

INTERNATIONAL MONETARY FUND

**Proposed Amendment of the Articles of Agreement Regarding Basic Votes—  
Preliminary Considerations**

(Prepared by the Legal Department and the Quota and Voice Working Group)

December 22, 2006

**I. INTRODUCTION**

1. **Paragraph 4 of the Board of Governors Resolution on Quota and Voice Reform in the International Monetary Fund, which was adopted effective September 18, 2006 (Resolution 61-5), addresses issues relating to the reform of basic votes in the Fund.** Specifically, it provides as follows:

“As an integral part of the reform program, and together with its recommendations for increases in quotas under paragraph 3, the Executive Board is requested to propose to the Board of Governors an amendment of the Fund’s Articles of Agreement that would: (a) provide for at least a doubling of the “basic” votes that each member possesses pursuant to Article XII, Section 5(a) of the Fund’s Articles of Agreement, and thereby at a minimum protect the existing voting share of low income countries as a group and (b) ensure that the ratio of the sum of the “basic” votes of all members to the sum of members’ total voting power remains constant following the increase under (a) above in the event of any subsequent changes in the total voting power of members. The Executive Board is requested to put forward a specific proposal by the Annual Meetings in 2007, and no later than the Annual Meetings in 2008.”<sup>1</sup>

2. **This paper is intended as a first step in facilitating the Executive Board’s response to the above request of the Board of Governors.** Specifically, it discusses the design of an amendment of the Articles that would ensure that the ratio of the sum of the basic votes of all members to the sum of members’ total voting power remains constant, as called for in paragraph 4(b) of Resolution 61-5, and identifies implications of such an amendment.
3. **It should be noted at the outset that this paper does not make a proposal as to what the ratio should be.** However—and consistent with paragraph 4(a) of Resolution 61-5—the ratio eventually chosen will be one that reflects “at least a doubling” of the basic votes of each member and “at a minimum protect[s] the existing share of low

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<sup>1</sup> The text of Resolution 61-5 is set forth in Appendix I.

income countries as a group,” taking into account the second round of quota increases to be proposed pursuant to paragraph 3 of Resolution 61-5.<sup>2</sup> Accordingly, the determination of the ratio to be included in the amendment is linked to the size and distribution of this second round of increases. The second round of quota increases and the basic votes amendment are also linked as a matter of procedure in two respects. First, paragraph 4 of Resolution 61-5 provides that the final recommendation by the Executive Board to the Board of Governors regarding the basic votes amendment is to be made “together” with its recommendations regarding a second round of ad-hoc quota increases. Second, paragraph 3 of Resolution 61-5 also provides that the second round of ad-hoc increases shall not become effective until the basic votes amendment enters into force.

4. **Separately, this paper does not address issues related to the request in paragraph 6 of Resolution 61-5** that the Executive Board “give consideration to the merits of an amendment of the Articles that would enable each Executive Director elected by a large number of members to appoint more than one Alternate Executive Director.” These issues will be discussed in a subsequent paper.

5. **The rest of the paper is organized as follows.** Section II provides background information on the existing system of voting rights in the Fund and the motivation for reform. Section III discusses the key design features of the proposed amendment, including a preliminary text, and also analyses a number of implications of such an amendment. Section IV summarizes the steps that must be completed for an amendment of the Articles to enter into force. Section V sets forth issues for discussion.

## II. BACKGROUND

6. **Members’ voting rights in the Fund are set forth in Article XII, Section 5(a),** which provides as follows:

“Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights.”

7. **A member’s voting rights therefore consist of two components.** The first component is made up of what are generally referred to as “basic” votes, which are allocated to each member in an equal amount, set at two hundred fifty votes. The second component

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<sup>2</sup> In that context, the Board paper that proposed the draft Resolution for consideration by the Executive Board noted that “[w]hile the precise size of the increase in basic votes could probably only be determined concurrently with the second round of ad hoc increases to ensure that voting shares of low income members are not eroded, the agreement on the principle of an increase in basic votes can be taken in Singapore. It is envisaged that the increase would involve at least a doubling of basic votes” *Quotas and Voice— A Possible Package of Reforms* (2006), paragraph 15. The paper went on to note that “[a] doubling of basic votes would allow total ad hoc increases (first and second round) of more than 8 ½ percent of current quotas without eroding the voting shares of low-income countries.”

(referred to in this paper as “quota-based votes”) is allocated to members in proportion to the size of their quotas and, accordingly, varies among members.

