Global Development Policy Center

Counting on the International Monetary Fund

Aligning the IMF Quota System with Global Need

WILLIAM N. KRING AND HAIHONG GAO

Cover Photo by Danist Soh via Unsplash

Table of Contents

Acknowledgments

We would like to thank all of the workshop participants for the presentations, contributions to a vibrant discussion and comments on this workshop report. We also would like to thank Lara Merling for her lead authorship of the background paper that helped to guide this workshop, Henry Schneider for his diligent research assistance on the background paper, and Keyi Tang for acting as rapporteur. We also extend our gratitude to Paulo Nogueira Batista Jr. for his insightful comments.

The authors would also like to thank Samantha Igo and Maureen Heydt for their hard work in preparing this report and generating the figures and tables. We would also like to thank Antonn Park for copy editing the report.

We thank the Rockefeller Brothers Fund and Carnegie Corporation of New York for their support of this workshop.

Abbreviations

AQS	Actual quota share
BRICS	Brazil, Russia, India, China and South Africa
CQS	Calculated quota share
EMDEs	Emerging market and developing economies
ESM	European Stability Mechanism
GDP	Gross domestic product
GEFNs	Gross external financial needs
GFSN	Global Financial Safety Net
G20	Group of 20
G-24	Intergovernmental Group of 24
IMF	International Monetary Fund
LIC	Low-income country
MIC	Middle-income country
NAB	New Arrangements to Borrow
PPP	Purchasing power parity
PRGT	Poverty Reduction and Growth Trust
RFA	Regional Financial Agreement
SDRs	Special Drawing Rights
V20	Vulnerable Group of 20

EXECUTIVE SUMMARY

In December 2023, the International Monetary Fund (IMF) is scheduled to conclude its 16th General Review of Quotas, a process required by the IMF's Articles of Agreement. The IMF's quota system is vital because it determines the financial contribution of member countries, the distribution of voting power at the Fund, access to financing mechanisms and Special Drawing Rights (SDR) allocations, or the IMF's international reserve asset. The 16th General Review of Quotas comes at a pivotal time of polycrisis for the global financial system and presents the Fund with an opportunity to not only increase the size of the IMF's quota-based resources to respond to global crisis but also reform and align its governance for more voice and representation for emerging market and developing economies (EMDEs).

With an uncertain global growth outlook and growing risk of widespread debt distress, the IMF has a vital role to play as the original key pillar of the Global Financial Safety Net (GFSN), a collection of global, regional and bi-lateral institutions designed to help provide short-term crisis finance. To that end, the Group of 20 (G20) has called for a "strong, quota-based and adequately resourced IMF" (G20 Communique 2016) as the anchor of the GFSN, a call most recently reiterated at the 2023 G20 New Delhi Summit. (G20 Communique, 2023)

However, the IMF's lending capacity and governance are not fit-for-purpose. First, the IMF's current $926 billion level of lending firepower is insufficient relative to the size of the global economy, the volatility of global financial flows or the potential lending needs of a potential sovereign debt crisis. Second, the IMF's permanent, quota-based resources provide a lending capacity of only $411 billion and the remainder of its $926 billion in lending capacity comes from temporary sources of borrowed funds[1] (Mühlich et al. 2022) . Third, the quota shares at the IMF do not reflect the rebalancing of economic weights of the IMF's member states (Mohan 2020; Merling 2022; Merling and Kring 2023; Kring et al. 2023).

With this background in mind, the Boston University Global Development Policy Center hosted a workshop in December 2022 on IMF resources and quota reform. This report presents the key lessons that emerged from that workshop and outlines concrete steps for IMF shareholders to take ensure that the IMF remains a legitimate, quota-based anchor of the GFSN.

Findings and Synthesized Policy Recommendations

Deliberations during the workshop resulted in consensus that the IMF shareholders must be guided by four key principles for the IMF's 16th General Review of Quotas in order to ensure a stepwise increase in quota-based resources at the IMF and the continuation of IMF governance reform to increase the voice and representation of EMDEs. These principles include:

- IMF shareholders must commit to consistently conducting General Reviews of Quotas in accordance with the IMF's articles of agreement.
- The IMF's quota-based resources should be scaled-up so that it is sufficiently resourced to serve as the anchor of the GFSN.
- The IMF needs to reform the composition of the IMF's lending resources towards permanent, quota-based resources and away from temporary, borrowed sources of funding.

[1] The IMF's lending capacity in Special Draw Rights (SDRs) is from the IMF's reporting of lending capacity in SDRs as of June 30, 2023 as published here: https://www.imf.org/en/About/Factsheets/Where-the-IMF-Gets-Its-Money#:~:text=Who%20funds%20the%20IMF%3F,multilateral%20and%20bilateral%20borrowing%20agreements.

Author calculations of the IMF's equivalent capacity in USD uses the June 30, 2023 SDR valuation of 1 SDR = 1.330070 as published on https://www.imf.org/external/np/fin/data/rms_sdrv.aspx.

- Any increase in the IMF's quota-based resources should be accompanied by a realignment of members' quota shares to reflect the increased economic weight of dynamic EMDEs in the global economy.

Workshop participants recognized that the reform process will be incredibly complex with shifting power balances. Change is also likely to be incremental. Nonetheless, these principles of reform must be advanced by IMF shareholders to reaffirm the IMF's role at the center of the GFSN and reestablish its legitimacy.

INTRODUCTION

The world economy, and the Global South in particular, is experiencing significant instability and uncertainty that was exposed and exacerbated by the COVID-19 pandemic. Now, emerging market and developing economies (EMDEs) are facing a polycrisis of high inflation, surging debt levels, international conflict, capital flow volatility and climate vulnerability. Advanced economies have not been immune from these challenges, as they have also struggled with inflation, financial instability, major climate shocks and supply chain disruptions. Amid these challenges, the International Monetary Fund (IMF) has a vital role to play as the original pillar of the Global Financial Safety Net (GFSN), or the collection of global, regional and bi-lateral institutions designed to help provide short-term crisis finance.

The IMF Board of Governors is charged by the Fund's Articles of Agreement with conducting a General Review of Quotas at least every five years. This review process entails assessing the adequacy of IMF quota-based resources, as well as comparing the actual quota share of IMF members with their calculated quota share. Its 16th General Review of Quotas, slated to conclude in December 2023, presents the Fund with a critical opportunity to not only increase the size of the IMF's quota-based resources to respond to global crisis but also reform and align its governance for more voice and representation for EMDEs (Merling and Kring 2023).[2] The 15th General Review of Quotas in 2020 fell short and inequities have only grown since.

Quotas at the IMF determine the financial contributions of member countries, the distribution of voting power at the Fund, access to financing mechanisms and Special Drawing Rights (SDR) allocations, or the IMF's international reserve asset (Merling and Kring 2023). As the self-described "building blocks of the IMF's financial and governance structure," (IMF 2022i) quotas determine the extent to which the IMF is sufficiently resourced, equitably governed and legitimate in the eyes of its members.

