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Other Resources

IMF Quotas Factsheet provides background information on how quotas are determined and their functions.

Statement by the IMF Managing Director on the Interim Work Program of the Executive Board (Press Release 07/295) outlines the planned work related to governance reform in the period up to the 2008 IMF Spring Meetings.

IMF Board of Governors Approves Quota and Related Governance Reforms (Press Release 06/205) provides details on the two-year program to implement Quota & Voice reform.

IMF Executive Board Recommends Quota and Related Governance Reforms (Press Release 06/189) provides details of the first round of ad hoc quota increases and the reform agenda agreed upon at the 2006 IMF Annual Meetings in Singapore.

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Reform of IMF Quotas and Voice: Responding to Changes in the Global Economy

By IMF Staff

On March 28, 2008, the Executive Board of the IMF endorsed a major package of reforms that will enhance the institution's governance. Once approved by the Fund's Board of Governors (they are expected to cast their votes by April 28), the agreement will adjust quota shares to better reflect the relative weight of member countries in the world economy, particularly that of dynamic emerging countries. It will also enhance the voice and representation of low-income countries within the IMF.

The distribution of IMF quotas is intended to reflect the relative weight and role of its members in the global economy. But relative quota shares among members have changed only gradually and have not kept up with changing economic realities. Thus, there is a need to rebalance quotas to reflect the many changes that have occurred in recent years, especially the increased weight of major emerging countries in the world economy.

At the same time, there is a need to enhance the voice of low-income countries (LICs) in the IMF. While the weight of these countries in the global economy is small, the Fund plays an important advisory and financing role vis-à-vis these countries. The voting power of LICs has eroded over time, in part because other countries' relative economic weight has increased, in part because the effect on total voting power of "basic votes"—an equal allocation of votes based on the principle of equality of states that was made when the IMF was founded and that has not been increased since—has declined in recent decades with successive rounds of quota increases.

A Big Step Forward

The Fund's membership recognizes that governance reforms are essential to the continued effectiveness and legitimacy of the institution. At the same time, governance reforms need to be respectful of the interests of the entire membership. Therefore, broad consultation is required n order to reach consensus.

At the time of the IMF Annual Meetings in Singapore in September 2006, the membership endorsed a program to modernize the IMF's governance structure. Country members agreed to a package of reforms to be completed over a two-year timeframe. It comprised the following elements:

- An initial ad hoc increase in quotas for the most underrepresented members: China, Korea, Mexico, and Turkey;
- A new quota formula to guide the assessment of the adequacy of members' quotas in the IMF;

- A second round of ad hoc quota increases based on the new formula;
- An increase in the basic votes that each member possesses to ensure adequate voice for LICs, as well as protection of the share of the basic votes in total voting power going forward; and
- Allocating additional resources for the two Executive Directors representing African members, as their constituencies comprise a fairly large number of countries.

With the exception of the first element that was implemented in 2006, all the other components of the package were endorsed by the Executive Board on March 28.

The aggregate impact of both increases in quotas and basic votes will have a significant bearing for the Fund's membership: 135 countries will increase their voting share. The aggregate shift in voting shares for these countries is 5.4 percentage points, including substantial increases for LICs. Notably, 28 countries will see their voting share more than doubled as a result.

A single, simpler, and more transparent Formula

The agreement reached on March 28 means that a single quota formula will be used, substituting the five used until now. The old system of formulas is complex and nontransparent, and includes various non-linear elements. These will be replaced by a simpler linear formula based on four updated and modernized variables—GDP, openness, variability and reserves. The advantage of the new formula lies in its simplicity and transparency.

In the new formula, the GDP variable (the one with greater weight) will be a blend of GDP converted at market rates and at purchasing power parity (PPP) exchange rates averaged over a three-year period. The weights of market-based and PPP GDP are 60 and 40 percent, respectively. In the old formulas, GDP was measured solely at market prices for the latest year of available data. The measurement of GDP in PPP terms provides an alternative measure of a member's weight in the global economy that increases the weight of developing countries whose GDP measured at PPP is much higher than their GDP measured at market rates. Unsurprisingly, to have PPP as an element in the formula was a longstanding wish of developing countries.

The second round of ad hoc quota increases

The proposal endorsed by the Executive Board on March 28 will be put to the Board of Governors, that have a month (until April 28) to cast their votes on the issue. Thereafter, the Amendment to the Articles requires approval by three-fifths of the membership, with eighty-five percent of the total voting power. The individual quota raises, that would represent the second round of ad hoc increases, also need to be agreed by the relevant members. These steps will require action by legislatures in many countries. Therefore, the actual quota

The Multifaceted Role of Quotas

Currently, a member's quota plays a key role in defining four aspects of that member's relationship with the IMF:

(1) The amount of financial resources that a member contributes to the IMF;

(2) The member's voting power in institutional decision making (along with basic votes);

(3) The level of access of the member to IMF financing; and

(4) The members' share of general Special Drawing Rights (SDR) allocations.

