INTERNATIONAL MONETARY FUND

Executive Board Report to the IMFC on Quota and Governance Reforms

Since the IMFC last met in April, the Executive Board has taken up the full range of quota and other governance reforms. While there has been some movement on the many complex issues, discussions have been inconclusive, and no proposal has been able to command broad support. The concluding remarks that sum up these meetings lay out the various positions taken by members of the Board (attached). The debate is continuing, and we hope to make progress on finding the possible elements of a compromise acceptable to the membership.

The Chairman's Concluding Remarks
Fourteenth General Review of Quotas—Further Considerations
Committee of the Whole on Review of Quotas Meeting 10/4
September 22, 2010

I welcome the shared commitment to reaching an agreement under the 14th General Review within the agreed timetable, but today's discussion also shows that views remain divided on many key issues. I will ask staff to reflect carefully on these views as we consider how best to move the process forward within the short time period remaining. Let me highlight a few key points from our discussion:

Size of the Quota Increase: Most Directors supported a substantial overall increase to ensure that the Fund has sufficient resources to meet members' needs. Many Directors noted that, since their last discussion of this issue in April, the case for such an increase had been further strengthened by developments in the euro area, underscoring the need for the Fund to be in a position to support all its members, including advanced countries, as well as by the recent progress on reforming the Fund's lending facilities. Against this background, most Directors indicated that they could support a doubling of quotas, with a number viewing this as an upper bound and a number of others seeing it as a minimum. A few other Directors, pointing to the expanded New Arrangements to Borrow (NAB), were not convinced about the need to increase quota resources substantially beyond that needed to achieve the targeted realignment of quota shares. Many Directors noted that with an increase in quotas, the size of the NAB should be reconsidered to maintain the appropriate balance between quota and borrowed resources.

Quota Realignment: Directors reiterated their commitment to a shift in quota share to dynamic emerging market and developing countries (EMDCs) of at least 5 percent from over- to under-represented countries. However, significant differences remain on the details.

- A number of Directors viewed approaches along the lines laid out in the staff paper as providing a good basis for further work—a combination of a selective increase for all members and a sizable ad hoc component aimed primarily at EMDCs, using the compressed GDP blend variable in distributing ad hoc increases.

- Many other Directors considered that a larger net shift to EMDCs than that illustrated in the staff paper is needed—of the order of 5–6 percentage points, with adequate protection for other EMDCs not benefiting from the shift. They generally stressed that PPP GDP should play a larger role in allocating ad hoc increases, and did not support protection for over-represented advanced countries. These Directors, together with a few others, maintained the view that the quota formula remains severely flawed, and they called for its reform within two years of the conclusion of the 14th Review, as well as for more frequent adjustments based on timely data.

- A number of other Directors, emphasizing that the formula should remain the primary mechanism for distributing quota increases, favored only a limited ad hoc increase, as needed, to achieve the targeted shift in quota shares. These Directors and several others noted that all over-represented countries should contribute to the adjustment in quota shares, while being fully protected from becoming underrepresented. Some noted that all under-represented countries should be eligible for ad hoc increases.

- Some Directors reiterated their call to take account of members' voluntary financial contributions to the Fund.

Protecting the Poorest: Directors reiterated their support for protecting the voting share of the poorest members. Many supported protecting the quota shares of these countries individually. A number of Directors preferred the approach of protecting PRGT-eligible countries, a few favored a narrower list of countries eligible for Post-Catastrophe Debt Relief, and a number of others remained open on the definition of the poorest members. A few Directors were open to the possibility of a further increase in the share of basic votes.

While many important differences remain to be resolved in the context of the general review of quotas, many of you have also pointed to inter-linkages between the work on quotas and other aspects of the governance reform. We should continue the process of informal consultations in the coming days with the goal of narrowing the remaining differences and providing the basis for a staff proposal that could command the necessary broad support.

Finally, let me call again on those members that have not yet done so to rapidly finalize their necessary domestic processes so that the 2008 quota and voice reform can become effective by the time of the Annual Meetings.

The Chairman's Summing Up
IMF Governance Reform
Executive Board Meeting 10/78
July 28, 2010

Executive Directors welcomed the opportunity to advance the discussion of IMF governance reform. At today's meeting, while a few conclusions emerged, Directors expressed a range of views on key issues. Views remained divided on the package approach to governance and quota reforms. Nevertheless, all Directors underscored the importance of moving to a shared vision of reforms to enhance the Fund's legitimacy and effectiveness.