However, the IMF has long been criticized for imbalances in its quota distribution and for the failure of IMF General Reviews of Quotas to keep pace the changing size, complexity and distribution of the global economy (Mohan and Kapur 2015; Mohan 2020; Kring et al. 2023). Thus, to ensure that the IMF has the sufficient resources to serve as the international lender of last resort and as the anchor of the Global Financial Safety Net (GFSN), it is imperative that the 16th General Review of Quotas results in an increase of the lending firepower of the IMF, as well as a redistribution of the quota shares to reduce out-of-lineness, or over- and under-representation of Fund members based on the current quota formula.

[2] It is important to note that existing quota shares remain as an absolute value in any quota reform, as the application of the formula to calculate quota distribution would only apply to the incremental quota resources added as a result of the quota review process. Thus, the extent of change in quotas for EMDE's quota shares in particular will depend on either the magnitude of overall quota increase or the nature of quota increase (equiproportional vs. selective vs. ad hoc).

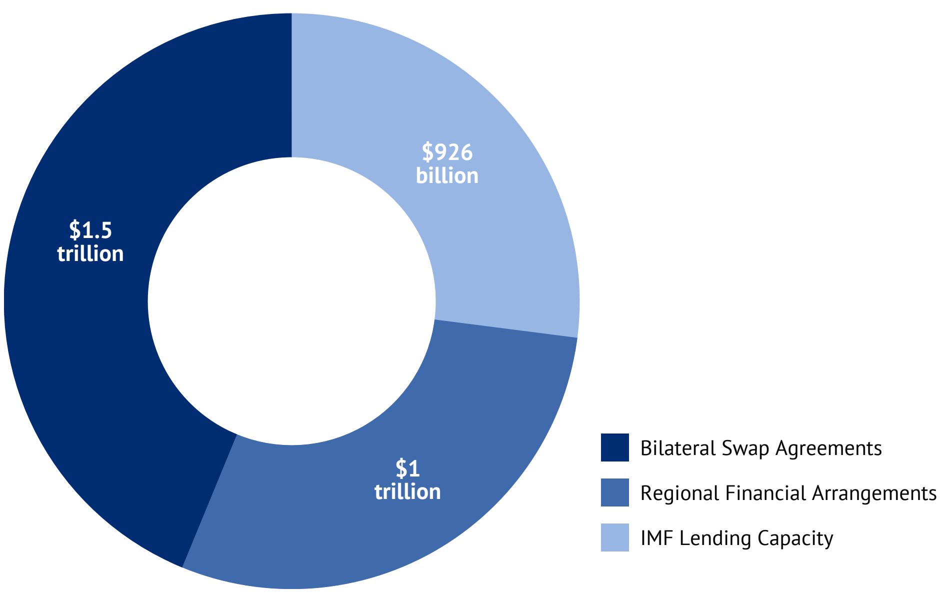
The current quota formula was agreed to in 2008 as part of historic, but long overdue, *Quota and Voice Reforms of the IMF* that helped to "strengthen the voice and representation of EMDEs and were the first change in the IMF's quota formula in more than 25 years" (Merling and Kring 2023). As part of the 2008 quota reform, and the subsequent 2010 quota reform, voice and representation of EMDEs was enhanced, as 6 percent of quota shares were reallocated to EMDEs (IMF 2011). That said, the IMF continues to be inequitable in its governance and under-resourced. If the IMF is to be seen as legitimate by its stakeholders in the global economy, the 16th General Review of must include additional governance reforms and a further realignment of quota shares to ensure more voice and representation for EMDEs (Merling and Kring 2023).

A December 2022 workshop hosted by the Boston University Global Development Policy Center on the IMF's General Review of Quotas provided the basis for the report. First, this report provides an overview of IMF quotas and quota structure, and briefly highlights how quota structure impacts voice and representation at the Fund. It then outlines some of the emerging ideas for the 16th General Review of Quotas, before concluding with four consensus policy recommendations that emerged from the workshop.

IMF QUOTAS AND THE URGENT NEED FOR REFORM

The IMF's current lending capacity is approximately $926 billion, of which less than half, or $411 billion, is quota-based lending capacity (IMF 2022a). Since increases to IMF quota-based resources and lending capacity have failed to keep pace with the growth in the global economy, the IMF's lending capacity pales in comparison to the global economy "with world GDP exceeding $100 trillion in 2022" (Merling and Kring 2023) and EMDE external debt service exceeding $4.4 trillion in 2022 (IMF 2023). In 2022, total global debt (public plus private debt) "amounted to USD 235 trillion, or USD 200 billion above its level in 2021." (IMF 2023b) The IMF's resources have also not kept pace with global trade volumes, that reached more than $32 trillion in 2022 (UNCTAD 2023). As shown in Figure 1, the IMF's lending capacity has also been surpassed by the rise of alternative components

Figure 1: Composition of the Global Financial Safety Net



Source: Adapted from Mühlich, Laurissa, Fritz, Barbara and Kring, William N. (2022).

of the GFSN, which have a combined lending capacity of approximately $3.5 trillion (Kring et al. 2022; Mühlich et al. 2022).

The failure of the process of the IMF General Review of Quotas to ensure that the IMF's size keeps pace with the global economy and that its voice and representation is equitable, is in no small part the result of the outsized power and influence of the United States (US) with its exclusive veto power majority (Wade and Vestergaard 2015; Barrowclough et al. 2022; Merling 2022). Accordingly, the US can veto changes to governance, quotas or voting power that it dislikes. This has in turn adversely impacted the legitimacy of the IMF and weakened the IMF's crisis response capacity (Nogueira Batista Jr. 2023; Mohan 2020).

The urgency of quota reform is amplified by the extent to which multilateral funding sources are being displaced by the rise of bilateral swaps. Data from the Global Financial Safety Net Tracker (Mühlich et al. 2023), highlights that bilateral swaps were often preferred to multilateral lending by borrowing countries during the COVID-19 pandemic. It is concerning that, increasingly, countries are turning away from multilateral components of the GFSN in favor of bilateral forms of finance. The shift is concerning because bilateral swaps are not provided on a level playing field and depend on the interests of the economically more powerful country involved in the bilateral arrangement (Mühlich et al. 2022). The extent to which countries opt for bilateral swaps over multilateral arrangements further challenges the legitimacy of the IMF, underscoring the stakes of the 16th General Review of Quotas.

In light of the increasing liquidity needs of the EMDEs and the uneven distribution of global liquidity resources across the GFSN, it is essential that the IMF be sufficiently resourced to fulfill its role as a global lender of last resort (Merling and Kring 2023). What is more, voice and representation must be rebalanced at the IMF to ensure that the Fund's role and relevance in the GFSN.

