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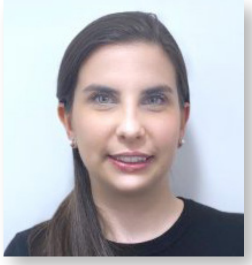

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The International Monetary Fund and Quota Reform

BACKGROUND AND KEY CONSIDERATIONS

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EXECUTIVE SUMMARY

As the global economy faces increasing challenges in the aftermath of the COVID-19 pandemic, and as interest rates continue to rapidly rise in the United States and across the Global North, emerging market and developing economies (EMDEs) are facing a perfect storm of high inflation, increased borrowing costs and surging debt levels. Against this backdrop, the International Monetary Fund (IMF) is preparing to undertake its 16th General Review of Quotas, after concluding the 15th General Review of Quotas with no increase.

At the IMF, each country is assigned a quota share when joining that determines how much it must financially contribute. To ensure that the IMF is sufficiently resourced to sit as the anchor of the global financial safety net (GFSN), it is essential that the 16th General Review of Quotas marshals sufficient resources to increase the organization's lending firepower. As currently constituted, the IMF's total lending capacity is approximately $1 trillion, of which the quota-based lending capacity is $452 billion. This pales in comparison to the size of the global economy, and global debt levels.

Quotas are used in the following ways: (1) as resource contributions, where quotas determine the maximum amount of financial resources a member is obliged to provide to the IMF; (2) voting power, as IMF members get one vote per SDR100,000 of quota plus basic votes; (3) access to financing,

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where quotas determine the maximum amount of loans a member can obtain from the IMF under normal access and (4) Special Drawing Right (SDR) allocations, where quotas determine a member's share in the general allocation of SDRs.

The formula used to determine quota shares was agreed to as part the 2008 Quota and Voice Reforms, which took a historic step to strengthen the voice and representation of EMDEs and were the first change in the IMF's quota formula in more than 25 years. As the IMF prepares its 16th General Review of Quotas, it is crucial that it move further on governance reform toward more voice and representation for EMDEs.

If the IMF is to remain a credible anchor of the GFSN, and to be seen as legitimate by stakeholders in the global economy, the 16th General Review of Quotas must increase the institution's permanent resources and result in more equitable voice and representation for EMDEs. Within this context, this working paper identifies five crucial policy-oriented research questions to inform proposals for comprehensive reforms for the IMF to undertake in the ongoing 16th General Review of Quotas:

- *What is the adequate size of the IMF in the increasingly financialized and fragile global economy?*
- *How should the voice and representation of IMF members be adjusted to make the organization a truly more multilateral institution accountable to all members?*
- *How can the IMF, as the anchor of the GFSN, better coordinate financial stability measures throughout the global economy in a time of a truly global crisis?*
- *What has been the impact of IMF conditionality and insistence on austerity on its ability to fulfill its mandate and for its borrowers?*
- *Are viable alternatives to the IMF emerging, and what types of reforms are needed for the IMF to remain the anchor of the GFSN?*

These questions formed the basis for discussion of a workshop hosted by the Boston University Global Development Policy Center in December 2022 entitled "Scaling-up the International Monetary Fund: Towards a Balanced Quota Reform" featuring participants with diverse global perspectives. Resulting proposals for reform will be outlined in a forthcoming report.

BACKGROUND: IMF QUOTAS AND THE NEED FOR REFORM

As the global economy faces increasing challenges in the aftermath of the COVID-19 pandemic, and interest rates continue to rapidly rise in the US and across the Global North, EDMEs are facing a perfect storm of high inflation, increased borrowing costs and surging debt levels. Against this backdrop, the International Monetary Fund (IMF) is preparing to undertake its 16th General Review of Quotas, after concluding the 15th General Review of Quotas with no increase.

To ensure that the IMF is sufficiently resourced to sit as the anchor of the global financial safety net (GFSN), it is essential that the 16th General Review of Quotas marshals sufficient resources to increase the organization's lending firepower. As part of its review process, the IMF assesses the adequacy of quotas shares of members both in comparison to the potential financing needs of member countries and the Fund's ability to meet potential member countries' needs. As currently constituted, the IMF's total lending capacity is approximately $1 trillion, of which the quota-based lending capacity is $452 billion. This pales in comparison to the size of the global economy, with world gross domestic product (GDP) exceeding $100 trillion in 2022, and the external debt levels of emerging and developing countries, for which yearly external debt service exceeded $4.4 trillion in 2022 (IMF 2022h). Furthermore, the IMF's lending capacity of $1 trillion is but one component of a robust, multilayered GFSN with approximately $3.5 trillion in lending resources (Mühlich et al., 2022).