8. **As has been discussed in earlier papers, and as is evident from the legislative history of the Articles of Agreement, Article XII, Section 5(a) was adopted at the Bretton Woods Conference in 1944 as a balance between two alternative bases for determining voting power.** On the one hand, given the Fund’s role as a financial institution, it was recognized during the Bretton Woods negotiations that a member’s voting power in the Fund should reflect the size of the member’s financial contribution to the Fund. On the other hand, as an inter-governmental organization constituted through a multilateral treaty, it was considered necessary to pay due regard to the equality of states under international law.<sup>3</sup> The voting structure in the Articles, which sought to balance these considerations, is similar to those in place in other international financial institutions.<sup>4</sup>

9. **The effect of basic votes, in comparison with a voting system based exclusively on quotas, is to increase the relative voting power of members with small quotas.** More specifically, basic votes enhance the relative voting power of those members whose quotas are below the average quota of the Fund’s membership as a whole. As is demonstrated in Appendix II, the degree to which an increase in the number of basic votes held by each member would enhance (or diminish) a member’s relative voting power depends on the extent to which a member’s quota is below (or above) the average of Fund quotas.<sup>5</sup>

10. **The share of Fund total voting power represented by basic votes has decreased over time.** This reflects the fact that Article XII, Section 5(a), which fixes the number of basic votes at 250, has never been amended to provide for an increase in such votes, while quotas have expanded significantly over the decades in the context of general and ad hoc increases, and as a result of the addition of new members. The 250 basic votes held by each of the Fund’s current members amount to 46,000 basic votes in the aggregate, which represents 2.1 percent of the current total voting power in the Fund. In comparison, the participants in the Bretton Woods conference at which the Articles were adopted would have

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<sup>3</sup> See, e.g., *Participation of the Developing Countries in the Decision-Making of the Fund* (1980), p. 4; and *Eleventh General Review of Quotas—Issues Relating to the Size of Basic Votes* (1996), p. 7. See also *Informal Minutes, Committee 3 of Commission I, United Nations Monetary and Financial Conference at Bretton Woods* (July 5, 1944), (inter alia, statement by U.S. representative that what the voting power provision in the Articles “attempts to do is to equate, bring together and balance the rights of each country as a country and its investment in the Fund, so that both factors are represented in the votes of a particular country,” p. 26 ).

<sup>4</sup> Specifically, the charter documents of various international financial organizations (including the IBRD, IFC, IDA, MIGA, IDB, AfDB and AsDB) provide for a similar dual voting structure under which total voting power is the sum of members’ “proportional” votes (which are generally determined as a function of members’ financial contribution) and “basic” votes (which are allocated to each member in the same amount).

<sup>5</sup> For a detailed discussion of this issue, see *Eleventh General Review of Quotas—Issues Relating to the Size of Basic Votes* (1996).

had aggregate basic votes of 11,250, representing 11.3 percent of the anticipated total voting power in the Fund at that time.<sup>6</sup>

11. **The increase of basic votes contemplated in paragraph 4(a) of Resolution 61-5 will result in a new—and higher—ratio of total basic votes to total voting power.** A key objective of the amendment, as set forth in paragraph 4(b) of the Resolution, is to ensure that this new ratio, by being expressly provided for in the Articles, will not decline as a result of any quota increases that may take place after the amendment becomes effective. As discussed in the staff paper that proposed consideration of this feature, the Charter of the Asian Development Bank (AsDB) contains a provision requiring that basic votes in the AsDB remain a constant ratio of the total voting power in the AsDB, and the mechanism proposed in Resolution 61-5 effectively draws on that approach.<sup>7</sup>

12. **The increase in basic votes contemplated under paragraph 4(a) of Resolution 61-5 will be designed, at a minimum, to protect the relative voting power of low income members as a group from the effects of the second round of ad hoc quota increases envisaged under paragraph 3 of the Resolution.** However, the maintenance of a constant ratio of basic votes to total voting power after this second round will mitigate—but will not prevent—erosion of the relative voting power of low income members in the event that other members were to receive additional non-equiproportional increases in quotas after the second round of increases.

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<sup>6</sup> All of the countries listed in Schedule A of the Articles did not immediately become members of the Fund.

<sup>7</sup> *Quotas and Voice—A Possible Package of Reforms* (2006). Article 33 of the Agreement Establishing the Asian Development Bank states “[t]he total voting power of each member shall consist of the sum of its basic votes and proportional votes” and “[t]he basic votes of each member shall consist of such number of votes as results from the equal distribution among all the members of twenty (20) per cent of the aggregate sum of the basic votes and proportional votes of all members.”