The IMF Quota Formula

IMF staff is regularly charged with evaluating the actual versus calculated quota shares of members, as well as running simulations of potential realignment under various quota scenarios. And while IMF staff has conducted various simulations of various quota distributions for the Board, these simulations "have not led to a consensus view, nor have they produced results that would be broadly acceptable to the membership" (IMF 2021a).

Despite the lack of consensus amongst Board members at the Fund, IMF staff policy papers note that directors at the IMF have a consensus view on key guiding principles:

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

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

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

(iv) Be feasible to implement statistically based on timely, high-quality and widely available data. (IMF, 2021a)

The Articles of Agreement of the Fund stipulate that the IMF conducts a General Review of Quotas at least every five years and considers two key issues: the overall size of a potential quota increase and the distributions of quotas among member countries (IMF 2022c). The current IMF quota formula from 2008 includes (a) gross domestic product (GDP) variable comprised of GDP at market rates and GDP at purchasing power parity, (b) an openness indicator, (c) variability and (d) international reserves (Merling and Kring 2022; Coulibaly and Prasad 2023).

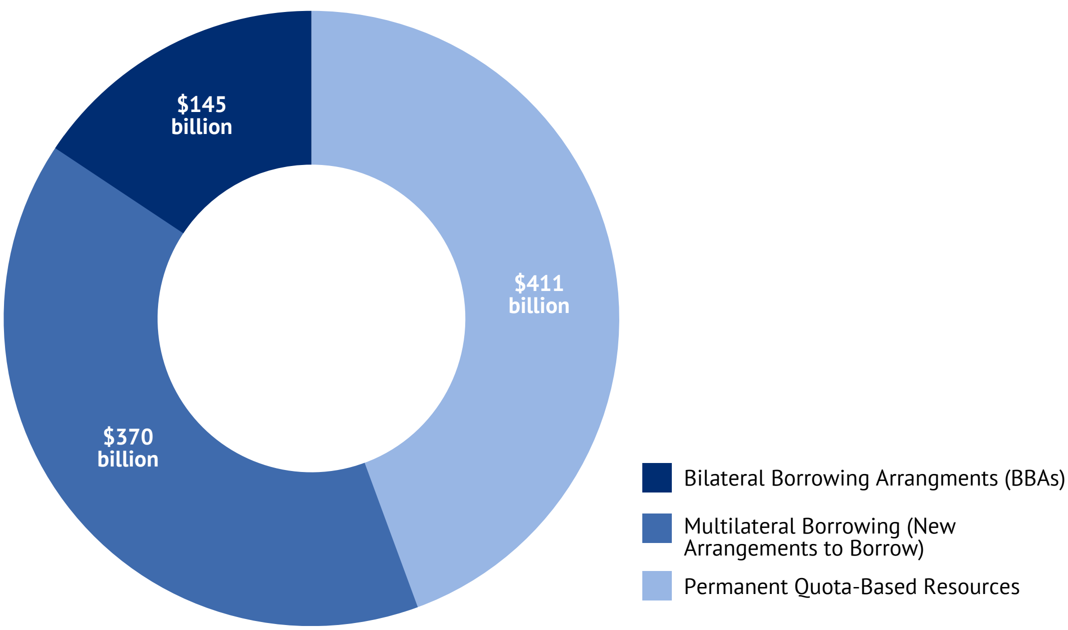
While the IMF staff acknowledges consensus on 'principles' in published policy papers, they also acknowledge that there is little "consensus" about the IMF quota formula. Rather, there is a broad spectrum of views ranging from support for the current quota formula to those that want to reduce the formula to a single variable (IMF 2021a). The IMF concedes that "it appears difficult to conclude that the current quota formula ... [produces] results that are broadly acceptable to membership" (IMF 2021a). Yet overcoming this gridlock is essential, as quota allocations impact how new allocations of SDRs and additional liquidity created at the Fund are distributed (Merling and Kring 2023).

The IMF Resource Gap

Since the 2007-8 financial crisis, the GFSN has evolved considerably. While the IMF once stood alone as the international lender of last resort in the 1950s and 1960s, the landscape of liquidity finance has evolved considerably (Volz 2016; Grabel 2016; Kring and Gallagher 2019; Kring and Grimes 2019; Kring et al. 2022; Mühlich et al. 2022). Despite increases to the IMF's quotas and temporary sources of funding, the IMF's $926 billion makes up less than 30 percent of the GFSN's $3.5 trillion in lending capacity (Kring et al. 2022; Mühlich et al. 2022).

While funds paid into the IMF, or member quotas, constitute the 'primary' source of the IMF's resources and only permanent resources, the IMF has nearly doubled its lending capacity through multilateral and bilateral borrowing arrangements. As shown in Figure 2, New Arrangements to Borrow (NAB) provide the IMF with an additional $370 billion in lending capacity that can be activated in the event of a major financial crisis or shock. A third source of IMF funding comes through bilateral borrowing agreements that provide additional lending capacity "in case tail risks materialize" (IMF 2022b).

Figure 2: IMF Lending Capacity (Billions of USD)



Source: Author calculations and "Where the IMF Gets Its Money," IMF 2022.

With respect to IMF funding and resources, it is imperative that the IMF shareholders consider not just the scale of IMF resources and the distribution of quotas but also the composition of funding (Merling and Kring 2023). Between 2011 and 2016, the IMF activated "multilateral borrowing arrangements," or its second line of defense, ten times (Merling and Kring 2023). The IMF staff itself concedes that the Fund is not adequately sized for the global economy and voices concern about the excessive delays in quota review. The IMF even acknowledges that the Fund's lack of resources during the 2007-8 financial crisis undermined its legitimacy (IMF 2017).

If the IMF is to fulfill its role as outlined by the G20 and serve as the legitimate anchor at the "center of the Global Financial Safety Net" (G20 2019), the IMF must be adequately resourced and "quota-based" (Mohan 2020; Merling and Kring 2023; Coulibaly and Prasad 2023; Kring et al. 2023). First, this means that the composition of the IMF's lending power must be made permanent through quota increases that replace temporary multilateral and bilateral supplements to IMF lending resources (Wade and Vestergaard 2015; Merling and Kring 2023; Kring et al. 2023). Second, this means that the quota resources must be enhanced to align its lending fire power with the potential needs of the global financial system confronting an ever-increasing amount of shocks (Merling and Kring 2023). At present, the IMF's quota-based resources are small when compared to other components of the GFSN. In the case of the European Stability Mechanism (ESM), it has a lending capacity of approximately $524 billion (Merling and Kring 2023).