The IMF's governance structure and reliance on quota shares to determine voting power play a decisive role in shaping this outcome. In the current structure, the US alone has a quota that enables it to veto major reforms, including any changes in quotas or voting power. Over the last few decades, the sizes of quotas have not kept up with financing needs, and the distribution of quotas in place has impacted the IMF's crisis response and legitimacy (Mohan, 2020). Quotas are directly linked to policies around borrowing limits from emergency facilities and the cost of loans, and serve as the basis for the IMF distributing reserve assets to supplement liquidity.

With increasing liquidity needs across EMDEs, it is essential that the IMF has sufficient resources to step up and fulfill its role as a global lender of last resort through interventions that support recovery efforts. As the IMF prepares its 16th General Review of Quotas, it is crucial that it move further on governance reform toward more voice and representation for EMDEs. The IMF's 2008 Quota Reforms took a historic step to strengthen the voice and representation of EMDEs. Further steps must be for the institution to maintain its role and relevance, including a need to address and act on shifting its preference for imposing rapid fiscal consolidation measures for countries in crisis, despite its own research showing that this response delayed the recovery from the 2008 global financial crisis (Ray et al., 2022).

IMF QUOTA STRUCTURE

IMF Governance

The IMF's Articles of Agreement, signed and ratified by all member countries, stipulate the organization's purpose and governance structure, as well as the procedures and voting thresholds required to amend them. Each country is assigned a quota share upon joining the IMF that determines their voting power and the financial contribution they must make.

At the IMF, voting power and decision-making reflect its member countries' relative economic positions (IMF, 2022c). Within the IMF, the quotas are denominated in Special Drawing Rights (SDRs), a reserve asset issued by the IMF, and are used in the following ways: (1) resource contributions, where quotas determine the maximum amount of financial resources a member is obliged to provide to the IMF; (2) voting power, since IMF members get one vote per SDR100,000 of quota plus basic votes; (3) access to financing, where quotas determine the maximum amount of loans a member can obtain from the IMF under normal access and (4) SDR allocations, where quotas determine a member's share in general allocation of SDRs (IMF, 2022c).

IMF Quota Formula

According to IMF staff policy papers (IMF, 2021a), there is a consensus among directors that the formula should conform to four specific principles:

(1) Be simple and transparent so that the basis for differences in relative quota shares is readily understandable.

(2) Be consistent with the multiple roles of quota.

(3) Produce results that are broadly acceptable to the membership.

(4) Be feasible to implement statistically based on timely, high-quality and widely available data.

The Board of Governors at the IMF conducts the general quota reviews at least every five years. Through the reviews, two main issues are addressed — the size of an overall quota increase and the distribution of the increase among the members (IMF, 2022c). The current quota formula was agreed to as part of the 2008 Quota and Voice Reforms and represented the first change in the IMF's quota formula in more than 25 years. The new formula represents an improvement in the formula system as the new formula includes four variables expressed in shares.

The current quota formula, which was agreed to in 2008, is written as follows:

$$\textit{Calculate Quota Share} = (0.5Y + 0.3^*V + 0.05^*R)^\wedge k,$$

where **Y** = a blend of GDP converted at market exchange rates and purchasing power parity (PPP) rates averaged over a three-year period. The weights of market-based and PPP GDP are 0.60 and 0.40, respectively. **O** = the annual average of the sum of current payments and current receipts (goods, services, income and transfers) for a five-year period, and **V** = variability of current receipts and net capital flows (measured as the standard deviation from a centered three-year trend over a 13-year period). **R** = 12-month average over one year of official reserves (foreign exchange, SDR holdings, reserve position in the Fund and monetary gold), and **k** = a compression factor of 0.95. The compression factor is applied to the uncompressed calculated quota shares, which are then rescaled to sum to 100.

The latest review of quotas includes the 14th General Review of Quotas, which was completed in 2010 and became effective in 2016, and the 15th General Review of Quotas, which was completed in 2020 with no increase in quotas (IMF, 2022c). The IMF acknowledges that the "consensus" among directors relating to the quota formula has begun to diverge to a spectrum of views ranging from those that contend the current formula is working, to others who want to reduce the formula to a single variable (IMF, 2021a). The IMF finds that "it appears difficult to conclude that the current quota formula ... [produces] results that are broadly acceptable to membership" (IMF, 2021a).

Quota allocations determine how new allocations of SDRs and additional liquidity created are distributed; see Figure 1 for an illustration of how quota allocations impact the distribution of the 2021 allocation of $650 billion in SDRs. IMF staff has conducted various simulations of different quota distributions and reported on the implications for quota shares for different member countries. However, these simulations "have not led to a consensus view, nor have they produced results that would be broadly acceptable to the membership" (IMF 2021a).

