

Report of the Executive Board to the Board of Governors—Quota and Voice Reform— Progress Since the 2006 Annual Meetings

1. At the Annual Meetings in Singapore, **the Board of Governors approved a program of quota and voice reforms** (Resolution 61-5) that aims to enhance the effectiveness and credibility of the Fund (Box 1). The Singapore Resolution called for the reform program to be completed within a two-year period, that is, no later than the Annual Meetings in 2008. It also called on the Executive Board to report on progress with the reform package by the time of the 2007 Annual Meetings.
2. **This report responds to that request** and reflects the extensive discussions by the Executive Board over the past year on the reform agenda agreed in Singapore. A key focus of the discussions has been the new quota formula, but the Board has also begun to consider the other elements of the reform package. This report describes the progress that has been made in several areas, and also highlights the areas where further work and deliberations will be needed.
3. The Executive Board has focused on the two key **objectives of the reform program** highlighted in its report to the Board of Governors in Singapore: (i) to make significant progress in realigning quota shares with members' relative weight and role in the global economy and to make quota and voting shares more responsive to changes in global economic realities in the future and, (ii) equally important, to enhance the participation and voice of low-income countries, for which the Fund plays an important advisory and financing role. At the Spring Meetings in April 2007, the IMFC communiqué called for the reform to enhance the representation of dynamic economies, many of which are emerging markets. In its October 2007 discussion, the Executive Board agreed that, while the focus would continue to be on dynamic economies, an outcome of the second round of reforms should be a further increase in the voting share of emerging market and developing countries as a whole. Many feel that quota and voice reform will achieve the aims of enhancing the effectiveness and credibility of the Fund if there is a meaningful shift of voting share from advanced countries to emerging market and developing countries. The Board's ongoing discussions on the specifics of the second round package will need to give further consideration to the precise size of this shift. The Board will also need to come back to the issue of how quota and voting shares can continue to adapt in the future to changes in the global economy, while ensuring that the Fund has adequate liquidity to achieve its purposes.

Box 1. Key Elements of the Reform Agenda Approved in Singapore

- Initial ad hoc quota increases of four of the most clearly underrepresented members—China, Korea, Mexico and Turkey;
- Agreement, by the time of the 2008 Spring Meetings, on a new quota formula that can provide a simpler and more transparent means of capturing members' relative positions in the world economy;
- A second round of ad hoc quota increases, based on the new formula, with a view to achieving a significant further alignment of members' quotas with their relative positions in the world economy;
- Agreement that general reviews of quotas conducted after the completion of these reforms also consider distributing any increases in quotas with a view to achieving a better alignment of members' quotas with their relative positions in the world economy, while ensuring that the Fund has adequate liquidity to achieve its purposes;
- An amendment to the Articles of Agreement that would provide for at least a doubling of basic votes that at a minimum protect the pre-Singapore voting share of low-income countries as a group, while also ensuring that the share of basic votes to total votes is preserved in the future;
- An increase in staffing resources available to Executive Directors representing a large number of members whose workload is particularly heavy; and
- Consideration of the merits of an amendment to the Articles of Agreement to enable Executive Directors representing a large number of members to appoint more than one Alternate Executive Director.

4. The Board's discussions of **a new quota formula** have been guided by a number of **agreed principles**. These are that the new quota formula should be simple and transparent, be consistent with the multiple roles of quotas, be feasible to implement statistically, and produce results that are broadly acceptable to the membership. It has also been emphasized that the new formula should stand on its own merits and be consistent with the mandate of the Fund. The new quota formula should appropriately capture members' relative positions in the global economy, which have evolved considerably.

5. In light of these principles, there has been a substantial discussion on **the choice and definition of variables in the formula**, with significant convergence on the view that these variables should be limited to updated and modernized versions of the four variables included in the existing formulas—GDP, openness, variability, and reserves. However, differences of view remain about the appropriate measurement of GDP, as discussed below, and about the appropriateness of the definitions of openness and variability, questions to which the Board will need to come back.