### III. THE PROPOSED AMENDMENT

#### A. Key Design Features

#### 13. **Box 1 contains the illustrative text of an amendment to Article XII, Section 5(a).**

**Box 1. Illustrative New Text of Article XII, Section 5(a)<sup>8</sup>**

Section 5. Voting

~~(a) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights.~~

(a) The total votes of each member shall be equal to the sum of its basic votes and its quota-based votes.

(i) The basic votes of each member shall be the number of votes that results from the equal distribution among all the members of \_\_\_\_ percent of the aggregate sum of the total voting power of all the members, provided that there shall be no fractional basic votes.

(ii) The quota-based votes of each member shall be the number of votes that results from the allocation of one vote for each part of its quota equivalent to one hundred thousand special drawing rights.

The key features of the amendment may be summarized as follows.

14. **First, following the entry into force of the amendment, the basic votes allocated to each member will, in the aggregate, correspond to the percentage of total voting power that is specified in the amendment (subject to rounding, as discussed below).**<sup>9</sup> As noted earlier, the percentage will be chosen on the basis of a new aggregate number of basic votes that reflects the objective set forth in paragraph 4(a) of Resolution 61-5 and, accordingly, takes into account the full amount of the second round of ad hoc increases contemplated under paragraph 3 of the Resolution. While the new ratio would become effective once the amendment enters into force, the full amount of the absolute increase in basic votes contemplated under paragraph 4(a) would only be achieved when all of the ad-hoc increases contemplated under paragraph 3 of Resolution 61-5 have become effective (i.e., when members that have been offered an increase in their quotas pursuant to

<sup>8</sup> The remaining provisions of Article XII, Section 5 would not change.

<sup>9</sup> Mathematically, the same result would be achieved by expressing basic votes as a percentage of aggregate quota-based votes in the Fund (rather than as a percentage of total voting power), although the specified percentage would be higher if basic votes were to be expressed as a percentage of quota-based votes.

paragraph 3 have actually consented to and paid for such increases). Consistent with Resolution 61-5, the Board of Governors' Resolution that will propose to relevant members the second round of ad hoc increases will provide that the proposal will not become effective until the proposed amendment on basic votes has entered into force. Any further increases in quotas (whether general or ad hoc) that take place following the increases contemplated under paragraph 3 of Resolution 61-5 will trigger an increase in the aggregate number of basic votes to the extent required to maintain the percentage specified in the amendment.

15. **Second, because of the principle that each member is to be allocated an equal number of basic votes, the aggregate number of basic votes that corresponds to the percentage specified in the amendment will be divided by the number of Fund members to arrive at the number of basic votes to be allocated to each member.** As will be discussed in the subsequent subsection, the application of this rule means that the number of basic votes allocated to each member will be affected not only by changes in members' quotas, but also by changes in the number of Fund members.

16. **Third, adjustments to the aggregate number of basic votes—and, by extension, to the number of basic votes allocated to each member—will take place automatically.** No action by any organ of the Fund will be required to give effect to a change in basic votes once a relevant change (i.e., a change in quotas and/or number of Fund members, as discussed below) becomes effective. Conversely, no organ of the Fund will have the authority to interfere with a change in basic votes once a relevant change has become effective. This is similar to the approach that applies to changes in a member's quota-based votes when its quota is changed: a member's quota-based votes are automatically increased when an increase in its quota becomes effective.

17. **Finally, the general rule described in paragraph 14 above will be qualified by the fact that, similar to what is applicable for quota-based votes,<sup>10</sup> the amendment will exclude the possibility of fractional basic votes.** Dividing aggregate basic votes by the number of Fund members will, in most cases, result in fractional basic votes. In these circumstances, the number of basic votes to be allocated to each member will be rounded upward or downward to a whole number (integer), using the basic rounding convention pursuant to which fractional amounts of 0.5 and above are rounded up to the next whole number while fractional amounts of less than 0.5 are rounded down to the next whole number. As a result, the aggregate number of basic votes actually allocated to all members after such rounding is likely to exceed or fall short of the specified percentage by a very small margin. For this reason, the preclusion of fractional votes is expressed as a "proviso" in the amendment. The Commentary on the amendment (i.e., the text of report of the Executive Board to the Board of Governors recommending adoption of the amendment)

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<sup>10</sup> As provided in Article XII, Section 5(a), members are allocated a vote for each part of their quota equivalent to SDR 100,000, and no fractional votes are allocated for quota amounts under SDR 100,000.

would confirm this approach and would also specifically identify the basic rounding convention that would be used for the elimination of fractional basic votes.