Enhancing ministerial engagement and oversight. Directors agreed that engagement by ministers and governors is essential to the effective discharge of the institution's responsibilities, including to promote multilateral cooperation and coherence of policies. However, views on the best means of delivering such engagement—whether through reform of the advisory IMFC or a shift to a decision-making entity—continued to differ. On the proposal for a new decision-making ministerial body, illustratively titled the "International Monetary and Financial Board (IMFB):"

(a) Many Directors remained unconvinced of the need for a ministerial-level decision-making body. They saw little difference between the IMFB and the Council, and felt that the decisions proposed to be taken up by such bodies require an understanding of institutional detail and process beyond the time and inclination of ministers and governors. These Directors cautioned against weakening the Board of Governors and the Executive Board, or upsetting the current accountability framework, which they viewed as appropriate. In addition, some of these Directors noted that IMFC members were already very much engaged in the formulation of the Fund's policies and multilateral coordination.

(b) A number of Directors welcomed the IMFB proposal, noting that it strikes a balance between securing deeper ministerial engagement in decisions of strategic importance and preserving the role of the Executive Board in the operational work of the Fund. Most of these Directors preferred broadening further the scope of ministerial involvement to include, for instance, the accountability of the Managing Director and setting the guidelines for the Fund's lending framework. But others considered that a more limited number of key strategic decisions, including importantly some decisions currently reserved for the Board of Governors, would be more appropriate.

(c) Finally, a few Directors saw the IMFB proposal as addressing concerns raised previously with respect to the "Council" envisaged in the Articles of Agreement. However, they were not in a position to express any firm views ahead of consensus on the scope of responsibilities that would be transferred to such a body. The process of amending the Articles of Agreement was also seen as challenging.

(d) Against this background, many Directors called for further reforms of the IMFC, including its procedures—through shorter term limits of the IMFC chair, more interactive plenary discussions, and earlier circulation of communiqué drafts. Other Directors agreed on the need for continuing IMFC reforms, but did not see only procedural reforms as a substitute for a more fundamental shift to a decision-making body.

Board size, composition, and decision making. Directors agreed that a strong Board has been vital to the effective functioning of the institution, but views varied on the need for change in its size, composition, and decision-making majorities.

(a) *Size*. Most Directors reiterated that the current size of the Board strikes an appropriate balance between representation and effectiveness, and reverting to the size implied by the Articles of Agreement is unlikely to yield significant gains. In this context, a number of these Directors called for amending the Articles to set the size of the Executive Board at 24. On the other hand, a few Directors maintained that reducing the size of the Board could enhance efficiency, and a few remained open to considering this option.

(b) *Composition*. Directors stressed that representation at the Board must respect the principle of voluntary constituency formation. Some Directors also reiterated the importance of increasing the relative presence of emerging market and developing countries at the Board. A few Directors called for a third chair for sub-Saharan Africa at the Board.

(c) *All-elected Board.* Many Directors viewed a move to an all-elected Board, together with steps to avoid further concentration in voting power, as useful to level the playing field among Executive Directors. However, a number of others argued against changing well-established rules, noting that the present system provides appropriate limits to the concentration of voting power, critical to an effective Board. A few Directors called for raising the upper limit on the voting power of elected chairs to facilitate greater consolidation, while a few others favored lowering it to ensure a more even distribution of voting power.

(d) *Second Alternate Executive Director.* Most Directors noted that greater leeway to appoint a second Alternate Executive Director for multi-country constituencies could facilitate a re-composition of the Board, with a few regarding it as an effective tool to strengthen the representation of smaller members. A few Directors considered it premature to move in this direction at this stage, and a few others pointed to the budgetary implications of such a move.

(e) *Decision making.* A few Directors favored lowering the threshold for special majorities, thereby removing the veto power of the largest shareholders and placing all chairs on an equal footing. Some Directors called for greater, albeit selective, use of double majorities.

Management selection and staff diversity. Directors reiterated their commitment to an open and transparent process for selecting management, and many agreed that a political commitment to end the unwritten understandings that govern the selection of management would be necessary. A number of Directors stressed that any such commitment would need to apply to the selection of the heads of all the international financial institutions. Some Directors also reaffirmed their support for an opening up of the nomination process, although the question of how much to expand the circle of those who should be eligible to nominate a candidate remained unresolved. Directors took note of the progress to date in ensuring that the Fund's staff reflects its diverse membership, and urged management to continue to pay close attention to these efforts. They emphasized, however, that more needs to be done to promote staff diversity—with respect to nationality, gender, and background—particularly at senior levels, and a number called for more ambitious targets and initiatives. Directors looked forward to keeping abreast of efforts to strengthen results.

Next steps. The next formal opportunity to take up these issues will be in the context of the Executive Board's Report to the IMFC on the Reform of Fund Governance, scheduled for late September.