6. Discussion has evolved on the **weights for these variables** in the new formula. It is generally acknowledged that GDP should be the most important variable in the new formula, with strong support now for a weight of 50 percent as part of a comprehensive package. Reserves should be given a relatively low weight in the formula. In part reflecting the differences in views noted above regarding the definition and role of the openness and variability variables, views continue to differ regarding the appropriate relative weights to be applied to these two variables, and the Board will need to consider these issues further.

7. It is now generally agreed that **PPP GDP should play a role** in a comprehensive reform package, although views differ substantially on the appropriate nature of that role. Two approaches have so far been discussed. One approach would involve the inclusion of PPP GDP as part of a blended GDP variable in the new quota formula itself; the weights on PPP GDP and market exchange rate GDP in the blended GDP variable would need to be determined. In a second approach, while GDP in the new quota formula would be measured solely at market exchange rates, members could be eligible for second round ad hoc quota increases if their shares in global PPP GDP are substantially larger than their shares in actual quotas. Under this second approach, consideration could be given to making this additional selection criterion durable through a commitment that PPP GDP would be taken into account when considering quota adjustments for some time in the future. The Board will need to come back to these issues in order to find an approach that can command the necessary broad support.

8. There is substantial support, as part of a comprehensive package, for **use of a compression factor** as a means of moderating to some degree the influence of economic size in the quota formula, although views differ on whether compression has a role in conjunction with the approach using an additional selection criterion. If a compression factor is included, a judgment will need to be reached on its level.

9. Views have begun to converge on the appropriate **size of the second round ad hoc quota increase**, but differences remain. There is some support for an overall first and second round increase of 10 percent, although some see this as a maximum, whereas others hold the view that an increase of 12½ percent, or even larger, is needed to achieve the objectives of the reform. This issue will need to be further considered as the second round package takes on a more precise shape.

10. Regarding the **allocation mechanism for the second round ad hoc quota increases**, considerable support exists for an approach similar to that used for the first round increases. Under this approach, increases would be allocated to members based on achieving a uniform proportionate reduction in the gap between calculated and actual quota shares. This approach, however, would still leave a number of countries with actual quota shares well below their calculated quota shares, and further consideration may need to be given to possible ways of concentrating the increases on those countries most heavily under-represented and also to the treatment of those countries that received ad hoc increases in the first round.

11. The **willingness of major advanced countries, and possibly other countries, to forego part of the quota increases** for which they may be eligible in the second round can make a significant difference to the overall adjustment in shares toward emerging market and

developing countries that can be achieved in the second round. The Executive Board will aim to clarify these commitments as it moves forward with the second round package.

12. **The increase in basic votes** is an integral part of the quota and voice reform, and a key measure for enhancing the voice and participation of low-income countries—a core goal of the reform approved by the Board of Governors in Singapore. While the size of the increase in basic votes will need to be considered further along with the size of the second round quota increases, the commitment to provide for at least a doubling of basic votes as agreed in Singapore has been reaffirmed, with many calls for at least a tripling.

13. The Board has also made progress in other aspects of the agenda for strengthening voice and participation:

- In January, the Executive Board agreed in principle on the **legal framework for an Amendment to the Articles to allow for an increase in basic votes** and for maintenance of the share of basic votes in total votes going forward.
- In May, the Executive Board, taking into account the budgetary situation, approved an **increase in the staffing resources for the two African Executive Directors' offices**, which represent the largest constituencies, through the allocation of an additional advisor position.
- A staff paper has been issued to the Executive Board for consideration of an amendment to the Articles of Agreement that would enable Executive Directors elected by large constituencies to appoint **more than one Alternate Executive Director**. This issue will be taken up by the Executive Board shortly after the Annual Meetings.

14. To conclude, the Executive Board has made continuous progress in developing the second round reform program agreed at the Singapore Annual Meetings, and it remains determined to move forward in the period ahead to reach agreement on a second round package that can command the necessary very broad support. The Board calls on Governors to reaffirm—in the same spirit that made the Singapore Resolution possible—their commitment to the mandate they gave to the Board to complete the program of quota and voice reforms in accordance with the timetable laid out in the Singapore Resolution. Given the challenging issues that still remain to be resolved, this will require determined efforts to mobilize the needed political support.