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September 28, 2004

To: Members and Associates of the International Monetary and Financial Committee

From: The Secretary

Subject: **Report to the International Monetary and Financial Committee on Quotas, Voice, and Representation**

The attached report to the International Monetary and Financial Committee on quotas, voice, and representation provides background information for the International Monetary and Financial Committee meeting scheduled for **Saturday, October 2, 2004**.

It is expected that this document will be posted on the Fund's external website following its circulation to the members of the IMFC.

Att: (1)

INTERNATIONAL MONETARY FUND

Report of the Executive Board to the IMFC on Quotas, Voice, and Representation

September 24, 2004

1. The IMF Executive Board has been pursuing avenues to enhance the voice and representation of developing and transition countries in the Fund's governing bodies on two different, but complementary tracks: issues related to the distribution of quotas and voting power, which are being considered as part of the work program on IMF quotas; and measures to strengthen the capacity of developing and transition countries to participate effectively in the Fund's policy- and decision-making processes. This status report provides an update on developments in these two areas in response to a request from the International Monetary and Financial Committee (IMFC).[1] It lays out the issues that would need to be addressed to make further significant progress, and notes that the broad consensus among the shareholders needed to achieve this does not currently exist.

2. On quotas, the resolution concluding the Twelfth General Review of Quotas in January 2003 indicated that the Executive Board intended, during the period of the Thirteenth General Review, "to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund." In a discussion on July 31, 2003, the Executive Board considered quota distribution issues including measures to achieve a distribution of quotas that reflects developments in the world economy.[2] In the meeting, Directors took stock of areas of emerging consensus for new quota formulas and considered certain issues involved in revising and updating the quota formulas. Most Directors saw considerable merit in a package approach that would include elements that would benefit the membership as a whole. Specifically, such a package would involve: a general quota increase with a relatively large selective element allocated by means of a new quota formula; ad hoc quota increases aimed at addressing the clearest cases of out-of-lineness; and an increase in basic votes specifically aimed at correcting the erosion of the voting power of the smallest members. It was noted, however, that an increase in basic votes would require an amendment of the Articles of Agreement, and that the required majority did not exist. More generally, most Directors recognized that there was no need for a quota increase at that time in view of the Fund's satisfactory liquidity position.

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[1] See *Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund*, Press Release No. 04/84, 4/24/04, para. 18.

[2] *The Acting Chair's Summing Up, Quota Distribution—Selected Issues* (BUFF/03/155, 8/22/03) provides a comprehensive summary of the discussion.

3. As agreed at the July 2003 meeting, staff recently circulated a paper updating the data set used for illustrative quota calculations.[3] The paper concluded that quota formulas using the economic and financial variables and weights that have been considered broadly appropriate by the Board—including a substantial weight for GDP as the most important indicator of economic size—are likely to yield results that would imply a larger calculated than actual quota share for the advanced economies as a group, and a smaller calculated than actual quota share for the developing and transition countries. These updated calculations also reconfirm the validity of the broad conclusions reached during the 2003 discussion.

4. Executive Directors have continued to monitor the adequacy of Fund resources based on semi-annual reviews of Fund liquidity. The staff paper for the last review noted that, the Fund's one-year forward commitment capacity (FCC) amounted to SDR 62 billion as of end-July 2004.[4] Most Directors concluded that the Fund's liquidity position was satisfactory and that the Fund would likely be able to meet the near-term projected needs of its members. This assessment was based on the assumption of a continuing global recovery as presented in the *World Economic Outlook*, and an expectation that most member countries would be able to withstand moderate negative shocks via a drawdown of reserves and/or policy and exchange rate adjustments. Further, should the need arise, the New Arrangements to Borrow/General Arrangements to Borrow (SDR 34 billion) also remain available. However, given the importance of the Fund having adequate resources to fulfill its responsibilities and that difficulties in the world economy are hard to predict, continued close monitoring of the Fund's liquidity position will be important.

5. While voting power is the most readily identified dimension of voice and representation, it remains crucial to ensure that the offices of Executive Directors from developing and transition countries, in particular those with large constituencies, have the administrative and technical capacity to participate fully and effectively in the Fund's decision-making process. This is essential for effective and collaborative consensus-building in which policies and their implementation reflect the views of the membership as a whole. In March 2003, the staffs of the Fund and the World Bank jointly prepared a technical note on voice and participation for the Development Committee, which identified a number of possible avenues for enhancing the administrative and technical capacity of the large multi-country constituencies.[5] These included: extra technological support to facilitate communications with capitals; the facilitation of intra-constituency interaction; providing

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[3] See *Quotas—Updated Calculations* (SM/04/305, 8/30/04). Data through 2002 were used in the calculations. The previous calculations used data through 1999.

[4] See *The Fund's Liquidity Position—Review and Outlook*, EBS/04/134, 9/16/04.

[5] See *Voice and Participation of Developing and Transition Countries in Decision-Making at the World Bank and IMF—A Technical Note by Bank/Fund Staff for the Development Committee*, EB/CW/DC/03/1 Revision 1, March 26, 2003.

developing country chairs with technical and research support; adding advisors to Executive Directors' offices; and adding a second Alternate Executive Director.[6]

6. The Fund's Executive Board subsequently took action in a number of areas. As a first step, it was agreed in April 2003 that Executive Directors with twenty or more member countries—including the Executive Directors from sub-Saharan Africa—could add three persons to the staff in their offices. A more recent initiative underway is the use of new technology to facilitate close and effective communication between Executive Directors' offices and their authorities in capitals. While no new measures are presently being planned by the Executive Board, it will be important to sustain the efforts in this area going forward.

[6] The last-mentioned step would require an amendment of the Articles of Agreement.