IMF Resources

In the aftermath of the 2007-2008 financial crisis, the landscape of crisis finance has evolved considerably. While the IMF once stood virtually alone as the international lender of last resort, a multitude of regional and subregional institutions now stand prepared to provide balance of payment or liquidity support to their member countries in times of crisis. Despite the doubling of the IMF quotas and additional temporary increases to the organization's lending capacity, the IMF's $1 trillion in lending capacity constitutes less than 30 percent of the total $3.5 trillion in resources comprising the GFSN from swaps ($1.5 trillion) and regional financial arrangements ($1 trillion; see Mühlich et al., 2022).

Member quotas — member countries that pay into the Fund — are the primary source of IMF funding and are the only permanent source of funding. The second source of funding is multilateral borrowing arrangements. These "New Arrangements to Borrow" (NAB) provide an additional lending capacity of $408 billion to the Fund and can be activated by it in the event of a major financial crisis or shock. For example, in 2020, "the IMF Executive Board agreed to double the size of the NAB to SDR 361 billion, or $482 billion" (IMF, 2022a). A third source of IMF funding is bilateral borrowing agreements that supplement quotas and NAB resources "in case tail risks materialize" (IMF, 2022b). Combined, the lending capacity from quotas ($452 billion), multilateral borrowing arrangements ($408 billion) and bilateral borrowing agreements ($152 billion) provide the IMF with a lending firepower of approximately $1 trillion.

Figure 1: Distribution of 2021 SDR Allocation

Broad IMF Categorization	IMF Categorization	Approximate Share of 2021 Allocation (USD millions)	Percent of 2021 Allocation
World		*$650,000*	*100.0%*
Advanced Economies	Advanced Economies	$399,241	61.4%
Emerging and Developing Economies	Emerging and Developing Economies, total	$250,914	38.6%
	Emerging and Developing Asia	$84,361	13.0%
	Latin America and the Caribbean	$51,505	7.9%
	Middle East and Central Asia	$49,484	7.6%
	Emerging and Developing Europe	$42,634	6.6%
	Sub-Saharan Africa	$22,931	3.5%
Special Aggregates	Advanced Economies, plus China	$440,853	67.8%
	Emerging and Developing Economies, total excluding China	$209,302	32.2%
	Emerging and Developing Asia, excluding China	$42,749	6.6%
	Low-income countries	$21,508	3.3%
	Vulnerable 20 Group	$25,883	4.0%
	Group of 24	$134,615	20.7%

Source: IMF, 2022c and authors' calculations.

There are two important considerations with respect to the IMF's funding: the quantity of permanent resources and the composition of resources. Anecdotally, the IMF's "permanent" quota-based resources continually prove to be inadequate, as evidenced by the fact that the organization has activated its second line of defense, or "multilateral borrowing arrangements," ten times between April 2011 and February 2016 (IMF, 2022a). The IMF acknowledges that the Fund is not "appropriately sized" and raises concerns about delays in quota reviews, noting that the IMF's lack of resources at the time of the 2007-08 financial crisis undermined the organization's own legitimacy (IMF, 2017). Furthermore, both the IMF's lending capacity based on permanent resources and its maximum lending capacity of $1 trillion pales in comparison to the size of the financial system and the volume of global trade. The Financial Stability Board (2021) estimates that total financial assets summed to $478.7 trillion at the end of 2020, while the United Nations Conference on Trade and Development (2022) estimates that global trade hit a record high of $28.5 trillion in 2021.

Repeated delays in quota reform and multiple missed opportunities to increase the firepower of the IMF, along with dramatic growth in the economy and increasing financial interconnectivity, have resulted in a significantly under resourced IMF that has been forced to supplement its insufficient quota-based lending firepower with ad hoc arrangements. Nevertheless, this supplementation has only increased its lending firepower to $1 trillion, or approximately 1 percent of global GDP. As the

IMF's size relative to global GDP or global trade volumes has continued to fall, this has reduced the credibility and effectiveness of the IMF as a global lender of last resort (Mohan, 2020).