Voice, Representation and Voting at the IMF

Voice and representation at the IMF need fundamental reform, as the current distribution of quota shares does not reflect the increasing economic weight of dynamic EMDEs. Merling (2022) compares quota share with votes and GDP purchasing power parity (PPP) and finds that "emerging and developing economies hold 40.9 percent of votes and 38.6 percent of quota shares" as compared to generating 58 percent of GDP PPP and having 86.4 percent of the global population (Merling 2022). In comparison, the advanced economies have just 13.6 percent of the world's population and 40.3 percent of the world economy's GDP (adjusted for PPP) yet have 59.1 percent of votes at the IMF and 61.4 percent of quotas (Merling 2022). Table 1 from Merling and Kring (2023) compares quotas, votes, population and GDP (PPP adjusted) across the G20; Group of 7 (G7), Brazil, Russia, India, China and South Africa (BRICS) bloc and the Vulnerable Group of 20 (V20). Countries that are vulnerable to climate shocks, such as the V20 countries, "are heavily underrepresented at the IMF in terms of population and votes…they hold 5.3 percent of votes, while 16.6 percent of the world's population lives in these countries" (Merling 2022).

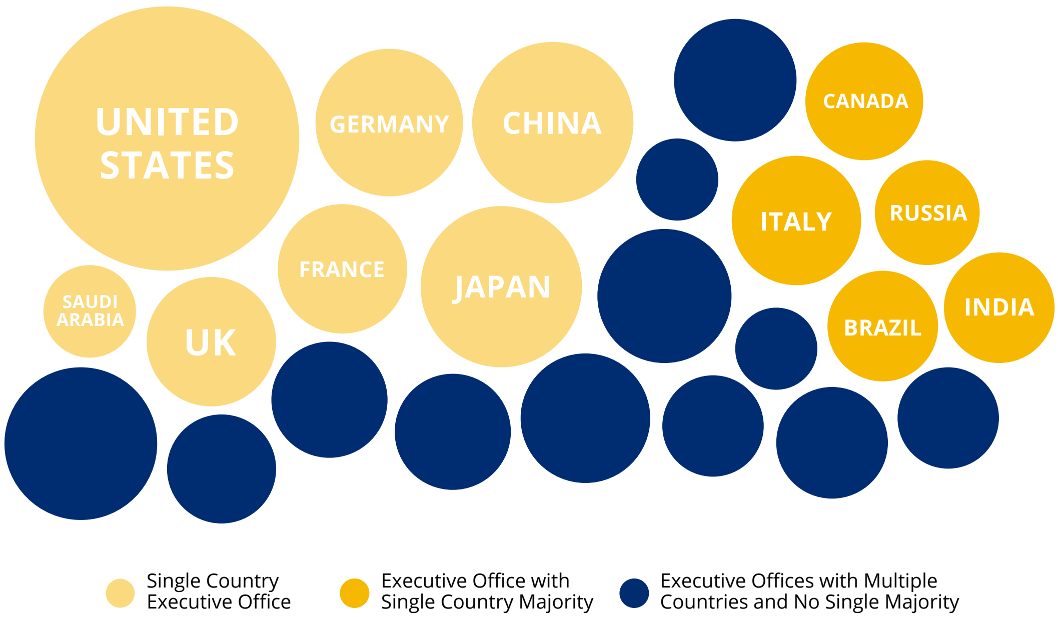
Table 1: IMF Quotas and Voting Shares Compared to Share of Population and Global Economy, by Grouping

	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: Merling and Kring 2023.

Quota shares at the IMF determine the voting power that countries have. In practice, this means "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" (Merling 2022). Merling (2022) finds that countries from the V20, where over one-third of lending programs were issued in the last twenty years, have "almost no voice in decision-making at the IMF" (Merling 2022). As Merling (2022) shows in Figure 3, countries with the smallest percentage of voting shares at the IMF are most likely to have an IMF program. This imbalance is exacerbated by the fact that "190 member countries are divided into 24 executive director offices" (Merling 2022).

Figure 3: Comparison of IMF Voting Shares to the Number of Completed IMF Programs (Merling, 2022)



Source: Merling 2022.

European countries are overly represented because of the openness variable in the IMF quota formula. In the case of Germany, "the entire African continent — with a population of over 1.4bn — does not have much more voting power at the IMF than Germany, which has a population of 84mn" (Morsy 2023). But beyond voting power, the IMF's operating budget comes from surcharges and interest payments charged to borrowers with little voice and representation in the process (Gallagher 2021; Stiglitz and Gallagher 2022; Bohoslavsky et al. 2023; Morsy 2023).

In 2007, while serving as Deputy Governor of the Reserve Bank of India, Rakesh Mohan noted that "the 'openness' variable in the calculation of quotas needs a close scrutiny in the context of countries having a common currency" (IMF 2007). Since the openness variable is measured by openness/GDP ratio, the variable is "biased towards countries in monetary and currency unions such as those in the euro area" (Mohan 2015). Truman (2012) has also been critical of the openness variable and suggested that "IMF staff should investigate whether this variable in any form is correlated with the need to borrow from the IMF. I would be very surprised if they came up with a positive result" (Truman 2012).

European Union (EU) states favor maintaining openness as a main variable in the quota formula (Coulibaly and Derbis 2019), as it inflates their voting share. Because intra-euro area trade is included through the current formulation of the quota formula, this overinflates the EU states' quota share. In addition, EU states and Japan have advocated for including "voluntary contributions made in recent years through NAB" (Coulibaly and Derbis 2019) in the calculation of quota shares.

Further impacting voice and representation at the Fund is post-World War II "gentlemen's agreement," a tacit understanding that an American is appointed to lead the World Bank and a European is appointed to lead the IMF (Barder 2016). Thus, advanced economies continue to dominate the control and operation of the IMF despite the General Review of Quotas, which is designed to ensure that IMF governance and quotas reflect the significant changes in the composition of the global economy (Mohan and Kapur 2015; Mohan 2020; Kring et al. 2023).

In addition, the IMF is confronting a changing landscape of actors across the GFSN. EMDEs have been pioneers in creating new institutions that perform similar lending functions as the IMF. The BRICS have created the Contingent Reserve Arrangement, modeled after the Chiang Mai Initiative Multilateralization. In addition, bilateral swaps have increasingly been deployed and crowd out multilateral sources of liquidity finance. Other regional financial agreements (RFAs) have also strengthened their resources and capacities (Kring and Gallagher 2019; Barrowclough et al. 2022). Mohan and Kapur (2015) attribute this institutional innovation by EMDEs to frustration with the lopsided framework of global governance that provide outsized voice and influence to the most developed countries at the expense of EMDEs. What is more, the IMF has become less relevant for the advanced economies that dominate the governance of the institution, as they increasingly rely on the C6 swap line networks, or swaps between the US Federal Reserve, European Central Bank, Bank of Japan, Bank of England, Swiss National Bank and Bank of Canada, (Mehrling 2015) and in the case of the Eurozone, the ESM that was built to "bail out" Europe.