Quota Reviews

Members' quotas are reviewed periodically at intervals of not more than five years. A general review of quotas allows the Fund to assess the adequacy of quotas in terms of its own ability to help meet the financing needs of members. A general review also allows for increases in members' quotas to reflect changes in their relative positions in the world economy. Ad hoc quota increases outside general reviews have been rare in recent decades.

Of the thirteen general reviews that have been conducted thus far, six have concluded that no increase in quotas was needed. The last quota increase under a general review—the Eleventh—took effect in January 1999. The 45 percent overall increase reflected changes in the size of the world economy, the increased risk of financial crisis, and the rapid liberalization of trade and capital flows.

The Thirteenth General Review, completed in January 2008, assessed that the aggregate size of total quotas was sufficient to meet the Fund's liquidity requirements, and therefore was no need for an increase. This review was unrelated to the ongoing quota and voice reforms agreed upon by the membership in September 2006.

increases and other changes that were agreed are expected to become effective within the next few months.

The purpose of the second round of ad hoc increases is to achieve a further rebalancing of quota shares for a broader range of members. Fifty-four countries will see their quota shares increase from pre-Singapore levels by between 12 to 106 percent. Emerging markets are the main beneficiaries: for example, Korea will see its quota increase by 106 percent; Singapore by 63 percent; Turkey by 51 percent; China by 50 percent; India by 40 percent; Brazil by 40 percent; Mexico by 40 percent. The aggregate shift in quota shares for these 54 members is 4.9 percentage points. In contrast, several advanced countries have agreed to forego part of the quota increases for which they are eligible. This group of countries include Germany, Ireland, Italy, Japan, Luxembourg, and the United States.

The Existing Five Quota Formulas

Bretton Woods: Q1 = (0.01Y + 0.025R + 0.05P + 0.2276VC) (1 + C/Y);

Scheme III: Q2 = (0.0065Y + 0.0205125R + 0.078P + 0.4052VC) (1 + C/Y);

Scheme IV: Q3 = (0.0045Y + 0.03896768R + 0.07P + 0.76976VC) (1 + C/Y);

Scheme M4: Q4 = 0.005Y + 0.042280464R + 0.044 (P + C) + 0.8352VC;

Scheme M7: Q5 = 0.0045Y + 0.05281008R + 0.039 (P + C) + 1.0432VC; where:

Q1, Q2, Q3, Q4, and Q5 = Calculated quotas for each formula;

Y = GDP at current market prices for a recent year;

R = twelve-month average of gold, foreign exchange reserves, SDR holdings and reserve positions in the IMF, for a recent year;

P = annual average of current payments (goods, services, income, and private transfers) for a recent five-year period;

C = annual average of current receipts (goods, services, income, and private transfers) for a recent five-year period; and

VC = variability of current receipts, defined as one standard deviation from the centered five-year moving average, for a recent 13-year period.

For each of the four non-Bretton Woods formulas, quota calculations are multiplied by an adjustment factor so that the sum of the calculations across members equals that derived from the Bretton Woods formula. The calculated quota of a member is the higher of the Bretton Woods calculation and the average of the lowest two of the remaining four calculations (after adjustment).

The Crucial Trebling of Basic Votes

In order to avoid the erosion in voting share of LICs, the ad hoc increases will not become effective until the amendment to the Articles of Agreement regarding basic votes is approved. That is because enhancing the voice of LICs is a central element of the reform package. A key mechanism for achieving this goal is through an increase in basic votes. Basic votes reflect the principle of equality of states and give the smallest members of the Fund (many of which are LICs), a greater voice in the Fund's deliberations.

The New Quota Formula

The new quota formula includes four quota variables (GDP, openness, variability and reserves), expressed in shares of global totals, with the variables assigned weights totaling to 1.0. The formula also includes a compression factor that reduces dispersion in calculated quota shares.

The new formula is:

CQS = (0.5*Y + 0.3*O + 0.15*V + 0.05*R) k

Where CQS = calculated quota share;

Y = a blend of GDP converted at market rates and PPP exchange 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;

V = variability of current receipts and net capital flows (measured as a standard deviation from the centered three-year trend over a thirteen year period);

R = twelve month average over a 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.

Changes in Quota and Voting Shares[1]