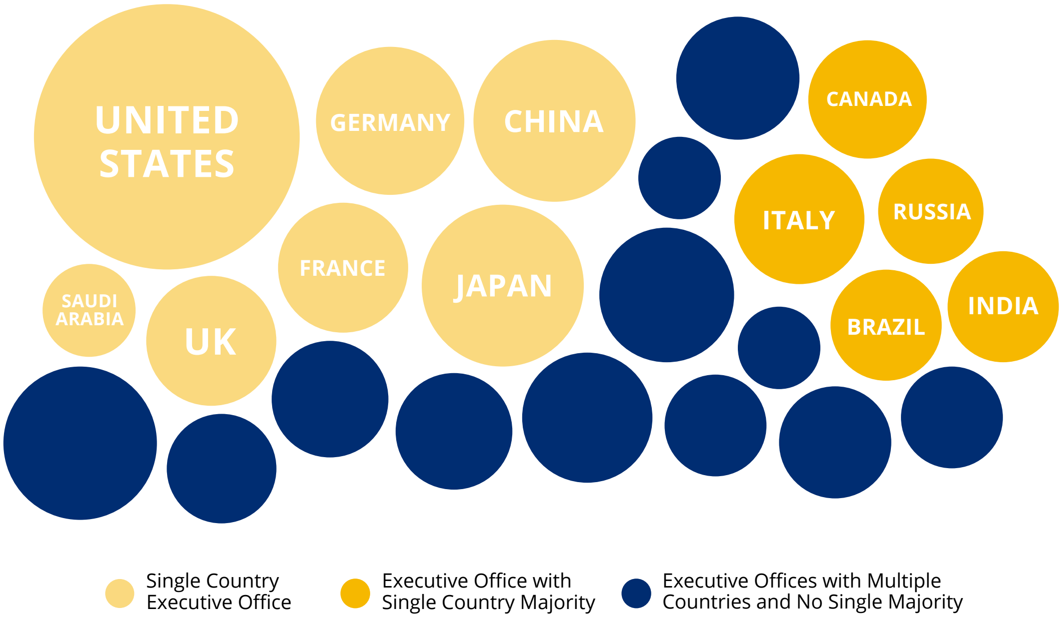
The IMF's quota-based resources are also small when compared to other components of the GFSN. For example, the European Stability Mechanism (ESM), an institution built to deal with the euro area's financial challenges, has a lending capacity of approximately $524 billion. Thus, in addition to the IMF needing to rebalance its governance to perform its key function as the international lender of last resort, the organization needs "a substantial increase in its permanent resources which means a substantial increase in its total quota" (Wade and Vestergaard, 2015).

If the IMF is to serve as the anchor at the "center of the global financial safety net" (G20, 2019), it must be adequately resourced and "quota-based." This means that the composition of the IMF's lending firepower must be made permanent through quota increases and its lending firepower must be increased to be more aligned with the potential needs of the global financial system. Amid increasing financial fragility in the global economy, "there is an even greater need for the International Monetary System and the IMF within it to be seen to be effective and credible. Thus, it needs to be adequately resourced and to exhibit enhanced and credible governance" (Mohan, 2020).

VOTING, VOICE AND REPRESENTATION AT THE IMF

The IMF is accountable to its shareholders, which are the governments of the 190 countries that are IMF members. The Board of Governors, where each country is represented, is the top decision-making structure and generally meets twice a year. Countries are represented on a permanent basis in Washington, D.C. at the IMF's Executive Board, which meets regularly and oversees most operations, including the approval of loans and policy frameworks. At the Executive Board, depicted in Figure 2, the 190 member countries are divided into 24 executive director offices.[1]

Figure 2: 24 Executive Board Offices, Representing all 190 IMF Members



Source: Merling, 2022.

[1] Only 189 members are assigned an office, with no current representation for Venezuela (IMF, 2022b).

Voting power is directly linked to the size of countries' quotas, meaning that low- and middle-income countries that are most likely to borrow from the IMF and be subject to its conditions have limited influence on the IMF's decisions. Except for emergency loans, IMF lending comes in the forms of programs that attach conditionality and require borrowers to align to policies proposed by the IMF.

IMF Voting

Advanced economies (AEs), with a majority of voting power, determine the type of frameworks the IMF adopts for policy advice and what type of conditions are attached to IMF lending. The lopsided voting structure means that those designing and evaluating these programs and their results are not accountable to borrowing countries or, for that matter, to the governments or people in those countries (Kentikelenis and Babb, 2019).

According to the formal structure set forth in the Articles of Agreement, the IMF managing director is elected for five-year terms with a simple majority (IMF, 2022i). In practice, a post-World War II "gentlemen's agreement," still honored to this day, between Western European countries and the US, dictates that an American is appointed to the World Bank presidency, while a European is appointed to the IMF managing director position, with a representative of the US as second in command (Barder, 2016).

This balance of power influences how the IMF operates, including how its mandate is interpreted. According to its Articles of Agreement, the purpose of the IMF is to "facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income" (IMF, 1975). The IMF is expected to make resources available to countries in need with "adequate safeguards" but "without resorting to measures destructive of national or international prosperity" (IMF, 1975). Many countries that have undergone IMF programs through the decades might question their alignment with those goals, particularly since the introduction of Structural Adjustment Programs (SAPs) that broadened conditionality in the 1980s, at the direction of the US (Kentikelenis and Babb, 2019).