Because of the influence of certain advanced economies, like the US, with veto power, they have an outsized influence on which countries receive conditionality attached to IMF programs and the extent of that conditionality (Dreher and Jensen 2007; Merling 2022). This leads to a lack of accountability to borrowing countries and their citizenry for those designing and evaluating IMF Fund programs (Kentikelenis and Babb 2019). Merling (2022) contends that "this (im)balance of power influences how the IMF operates, including how its mandate is interpreted." And despite IMF claims that it has changed, research finds that "multiple layers of rhetoric and ceremonial reforms" have been rolled out to obscure actual Fund practices (Kentikelenis et al. 2016) and that the IMF practices on fiscal consolidation have not actually changed (Ray et al. 2022).

EMERGING IDEAS FOR THE 16TH GENERAL REVIEW OF QUOTAS

The Bretton Woods Project reports that at a townhall meeting with civil society, IMF Managing Director Kristalina Georgieva "acknowledged 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'" (Bretton Woods Project 2022). Calls for action on quota reform have come not only from academics and policymakers but from the the IMF itself (Merling 2022; Arauz et al. 2022; Merling and Kring 2023; Coulibaly and Prasad 2023; Kring et al. 2023; Morsy 2023).

Some have called for an IMF that is quota-based, with Gang Yi, the former governor of the People's Bank of China, calling for an IMF where "quotas, rather than borrowing arrangements, should be the IMF's main source of financing" (IMF 2022f). Others have called for a new quota formula that ensures the IMF is adequately resourced and equitably governed. Adama Coulibaly notes that "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 2022d).

Kring et al. (2023) suggest the G20 issue a set of guiding principles for the IMF's 16th General Review of Quotas to ensure a stepwise increase in quota-based resources at the IMF and to guide a continuation of IMF governance reform to increase the voice and representation of emerging market and developing countries. Such a renewed multilateral push for quota and governance reform at the IMF will help to strengthen the Fund's legitimacy as a quota-based anchor of the GFSN.

Despite these urgent calls to action over the past decade, there has been little realignment of quota shares or an increase in permanent quota-based resources (Bretton Woods Project 2022; Merling and Kring 2023). That said, several policy proposals have been advanced that are designed to rebalance voice and representation at the Fund.

Other proposals have focused on the quota formula. One issue contributing to the disparity in quota shares is the openness variable in the quota formula. As constituted, it counts intraregional European trade, an issue flagged by scholars and policymakers alike (Mohan 2007, 2015; Coulibaly and Derbis 2019; Merling and Kring 2023; Kring et al. 2023). Mohan (2015) has advocated for eliminating the role of openness in the quota formula in favor of the GDP-blend. Other approaches suggest considering intra-EU trade as internal and not including it in the calculation of openness (Coulibaly and Derbis 2019). Coulibaly and Prasad (2023) suggest replacing the openness variable with vulnerability variables "that capture financial and trade integration into the global economy, thus reflecting vulnerability to shocks that emanate on either (or both) the current account and capital accounts of the balance of payments." The authors also propose a variable for vulnerability to climate shocks.

Andrés Arauz suggests that climate is placed as central to the governance of the IMF and proposes "an update to the IMF's voting formula by adding a variable representing member states' shares of cumulative CO2 emissions since 1944" (Arauz, Allen and Vasic-Lalovic 2022). The quota formula proposal seeks to reflect advanced economies' historic responsibility for the climate crisis and shift decision making power to countries most impacted by climate change. "For the IMF to adequately provide climate financing solutions," Arauz writes, "its governance structure needs to take into account member countries' differentiated responsibilities and vulnerabilities in the climate crisis" (Arauz et al. 2022). The climate-weighted formula outlined by Arauz et al. (2022) would result in a "decrease from 16.5 to 5.64 percent for the U.S. quota share at the IMF "and a loss of veto-power, while the least powerful nations at the IMF would gain votes," including those most vulnerable to climate change (Arauz et al. 2022). Overall, Global South countries' vote share would increase from 37.0 to 56.4 percent, and "all countries would be incentivized to cut emissions." (Arauz et al. 2022).

In October 2022, the Bretton Woods Project co-organized a panel entitled "IMF Policy and Governance in the Context of the 'Poly-Crisis': What Next?" where panelists discussed potential pathways for IMF reform. Paulo Nogueira Batista Jr., former IMF Executive Director for Brazil and other countries, has called for expanding basic votes at the IMF, a voting share category that is "allocated equally to each state" at the IMF (Bretton Woods Project 2022). Similar to prior proposals and the Intergovernmental Group of 24 (G-24)'s communiqué on quota reform, panelists agreed on the need to add an additional sub-Saharan African chair at the IMF's Executive Board and to end "the gentleman's agreement guaranteeing US-European leadership at the Bretton Woods institutions" (Bretton Woods Project 2022). Merling and Kring (2023) note that "quota and formula reform alone will not address the deficit of representation of sub- Saharan Africa at the IMF board," and this is why there is a need to establish a "third chair for Sub-Saharan Africa" (IMF 2013).

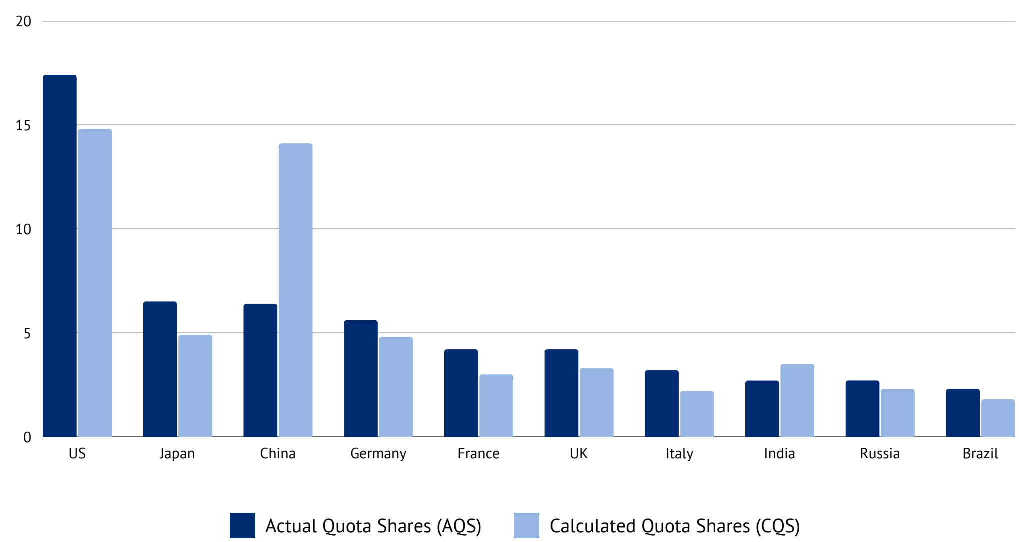
Many of the recommendations outlined above were encapsulated in the October 2022 G24 communiqué. The G-24 noted that the "16th General Review of Quotas should include the long-delayed realignment of IMF members' quota shares, which was last undertaken in 2008" (G-24 2022). The communique also called for a revision to the quota formula "that further shifts quota resources from advances countries to EMDEs to reflect their growing weight in the global economy." (G-24 2022). Additionally, the G-24 communique called for:

- A strong GFSN, with an adequately resourced and quota-based IMF at its center;
- An increase in the weight of the GDP blend and correct biases within the formula;
- Any realignment of quota shares must protect the shares of the Poverty Reduction and Growth Trust (PRGT) members and small developing states;
- Deepening of governance reforms to improve the voice and representation of EMDEs in the IMF's Executive Board;
- The addition of a third chair for sub-Saharan Africa, without this being at the expense of another EMDE chair. (G-24 2022).