QUOTAS				VOTES		
Country	Percent change from pre-Singapore to post second round (Nominal)	Percentage pt. change from pre-Singapore to post second round (Share)	Post second round quota share (In percent)	Country	Percentage pt. change from pre-Singapore to post second round (Share)	Post second round voting share (In percent)
Top 10: Positive Change from pre-Singapore				*Top 10: Positive Change from pre-Singapore*		
China	49.6	1.02	4.00	China	0.88	3.81
Korea	106.1	0.65	1.41	Korea	0.61	1.36
India	40.0	0.50	2.44	India	0.42	2.34
Brazil	40.0	0.36	1.78	Brazil	0.31	1.72
Japan	17.4	0.33	6.56	Mexico	0.27	1.47
Mexico	40.2	0.31	1.52	Spain	0.22	1.63
United States	13.4	0.29	17.67	Singapore	0.18	0.59
Spain	32.0	0.26	1.69	Turkey	0.15	0.61
Singapore	63.2	0.19	0.59	Ireland	0.13	0.53
Turkey	51.0	0.16	0.61	Japan	0.12	6.23
Top 10: Negative Change from pre-Singapore				*Top 10: Negative Change from pre-Singapore*		
United Kingdom		–0.52	4.51	United Kingdom	–0.64	4.29
France		–0.52	4.51	France	–0.64	4.29
Saudi Arabia		–0.34	2.93	Saudi Arabia	–0.41	2.80
Canada		–0.31	2.67	Canada	–0.37	2.56
Russia		–0.29	2.49	Russia	–0.35	2.39
Netherlands		–0.25	2.17	Netherlands	–0.30	2.08
Belgium		–0.22	1.93	United States	–0.29	16.73
Switzerland		–0.17	1.45	Belgium	–0.26	1.86
Australia		–0.16	1.36	Switzerland	–0.19	1.40
Venezuela		–0.13	1.12	Australia	–0.18	1.31
Shift to Countries Gaining Share:[2]						
		4.91			5.42	

Source: Finance Department.
[1]Based on final rounded figures.
[2]For quota shares, sum for the 54 countries that receive ad hoc increases in the second round. For voting shares, sum for the 135 countries that see an increase.

The Executive Board recommended a tripling of basic votes, the first such increase since the Fund was established in 1945. This boost is crucial as it will more than compensate many LICs that would have otherwise seem their voting shares diminished. The amendment will also add a provision to the Articles of Agreement that the share of basic votes in total voting power should not decline in the event of future quota realignments.

Additional Resources for African Executive Directors

The large number of countries represented by the two African chairs and the heavy workload that flows from the important advisory and financing role that the Fund is playing in these countries called for further steps to strengthen the operations of these offices. Consequently, the Executive Board also recommended that each of the two Executive Directors be allowed to appoint an additional Alternate Executive Director.

A First Step Successfully Concluded

The Fund has a global membership and global responsibilities. In order to retain its legitimacy and maintain its effectiveness, Fund members have agreed—after nearly two years of highly technical and sometimes arcane negotiations—to

Proposed Quotas for Members Receiving Ad Hoc Quota Increases

	Proposed Quota (In millions of SDRs)		Proposed Quota (In millions of SDRs)
Albania	60.0	Malaysia	1,773.9
Austria	2,113.9	Maldives	10.0
Bahrain	176.4	Mexico	3,625.7
Bhutan	8.5	Norway	1,883.7
Botswana	87.8	Oman	237.0
Brazil	4,250.5	Palau, Republic of	3.5
Cape Verde	11.2	Philippines	1,019.3
Chad	66.6	Poland	1,688.4
China	9,525.9	Portugal	1,029.7
Costa Rica	187.1	Qatar	302.6
Cyprus	158.2	San Marino	22.4
Czech Republic	1,002.2	Seychelles	10.9
Denmark	1,891.4	Singapore	1,408.0
Ecuador	347.8	Slovak Republic	427.5
Equatorial Guinea	52.3	Slovenia	275.0
Eritrea	18.3	Spain	4,023.4
Estonia	93.9	Syrian Arab Republic	346.8
Germany	14,565.5	Thailand	1,440.5
Greece	1,101.8	Timor-Leste	10.8
India	5,821.5	Turkey	1,455.8
Ireland	1,257.6	Turkmenistan	98.6
Israel	1,061.1	United Arab Emirates	752.5
Italy	7,882.3	United States	42,122.4
Japan	15,628.5	Vietnam	460.7
Kazakhstan	427.8		
Korea	3,366.4		
Latvia	142.1		
Lebanon	266.4		
Lithuania	183.9		
Luxembourg	418.7		

Why Increase the Number of Basic Votes?

Until early 2008, each IMF member had 250 "basic votes" plus one vote for each SDR 100,000 of its assigned quota. The effect of an increase in basic votes is to increase the voting power of those members whose voting power is below the average voting power for Fund membership as a whole, thereby allowing the smallest members to have an increased measure of influence in the Fund's decision-making process. Successive general increases in quotas had reduced the share of basic votes to 2 percent from 11 percent when the Fund was established, which has led to a weakening of the voice of small developing countries within the Fund. The trebling of the basic votes agreed on March 28 increases the number of basic votes of each member to 750.

a package of significant reforms. For sure, no country got all that it wanted; but every country got a stronger, more globally representative institution.

The approved quota and voice reform signals the beginning, rather than the end, of a process. It recognizes that country representation will need to adjust to changes in the global economy further down the road. Specifically, the agreement provides that realignments of quota and voting shares will take place every five years—which will result in a further increase in the share of under-represented countries. So, unlike many past international agreements, this one is dynamic, not static.

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