Few countries have successfully moved up on the income ladder since the era of SAPs, and those that have done so have generally followed a different model than the one proposed by the IMF (Cherif and Hasanov, 2019). Furthermore, beyond the questionable performance in terms of growth, austerity measures imposed by the IMF are linked to an increase in poverty and worsening of income inequality in program countries (Stubbs et al., 2021). The IMF's own metrics and evaluations concede that its programs have a pattern of underestimating the negative impact of austerity measures, while overestimating the positive impact of their proposed structural reforms, making over-optimistic assumptions that fail to materialize and have a low success rate (IMF, 2019). Despite these shortcomings, and a series of high-profile failures of IMF programs, borrowing countries have little recourse on holding the IMF accountable.

Representation at the IMF

When it comes to voice and representation, AEs continue to dominate this organization despite the momentous changes occurring in the composition of the global economy (Mohan and Kapur, 2020). The ongoing creation of new institutions led by EDMEs, particularly by BRICS countries (Brazil, Russia, India, China and South Africa), is indicative of the dissatisfaction with the current framework of global economic governance (Mohan and Kapur, 2015). Furthermore, as witnessed with Europe's construction of the ESM to "bail out" Europe, the IMF is less relevant than ever for AEs. In response to the COVID-19 pandemic, the ESM, along with the European Investment Bank, the European Central Bank and the European Commission, have been collectively active in providing relief to member countries with no demand for IMF resources (Mohan, 2020).

The share of the AEs in global GDP was around 60 percent to 70 percent, from the end of World War II until the turn of the millennium (Mohan and Kapur, 2015). The economic dominance of the US was also undiminished from the end of World War II until the turn of the millennium (Mohan and Kapur, 2015). The pace of change since the year 2000 has, however, accelerated with the fulcrum of economic weight rapidly shifting from the North Atlantic to Asia after more than 200 years (Mohan and Kapur, 2015). It is this dramatic development becoming manifest in the past 15 years that is fueling the current vigorous debate around the governance of the IMF (Mohan and Kapur, 2015; Mohan, 2020).

Table 1 illustrates the current distribution of IMF quota and voting shares compared to the relative size of the economy and population share of countries. Following the increase in basic votes, emerging and developing economies hold 40.9 percent of votes and 38.6 percent of quota shares. The quota formula results in a distribution of 61.4 percent of shares to AEs, despite only accounting for 40.3 percent of global GDP when adjusted for PPP.

Table 1: IMF Quotas and Voting Shares Compared to Share of Population and Global Economy, by Income

	Quotas	Votes	Population	GDP (PPP adjusted)
Advanced Economies	61.4%	59.1%	13.6%	40.3%
Emerging and Developing Economies	38.6%	40.9%	86.4%	58.0%
Emerging and Developing Asia	13.0%	13.1%	48.5%	32.9%
Emerging and Developing Europe	6.6%	6.7%	4.4%	7.2%
Latin America and the Caribbean	7.9%	8.4%	8.4%	7.3%
Middle East and Central Asia	7.6%	8.1%	10.7%	7.5%
Sub-Saharan Africa	3.5%	4.6%	14.3%	3.1%

Note: Population and share of world GDP are based on 2022 values from the IMF World Economic Outlook Database.
Source: Authors' calculation and IMF, 2022h.

As the table shows, despite having 13.6 percent of the world's population, AEs hold 59.1 percent of the votes at the IMF. By contrast, sub-Saharan Africa, with a slightly larger population of 14.3 percent, holds 4.6 percent of the voting power. Emerging and developing Asia is the most underrepresented region, both in terms of its share in the global economy and its share of population living there.

Climate vulnerable economies (looking at 55 members of the Vulnerable Twenty (V20) Group of Ministers of Finance of the Climate Vulnerable Forum in 2022) are heavily underrepresented at the IMF in terms of population and votes. As shown in Table 2, they hold 5.3 percent of votes, while 16.6 percent of the world's population lives in these countries.

The Group of 20 (G20) is an important venue for discussion and decisions related to changes in IMF policies, with its members holding a majority of IMF shares. In the past year, geopolitical tensions have impacted the ability of the G20 to make decisions. At the G20 Finance Minister meeting in April 2022, members of the Group of Seven (G7) walked out in protest of Russia's invasion of Ukraine (Horsley, 2022). Table 2 shows the voting shares and population living in G20 and G7 member countries.