To that end, one of the most challenging areas of the quota reform debate is out-of-lineness, which is expressed as the ratio of calculated quota share (CQS) to actual quota share (AQS) "with values above 1 implying a country is underrepresented" (Gonzalez 2022). Calculated quotas are determined strictly by the application of the formula (Nogueira Batista Jr. 2023). Gonzalez (2022) finds that out-of-lineness is 12.44 percentage points, signifying that approximately one eighth of the quotas would need to shift from advanced economies to emerging market and developing economies.

Figure 4 depicts the ratio of actual IMF quota share versus calculated quota shares for the top 10 IMF member countries. The political economy dilemma that quota share realignment raises is that the US will not agree to relinquish veto power at the IMF, hence any realignment towards the calculated quota shares would need to be gradual. What is more, more than half of the countries that would gain from a shift to calculated quota shares "are high-income economies—something that goes against the spirit of increasing the voice and representation of the poorest members" (Gonzalez 2022).

Figure 4: Actual vs Calculated IMF Quota Shares for 2022 (%)



Source: IMF 2022j.

Mühlich and Zucker-Marques (2023) find that the IMF must increase its lending capacity to cover the needs of low- and middle-income countries (LICs, MICs) lacking "the same external crisis finance resources in the IMF, RFAs and swaps" as high-income countries. Specifically, they propose that the IMF must improve its funding resources and provide two estimates of the scale of increase that the IMF needs. For the first estimate, the authors calculate the necessary increase in resources for the IMF if it is to increase the external crisis finance available to LICs and MICs to a comparable level of high-income countries, they find this "would require an additional $550 billion" (Mühlich and Zucker-Marques 2023). Their second estimate calculates the increase in IMF resources needed to cover "the short-term gross external financing needs (GEFNs) of LICs and MICs" (Mühlich and Zucker-Marques 2023) and finds that it would require IMF resources to increase by more than $1 trillion.

WORKSHOP FINDINGS

Keeping in mind that expectations for quota reform should be realistic, the context of the current quota reform debate is one of crisis. Historically, as seen with the 2007-8 financial crisis, crises open the door to institutional change. With this in mind, the December 2022 workshop on quota reform was motivated by five key questions:

1. What is the adequate size of the IMF in the increasingly financialized and fragile global economy?
2. How should the voice and representation of IMF members be adjusted to make the IMF a truly more multilateral institution accountable to all members?
3. 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?
4. What has been the impact of IMF conditionality and insistence on austerity on its ability to fulfill its mandate and for its borrowers?
5. Are viable alternatives to the IMF emerging? What types of reforms are needed for the IMF to remain the anchor of the GFSN?

In the final session, workshop participants outlined a set of four guiding principles for the IMF's 16th General Review of Quotas. They are as follows.

First, IMF shareholders must commit to consistently conducting General Reviews of Quotas in accordance with the IMF's articles of agreement. Participants noted that this process outlined in the articles of agreement is essential to ensuring that the IMF remains a sufficiently resourced anchor of the GFSN and that has legitimacy with all member states.

Since 2000, the IMF's General Reviews of Quotas have repeatedly been delayed or resulted in no little to no change, with the sole exception being the 2010 quota reform (Mohan and Kapur 2015). Some workshop participants emphasized that consistency in the General Review of Quotas that results in corresponding increases to IMF quota-based resources and adjustments to the balance of quota shares is essential to maintaining the legitimacy of the Fund and ensuring global financial stability. Other participants noted that this process is outlined in the articles of agreement and is essential to ensuring that the IMF remains a sufficiently resourced anchor of the GFSN and that has legitimacy with all member states. (Kring et al, 2023)

These delays and imbalances have undermined the legitimacy of the IMF and diminished its capacity to combat a truly global crisis. IMF shareholders must ensure that the Fund continues to advance quota reform at the cadence mandated by the Funds articles of agreement; increase IMF permanent, quota-based resources to ensure it is sufficiently resourced as compared to the size of global economic activity and trade flows and rebalances voice and representation in a manner that more precisely reflects the realities of the global economy, yet also safeguards the voice and representation of emerging market and developing economies.

Second, the IMF's quota-based resources should be scaled-up so that it is sufficiently resourced to serve as the anchor of the GFSN. Some participants presented data that illustrated how the US $926 billion in total lending capacity of the IMF pales in comparison to the GFSN's overall lending capacity of US $3.5 trillion. (Mühlich et al, 2023) In particular, if the IMF were to be sufficiently resourced such that it could cover the gross external financing needs of the most vulnerable countries through quota-based resources, the IMF's quotas would need to be increased by as much as 267 percent, or more than US $1 trillion. (Mühlich and Zucker-Marques, 2023) That said, some participants noted that it is essential that any increase in the scale of IMF resources is accompanied by better voice and representation for emerging market and developing economies, as merely increasing resources without a realignment of quota shares will not improve the Fund's legitimacy or credibility.

Third, the IMF needs to reform the composition of the IMF's lending resources towards permanent, quota-based resources and away from temporary, borrowed sources of funding. The current composition of IMF funding is overly reliant on temporary sources of funding, as only $411 billion of the Fund's firepower comes from permanent, quota-based resources (Merling and Kring 2023; Kring et al. 2023).

As the size of the global economy and trade flows have increased, the $926 billion in IMF lending firepower is unimpressive when compared to the landscape of regional financial arrangements and bilateral swaps. Additionally, the composition of IMF funding is equally concerning. Because the IMF has failed to ensure its resources keep pace with the growth of the global economy, the composition of the IMF's lending resources is overly reliant on temporary sources of funding. Only $411 billion of the Fund's firepower comes from permanent, quota-based resources (Merling and Kring 2023; Kring et al. 2023). More than half of the IMF's lending capacity comes from temporary sources of funding: Multilateral Borrowing Arrangements ($370 billion) and Bilateral Borrowing Agreements ($145 billion).

As quota reform efforts have been repeatedly delayed and multiple opportunities to increase the permanent, quota-based resources of the IMF have been missed, the IMF has become significantly under resourced and "forced to supplement its insufficient quota-based lending firepower with ad hoc arrangements" (Merling and Kring 2023) that still only increase its lending firepower to $926 billion, or approximately 1 percent of global GDP.

