second round of ad hoc quota increases, based on the new formula
  - an increase in basic votes

THE REFORM ADOPTED IN 2008 (1)

A new quota formula

In April 2008, the Fund adopted a new quota formula:

Calculated Quota Share (CQS) = $(0.5*Y+0.3*O+0.15*V+0.05*R)^{K}$

Where:
Y = a blend of GPD converted at market rates and PPP exchange rates averaged over a three year period (weights 0.60, 0.40 respectively)
O = annual average of the sum of current payments and current receipts for a five year period
V = variability of current receipts and net capital flows
R = twelve month average over a year of official reserves
K = a compression factor of 0.95

ROLE OF THE PPP GDP IN THE NEW FORMULA

- The inclusion of PPP GDP in the formula was justified by the IMF taking into account the non-financial roles of quotas. Market exchange rates reflect only tradable goods and understate the income levels of poorer countries, where non –tradable price levels tend to be relatively low
- The inclusion of PPP GDP was requested by non-advanced countries, whereas advanced countries (who proposed a different method to take into account PPP GDP) favored the inclusion of market GDP in the formula
- PPP-based GDP has problems of data quality and availability
- The recent completion of the 2005 Round of the International Comparison Program (ICP) brought about some changes in PPP-based GDP estimates for individual countries. For example, the PPP GDPs of India and China were revised downwards, reducing estimates for their contribution to world GDP. The share of emerging and developing countries in global PPP GDP was reduced from 49.5 percent (IMF 2003-2005 data) to 44.6 percent

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THE REFORM ADOPTED IN 2008 (2)

Additional elements:

- Four G7 countries (the US, Germany, Italy, and Japan) agreed to forego part of the quota increases for which they were eligible in the second round. The US agreed to forego an increase beyond what is necessary to preserve its post-Singapore voting share, and the other 3 countries agreed to forego increases beyond those consistent with achieving the same proportionate reduction in out-of-lineness as the US;
- Booster;
- Cap;
- Minimum nominal increase for the Singapore Four;
- Tripling of basic votes.

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BOOSTER AND CAP

- **Booster**: under-represented emerging market and developing economies whose shares in global PPP GDP are larger than their actual pre-Singapore quota shares by more than 75 percent received a minimum nominal quota increase of 40 percent from their pre-Singapore level (India, Brazil and Vietnam benefited from the provision)
- **Cap**: Luxembourg and Ireland, which are substantially under-represented, agreed to forego part of the increases they would otherwise be eligible for (i.e. those beyond a nominal quota increase of 50 percent)

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BASIC VOTES

- The increase in basic votes benefited those countries whose quota share was below the average quota share of 0.54%
- A doubling of basic votes would not have improved the standing of low-income countries within the Fund
- 1,500 basic votes would have had a share in total votes equal to that in the early years of the Fund (around 11%)

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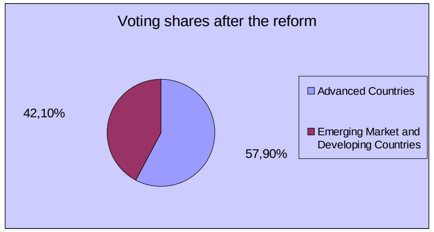
OUTCOMES OF THE REFORM (1)

Shift in voting shares to emerging markets and developing economies: 2.7 percent



China, Korea, India, Brazil and Mexico are among the countries that have seen the biggest increase in voting share in the two rounds combined.

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OUTCOMES OF THE REFORM (2)

	Pre-first Round	Post-first Round	Post-second Round
Advanced economies	60.6	59.5	57.9
Emerging Market and Developing Countries	39.4	40.5	42.1

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OUTCOMES OF THE REFORM (3)

(%)	Share of global GDP (average 2003-2005) at market price	IMF pre-Singapore voting share	IMF post-Second Round voting share
China	5.23	2.93	3.81
Mexico	1.72	1.20	1.47
Korea	1.71	0.76	1.37
India	1.66	1.92	2.34
Brazil	1.56	1.40	1.72
Russia	1.46	2.73	**2.39**
Turkey	0.74	0.45	0.61
Indonesia	0.64	0.96	**0.85**
Poland	0.63	0.64	0.70
South Africa	0.51	0.87	**0.77**
Thailand	0.40	0.51	0.60
Argentina	0.38	0.98	**0.87**
Malaysia	0.29	0.70	0.73
Czech Republic	0.27	0.39	0.43
Singapore	0.26	0.41	0.59
Philippines	0.22	0.41	0.43

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