Table 2: IMF Quotas and Voting Shares Compared to Share of Population and Global Economy, by Grouping

	Quotas	Votes	Population ▼	GDP (PPP adjusted)
Group of 20	81.2%	78.0%	63.8%	80.4%
BRICS	14.8%	14.2%	42.2%	31.6%
Group of 24	20.7%	20.4%	39.8%	38.6%
Vulnerable 20 Group	4.0%	5.3%	16.6%	5.5%
Group of 7	43.4%	41.3%	10.1%	30.4%

Source: Authors' calculation, IMF, 2022h.

The Group of 24 (G24) economies have 20.7 percent of quota shares and 20.4 percent of votes (including China). This group represents close to 40 percent of the population and 38.6 percent of the global economy.

THE 2010 QUOTA REFORM

This section provides an overview of the key components of the 2010 Quota Reform to draw potential lessons for the 16th general review of both the size and distribution of quotas. The 16th General Review of Quotas is currently underway and is scheduled to be finalized by December 2023 (IMF, 2021b). The 15th General Review of Quotas concluded in December 2020 without any changes adopted and instructed the IMF's Executive Board to revisit the adequacy of quotas and guiding formula in the upcoming review.

AEs, such as the US, have often resisted the proposed increases in overall IMF quota resources, and it has seldom been easy for US administrations to obtain congressional approval (Mohan and Kapur, 2015). Approvals for significant overall expansion for IMF quota resources have usually come under the pressure of international economic and financial crises, or from unusual pressure from the IMF management and the rest of its membership (Mohan and Kapur, 2015). Countries such as Brazil, Côte d'Ivoire, Japan and China have urged the Fund to strengthen its financial analysis and its role in the global economy, prioritize the 16th General Review of Quotas and support low-income countries (IMF 2022b, 2022c, 2022d, 2022e).

In 2008, the Executive Board at the IMF endorsed significant reforms to its governance that adjusted quota shares to "better reflect the relative weight of member countries in the world economy, particularly that of dynamic emerging economies" (IMF 2008). Further reforms in 2010 shifted more than 6 percent of quota shares to EDMEs. Additional reform measures included a tripling of basic voting rights, the creation of second alternative Executive Directors for the offices that represent more than seven countries and a mechanism to "keep constant the ratio of basic votes to total votes in the IMF" (IMF 2008).

One of the key changes emerging from the 2010 Quota Reform was the doubling of the IMF's quota resources. This was seen as historic in size, but it was so large due in part to the scope of the 2007-08 financial crisis and the extended delays in quota reform that failed to ensure a sufficiently resourced IMF (Mohan and Kapur, 2015). In terms of rebalancing voice and representation at the Fund, the 2010 reform resulted in a "shift of 6.2 per cent of quota shares from the over-represented to the under-represented member states, with a 6 per cent shift" (Lesage et al., 2013) to emerging market and developing countries (EMDCs). In addition to shifting the voting share between countries, the formula for voting shares was modified to increase the number of the "basic votes" that are evenly distributed to all members. The number of basic votes was tripled, but they still only amount to 5.5 percent of all votes, with the rest determined by each country's quota. Nonetheless, this change shifted some additional voting power to developing countries (IMF, 2021b).