The G20 has repeatedly called for the IMF to serve as the "center of the [GFSN]" (G20 2019). Accordingly, IMF shareholders must ensure that the Fund has a sufficient permanent, quota-based resource base where its lending capacity is capable of meeting the potential needs of a systemic crisis in the global financial system (Merling and Kring 2023). During the current polycrisis, it is essential that the IMF is "seen to be effective and credible. Thus, it needs to be adequately resourced and to exhibit enhanced and credible governance" (Mohan 2020).

Finally, many workshop participants agreed that in addition to increasing the quota-based resources of the IMF, it is essential that IMF shareholders agree to realign quota shares to reflect the economic weight of emerging market and developing economies. As noted by the G-24, this realignment must also protect the shares of PRGT members and small developing states (G-24 2022). This would include determining a politically feasible path forward on out-of-lineness while ensuring that the voice and representation of emerging market and developing economies is safeguarded.

Several participants noted that the G20 will have a pivotal role to play in advancing any quota reform agreed to by IMF shareholders. These participants noted that the G20 played a critical role in facilitating political consensus among the world's largest economies, and shepherding quota reform to completion as it was delayed, during the last successful quota reform (Kring et al. 2023).

Workshop participants recognized that the reform process will be incredibly complex with shifting power balances. Further, change is likely to be incremental, as there is no way to gain consensus on quota reform that would result in the US losing its veto power. Nonetheless, these principles of reform must be advanced by IMF shareholders to reaffirm the IMF's role at the center of the GFSN and reestablish its legitimacy. However, should IMF shareholders fall short on implementing quota reform that is guided by these principles, the IMF risks further delegitimization and marginalization by alternative components of the GFSN, such as bilateral swap arrangements.

WORKSHOP PARTICIPANTS

Andrés Arauz, Center for Economic and Policy Research

Amar Bhattacharya, Brookings Institution

Daniel Bradlow, University of Pretoria

Timon Forster, Boston University Global Development Policy Center

Barbara Fritz, Freie University Berlin

Kevin P. Gallagher, Boston University Global Development Policy Center

Haihong Gao, Institute of World Economics and Politics, Chinese Academy of Social Sciences

Penelope Hawkins, United Nations Conference on Trade and Development

William N. Kring, Boston University Global Development Policy Center

Lara Merling, Boston University Global Development Policy Center

Rakesh Mohan, Centre for Social and Economic Progress

Laurissa Mühlich, Freie University Berlin

Daniela Prates, United Nations Conference on Trade and Development

Rebecca Ray, Boston University Global Development Policy Center

Daouda Sembene, AfriCatalyst

Keyi Tang, Boston University Global Development Policy Center

Marilou Uy, Boston University Global Development Policy Center

Yan Wang, Boston University Global Development Policy Center

Aizong Xiong, Institute of World Economics and Politics, Chinese Academy of Social Sciences

Shiqi Yan, University of Chinese Academy of Social Sciences

Panpan Yang, Institute of World Economics and Politics, Chinese Academy of Social Sciences

Yu Ye, Institute for World Economy Studies at Shanghai Institutes for International Studies

Marina Zucker-Marques, SOAS, University of London

References

Arauz, A., Allen, L., and Vasic-Lalovic, I. (2022) "Putting Climate at the Core of IMF Governance." *CEPR Report*. https://www.cepr.net/report/putting-climate-at-the-core-of-imf-governance/

Barder, O. (2016) "Time, gentlemen, please." Center for Global Development. https://www.cgdev.org/blog/time-gentlemen-please.

Barrowclough, D. and W.N. Kring. (2023) *South-South Regional Financial Arrangements: Collaboration Towards Resilience*. Ed. Diana. Barrowclough et al. 1st ed. 2022. Cham: Springer International Publishing, 2022. Web.

Bohoslavsky J.P., Cantamutto F., Clérico L. (2022) "IMF's Surcharges as a Threat to the Right to Development." *Development (Rome*). 65(2-4):194-202

Bretton Woods Project. (2010) "Less than meets the eye: IMF reform fails to revolutionise the institution." http://www.brettonwoodsproject.org/art-567128.

Bretton Woods Project. (2022) "Annual meetings 2022 wrap up: As the world runs out of time, BWIs fail to provide clear vision and bold actions." https://www.brettonwoodsproject.org/2022/10/annual-meetings-2022-wrap-up-as-the-world-runs-out-of-time-bwis-fail-to-provide-clear-vision-and-bold-actions/.

Coulibaly, B.S. and E. Prasad. (2023) "A Reform Proposal for a fit-for-purpose International Monetary Fund." T20 Policy Brief: Task Force 7. https://t20ind.org/wp-content/uploads/2023/05/T20_Policy-Brief_TF7_Fit-IMF.pdf

Coulibaly, B.S. and K. Dervis. (2019) "The governance of the International Monetary Fund at age 75." *Brookings: Future Development.* https://www.brookings.edu/blog/future-development/2019/07/01/the-governance-of-the-international-monetary-fund-at-age-75/

Cherif, R., Hasanov F. (2019) "The return of the policy that shall not be named: Principles of industrial policy." IMF working paper no. 2019/074.

Dreher, A. and N.M. Jensen. (2007) "Independent Actor or Agent? An Empirical Analysis of the Impact of U.S. interests on International Monetary Fund Conditions." *The Journal of Law and Economics*, Vol 50, No. 1.

Financial Stability Board. (2021) "Global monitoring report on non-bank financial intermediation." https://www.fsb.org/wp-content/uploads/P161221.pdf.

G20. (2014) "G20 Leaders' Communique." http://www.g20.utoronto.ca/2014/2014-1116-communique.html#:~:text=This%20year%20we%20set%20an,and%20create%20millions%20of%20jobs.

G20. (2016) "G20 Leaders' Communique: Hangzhou Summit." http://www.g20.utoronto.ca/2016/160905-communique.html

G20. (2019) "G20 Osaka Leaders' Declaration." https://www.mofa.go.jp/policy/economy/g20_summit/osaka19/en/documents/final_g20_osaka_leaders_declaration.html

G20. (2019) "Finance ministers and central bank governors meeting communique." https://worldjpn.net/documents/texts/G20/20190609.D1E.html

G20. (2023) "G20 New Delhi Leaders' Declaration." https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20-New-Delhi-Leaders-Declaration.pdf

Gallagher, K.P. (2021) The IMF's surcharges are unfit for purpose. *Financial Times*, 2 March. https://www.ft.com/content/cc82f5bf-36c6-454f-b7f0-a4a18576ff2b

González, T. (2022) "A Guide to the IMF's 16th Quota Review." *G-24 Working Paper.* https://www.g24.org/wp-content/uploads/2022/12/A-Guide-to-the-IMFs-16th-Quota-Review.pdf

Group of 24. (2022) "Intergovernmental Group of Twenty-Four on international monetary affairs and development communique." https://www.g24.org/wp-content/uploads/2022/10/G-24-Communique-Final-_-October-Meetings-2022.pdf

Horsley, S. (2022) "Janet Yellen and other finance ministers walk out of G20 meeting as Russia speaks." https://www.npr.org/2022/04/20/1093841174/janet-yellen-crystia-freeland-canada-rishi-sunak-uk-g20-walk-out-russia

IMF. (2007) "IMFC Statement by Honorable Deputy Governor of Reserve Bank of India Dr. Rakesh Mohan." https://www.imf.org/External/spring/2007/imfc/statement/eng/ind.pdf

IMF. (2011) IMF 2011 "Press Release: The IMF's 2008 Quota and Voice Reforms Take Effect." https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr1164

IMF. (2013) "IMFC statement by Pravin J. Gordhan, minister of finance for South Africa." https://www.gov.za/statement-honourable-pravin-j-gordhan-minister-finance-south-africa-international-monetary-and.