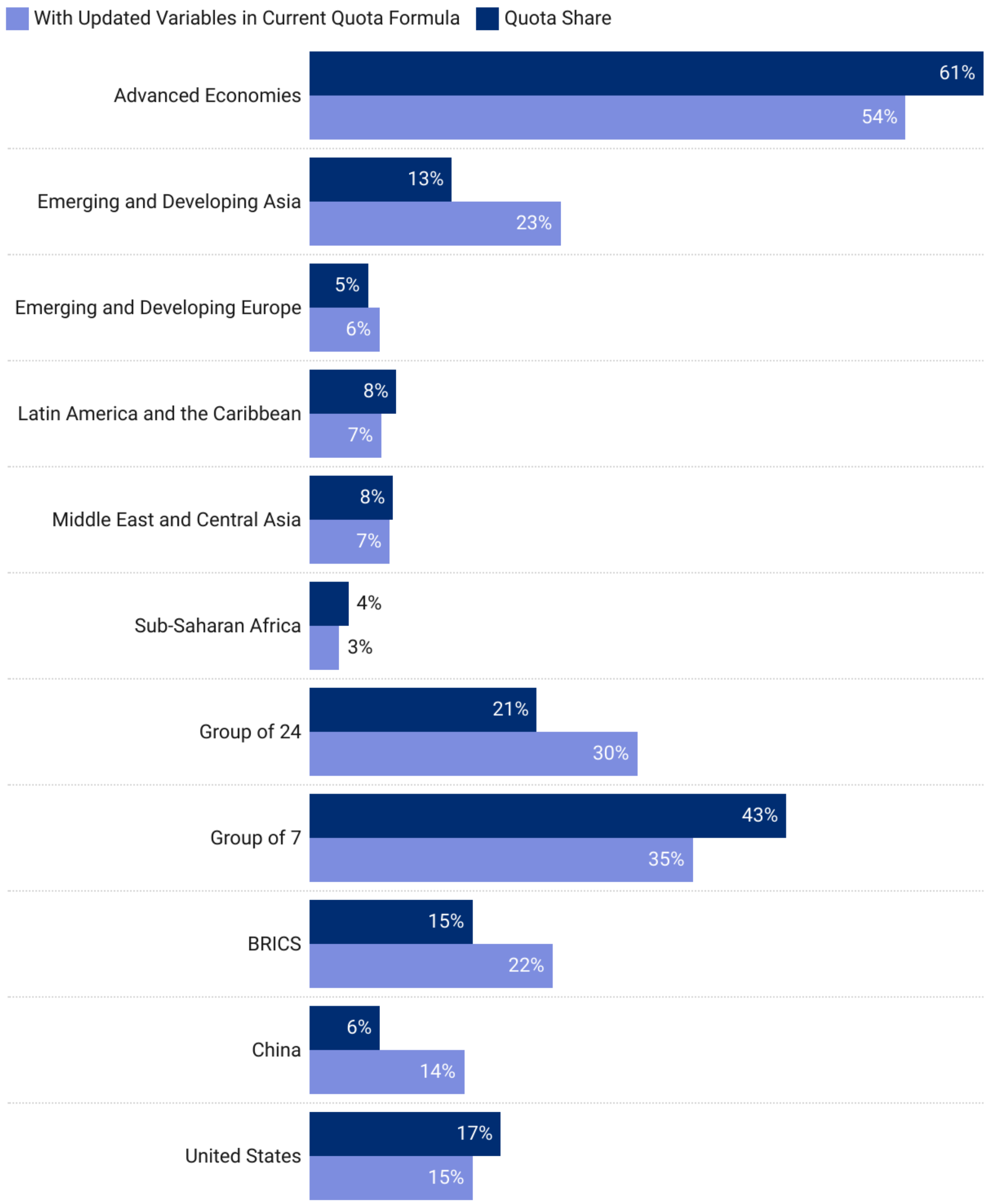
That said, the US maintains an effective veto over important decisions that require a supermajority of 85 percent of votes (Mohan and Kapur, 2015). The incredibly slow nature with which the Obama administration was able to obtain approval from the US Congress on the 2008 quota reforms demonstrates the extent to which future changes will be difficult to secure (Mohan and Kapur, 2015). This is ironic, since the US was the principal architect of the last quota reform agreement, which essentially proposed to marginally reduce the quota shares of European countries in favor of dynamic EMDCs (Mohan and Kapur, 2015).

While certainly historic, by most accounts, the 2010 quota reform fell short of the expectations many envisioned in the aftermath of the 2007-08 financial crisis. Notably, Mohan (2020) contends that the quota redistribution was based on outdated economic data by the time of agreement and based on the extended delays in subsequent reforms, it will likely continue to 2027. This will result in an even more imbalanced IMF governance structure in the future that will also continue to be significantly under resourced (Mohan, 2020). Clearly, the dramatic increase in the IMF's resources was a reflection on the "sheer inadequacy of the Fund's lending capacity in the context of 30 years of global financial integration rather than restoring the role of the Fund as a key supplier of global liquidity" (Lesage et al., 2013).

Additionally, while the headline figures of quota and governance reform seem substantial, the IMF classified countries such as South Korea and Singapore as EMDCs, resulting in the appearance of a rebalancing toward EMDCs that looks bigger than it is (Bretton Woods Project, 2010). In addition, the 2008 quota formula was only used for 60 percent of the increase, as "40 per cent of the total increase was derived from *ad hoc* arrangements based on the GDP blend" (Lesage et al., 2013), to assuage the concerns of the US and Japan.

Under the formula used during the last quota increase, updating the variables the distribution of quotas would already result in shifts in balance. The changes for countries by income, region and grouping are shown in Figure 3. AEs and G7 countries would see the largest decrease in their quota share, with EMDCs in Asia seeing the largest increase. China would more than double its share, while the US would fall below the 15 percent threshold to maintain its veto power.

Figure 3: Quota Distribution Under Current Formula With Updated Variables



Source: IMF (2022f).