IMF. (2017) "Adequacy of fund resources: Further considerations." IMF policy paper no. 2021/008. https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/03/05/Adequacy-of-Fund-Resources-Further-Considerations-50150.

IMF. (2021a) "Fifteenth General Review of Quotas: Quota formula and realigning shares." https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/03/05/Fifteenth-General-Review-of-Quotas-Quota-Formula-and-Realigning-Shares-50149.

IMF. (2022a) "Factsheet: Where the IMF gets its money." https://www.imf.org/en/About/Factsheets/Where-the-IMF-Gets-Its-Money.

IMF. (2022b) "At a glance: The IMF's firepower." https://www.imf.org/en/About/infographics/imf-firepower-lending.

IMF. (2022c) "IMF quotas." https://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas.

IMF. (2022d) "IMFC statement by Adama Coulibaly, minister of economy and finance,

Côte d'Ivoire." https://www.imf.org/-/media/AMSM/Files/AM2022/IMFC/cote-divoire.ashx.

IMF. (2022f) "Statement by Gang Yi, governor of the People's Bank of China." https://www.imf.org/-/media/AMSM/Files/AM2022/IMFC/peoples-republic-of-china.ashx.

IMF. (2022g) "World Economic Outlook Database October 2022." https://www.imf.org/external/pubs/ft/weo/2022/01/weodata/groups.htm.

IMF. (2022i) "IMF Quotas." https://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas#:~:text=What%20are%20IMF%20quotas%3F,the%20IMF%27s%20unit%20of%20account.

IMF. (2022j) "Updated IMF Quota Data." https://www.imf.org/external/np/fin/quotas/2022/0728.htm

IMF. (2023a) "World Economic Outlook Database, 2023: April 2023 Edition." https://www.imf.org/en/Publications/WEO/weo-database/2023/April

IMF. (2023b) "Global Debt Monitor." https://www.imf.org/-/media/Files/Conferences/2023/2023-09-2023-global-debt-monitor.ashx

Kentikelenis, A.E., Babb, S. (2019) The making of neoliberal globalization: Norm substitution and the politics of clandestine institutional change. *American Journal of Sociology 124*(6): 1720-1762.

Kring, W.N., H. Gao, R. Mohan, and M. Uy. (2023) "Towards a Balanced Quota Reform at the International Monetary Fund." T20 Policy Brief: Task Force 7.

Kring, W.N. and W.W. Grimes (2019). "Leaving the Nest: The Rise of Regional Financial Arrangements and the Future of Global Governance. *Development and Change*, Vol. 50, Iss. 1: pp. 72-95.

Kring, W.N. and K.P. Gallagher (2019). "Strengthening the Foundations? Alternative Institutions for Finance and Development." *Development and Change*, Vol. 50, Iss. 1: pp. 3-23.

Lesage, D., Debaere, P., Dierckx, S., Vermeiren, M. (2013) "IMF reform after the crisis." *International Politics* 50(6): 553-578.

Merling, L. (2022) "No voice for the vulnerable: Climate change and the need for quota reform at the IMF." GEGI Working Paper no. 057. https://www.bu.edu/gdp/files/2022/10/GEGI_WP_057_FIN.pdf.

Merling, L and W.N. Kring (2023). "The International Monetary Fund and Quota Reform: Background and Key Considerations." GEGI Working Paper No. 60. https://www.bu.edu/gdp/files/2023/04/GEGI-WP-060-FIN.pdf

Mohan, R. (2020). "IMF quota reforms and global economic governance: What does the future hold?" CSEP working paper-2. https://csep.org/wp-content/uploads/2020/10/IMF-working-paper_F-1.pdf.

Mohan, R. and M. Kapur (2015) "Emerging powers and global governance: Whither the IMF?" IMF working paper no. 15/219. https://www.imf.org/external/pubs/ft/wp/2015/wp15219.pdf.

Morsy, H. "Opinion: Africa needs international help to avoid a lost decade." *Financial Times*. 22 May 2023. https://www.ft.com/content/5fac406f-a4f1-493f-bac4-007bb12146e5?shareType=nongift

Mühlich, L., Fritz, B, Kring, W.N., K.P. Gallagher, J.D. Pitts, M. Zucker-Marques, and N. Gaitán. (2023) *Global Financial Safety Net Tracker.*

Mühlich, L. and M. Zucker-Marques. (2023) "Mind the Gap in Global Crisis Finance: Why and How the IMF Should Address Weaknesses in the Global Financial Safety Net." *GEGI Policy Brief.*

Mühlich, L., Fritz, B., Kring, W.N. (2022) "No one left behind? Assessing the global financial safety net performance during COVID-19." *Journal of Globalization and Development* 13(1): 123-147.

Nogueira Batista Jr, Paolo. (2023) "IMF reform: is there a way out?" *Bretton Woods Project Working Paper.*

Ray, R., Gallagher, K.P., Kring, W.N. (2022) "'Keep the receipts:' The political economy of austerity during and after the crisis years of 2009 and 2020." *Journal of Globalization and Development* 13(1): 31-59.

Stiglitz, J. and K.P. Gallagher. (2022) IMF surcharges: A lose-lose policy for global recovery. *VoxEu CEPR*, 7 February. https://voxeu.org/article/imf-surcharges-lose-lose-policy-global-recovery

Stubbs, T., Kentikelenis, A., Ray, R., Gallagher, K.P. (2022) "Poverty, inequality, and the international monetary fund: How austerity hurts the poor and widens inequality." *Journal of Globalization and Development* 13(1): 61-89.

United Nations Conference on Trade and Development. (2022) "UNCTAD global trade update." https://unctad.org/system/files/official-document/ditcinf2022d1_en.pdf.

Wade, R., Vestergaard, J. (2015) "Why is the IMF at an impasse, and what can be done about it." *Global Policy* 6(3): 290-296

BU Global Development Policy Center

bu.edu/gdp

@GDP_Center