EMERGING IDEAS FOR THE 16TH GENERAL REVIEW OF QUOTAS

At the 2022 Annual Meetings in Washington, D.C., IMF Managing Director Kristalina Georgieva acknowledged, during a town hall with civil society, "that a failure to complete the [16th general review of quotas] would damage the institution's credibility and encouraged those present to 'lobby their governments'" (Beyond Bretton Woods, 2022). Gang Yi, the governor of the People's Bank of China, also called for an adequately resourced IMF and emphasized that "quotas, rather than borrowing arrangements, should be the IMF's main source of financing" (IMF, 2022g). Adama Coulibaly, Minister of Economy and Finance for Côte d'Ivoire, called for a new quota on behalf of multiple countries. Coulibaly also noted that quota reform was essential: "given the multiplicity and high frequency of shocks to the global economy and the resulting high demand for Fund resources, we must ensure that the IMF is adequately resourced and its role at the center of the global safety net is strengthened to timely meet its membership needs" (IMF, 2022e).

In addition, the Bretton Woods Project (2022) reported that there was little to no movement on the "realignment of quota shares away from high-income countries to middle- and low-income countries." Despite an absence of movement on the part of the IMF and its most powerful member countries, civil society continues to advance the issue. Andrés Arauz, former General Director of the Central Bank of Ecuador, "proposed the inclusion of a cumulative greenhouse gas emission variable in the openness element of the IMF's quota formula" (Bretton Woods Project, 2022). This proposal would reduce "the US voting share from 16.50 per cent to 5.63 per cent" (Bretton Woods Project, 2022) and increase the voice and representation of the countries most vulnerable to climate change and small island states, in particular.

Paulo Nogueria Bastita, former IMF Executive Director for Brazil and other countries, presented another proposal for quota reform that suggested expanding "basic votes … which are allocated equally to each state and currently sit at 5.5 per cent of the total" votes (Bretton Woods Project, 2022) during a panel co-organized by the Bretton Woods Project entitled "IMF Policy and Governance in the Context of the 'Poly-Crisis': What Next?" in October 2022. Panelists at the event noted that gridlock in the multilateral system and a lack of coordination was adversely affecting many middle- and low-income countries.

The panel also agreed that the "establishment of an additional Sub-Saharan African chair would begin to address some deficits at the IMF's Executive Board, as would ending the gentleman's agreement guaranteeing US-European leadership at the Bretton Woods Institutions" (Bretton Woods Project, 2022). From a governance perspective, quota and formula reform alone will not address the deficit of representation of sub-Saharan Africa at the IMF board. In 2013, South Africa's Minister of Finance, Pravin J. Gordhan, called for quota reform and for the establishment of a "third chair for Sub-Saharan Africa" (IMF, 2013), a call the G24 reiterated in its 2022 Annual Meetings communique.

Finally, the G24 communique on October 11, 2022, reiterated their call for the IMF to revise the quota formula to further shift "quota resources from advanced economies to EMDEs to reflect their growing weight in the global economy" (Group of 24, 2022). In particular, the G24 communique called for:

- An increase in the weight of the GDP blend and correct biases within the formula;
- A realignment of quota shares to protect the shares of Poverty Reduction and Growth Facility-eligible members and small developing states, which should not be at the expense of other EMDEs;
- A deepening of governance reforms to improve the voice and representation of EMDEs in the IMF's Executive Board and
- The addition of a third chair for sub-Saharan Africa, without this being at the expense of another EMDE chair (Group of 24, 2022).

QUESTIONS TO INFORM POLICYMAKING

As the world faces overlapping crises, with an uncertain outlook and growing risks of widespread debt distress, the IMF has an important role to play given its place within the multilateral system. Quotas are reviewed periodically by the IMF, with the 16th quota review currently ongoing. This process provides a timely opportunity for countries, such as the US or other members of the G7, who have stated their commitment to multilateralism to act and prove that they can deliver on a system meets the needs of and is accountable to its members. If the IMF is to remain a credible anchor of the GFSN and to be seen as legitimate by stakeholders in the global economy, the 16th review must increase the permanent resources of the IMF and result in more equitable voice and representation.

This working paper raises crucial policy-oriented research questions to be addressed by proposals for reform of the IMF's quota-based system:

What is the adequate size of the IMF in the increasingly financialized and fragile global economy?

How should the voice and representation of IMF members be adjusted to make the IMF a truly more multilateral institution accountable to all members?

How can the IMF, as the anchor of the GFSN, better coordinate financial stability measures throughout the global economy in a time of a truly global crisis?

What has been the impact of IMF conditionality and insistence on austerity on its ability to fulfill its mandate and for its borrowers?

Are viable alternatives to the IMF emerging? What types of reforms are needed for the IMF to remain the anchor of the GFSN?

These questions formed the basis for discussion of a workshop hosted by the Boston University Global Development Policy Center in December 2022 entitled "Scaling-up the International Monetary Fund: Towards a Balanced Quota Reform" featuring participants with diverse global perspectives. Resulting proposals for reform will be outlined in a forthcoming report.

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