## **B. Implications of the Amendment**

### *Changes Affecting the Number of Basic Votes*

18. **While the amendment will ensure that the ratio of total basic votes to total voting power remains constant, both the aggregate number of basic votes and the number allocated to each member will be affected by: (i) changes in members' quotas and (ii) changes in the number of Fund members.**

19. **With respect to changes in quotas**, any increases will trigger an increase in both the aggregate number of basic votes and the number of basic votes allocated to each member, thereby achieving the key objective of the amendment; namely, that of ensuring that the ratio of total basic votes to total voting power established in light of the second round of quota increases is not eroded by subsequent quota increases. It should be recognized, however, that any decrease in a member's quota in absolute terms (which would require the consent of the member in question) would result in a decrease in both the aggregate number of basic votes and the number of basic votes allocated to each member.

20. **With respect to changes in the number of Fund members, and consistent with the principle of equality of states, the same number of basic votes is allocated to each member, as noted earlier.** Accordingly, since the number of basic votes to be allocated to each member is calculated by dividing the aggregate number of basic votes by the number of Fund members, the admission or withdrawal of a member will affect both (a) the aggregate number of basic votes (except in the case of dissolution and merger, described below) and (b) the number of members among which this aggregate number must be divided so as to determine the number of basic votes per member. The nature of the effect will depend on whether the quota of the member that is being admitted or is withdrawing is higher or lower than the average quota of all Fund members. More specifically:

(i) If the quota of the member being admitted is higher than the average quota of Fund members at the time of admission, there will be an increase in both the aggregate number of basic votes and the number of basic votes per member. If the member being admitted has a quota that is smaller than the average quota of Fund members, although the aggregate number of basic votes will increase (as a result of the increase in quotas), the number of basic votes allocated to each member will decrease. The converse applies in the case of withdrawal: the withdrawal of a member whose quota is greater than the average quota will result in a decrease in both the aggregate number of basic votes and the number of basic votes per member; however, if the quota of the withdrawing member is lower than the average quota, the aggregate number of basic votes will decrease, while the number allocated to each member will increase.

(ii) In circumstances where membership changes arise from the succession or merger of members, the outcome will be different. First, in the event of a dissolution of a

member and the succession to membership of all successor states, aggregate quotas would not change because, in the case of succession, the Fund simply allocates the quota of the dissolved member among its successors.<sup>11</sup> Since aggregate quotas (and hence the aggregate number of quota-based votes) would not change, the aggregate number of basic votes would also not change. However, the number of members to whom basic votes must be allocated would increase, thereby decreasing the number available to each member. The converse will apply in the event of a merger of two members: in such circumstances, aggregate quotas—and therefore the aggregate number of basic votes—would not change (the quotas of the merging members are simply combined), but the number of members to whom basic votes must be allocated would decline, thereby increasing the basic votes available to each of the remaining members.<sup>12</sup> These effects of succession and merger are a consequence of the principle of equality of states noted earlier: since the aggregate number of basic votes remains constant, an increase in the number of members will result in fewer basic votes per member, and a decrease in the number of members will result in more basic votes per member.

**21. It should be emphasized that, while all of the above changes will affect the absolute number of basic votes, the percentage of total voting power that is represented by basic votes, as incorporated in the amendment, will not change.**

### *Suspension of Voting Rights*

**22. Depending on its design, the amendment may have additional implications for the effects of the suspension of a member’s voting rights.** Specifically, Schedule L of the Articles provides that, when a member’s voting rights are suspended pursuant to Article XXVI, Section 2(c), the number of votes allotted to the member “shall not be included in the calculation of the total voting power” (except for purposes of the acceptance of a proposed amendment pertaining exclusively to the SDR Department). Given this automatic reduction in the total voting power that arises when a member’s voting rights are suspended, the operation of this provision, if unamended, would result in a decrease in both

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<sup>11</sup> In the event that the Fund determines that a member has dissolved and that a number of successor states have emerged as a result of this dissolution, the Executive Board may decide to enable these states to succeed to the Fund membership of the dissolved state, i.e., the normal admission procedure does not apply. In these circumstances, the Executive Board’s offer of succession to these successor states would include an allocation of the quota of the dissolved state among the successor states. Recent cases where this approach has been followed include: (a) the dissolution of the former Socialist Federal Republic of Yugoslavia (where the Republic of Bosnia-Herzegovina, Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Slovenia and Serbia and Montenegro were the successor states) and (b) the dissolution of the Czech and Slovak Federal Republic (which was succeeded by the Czech Republic and the Slovak Republic).

<sup>12</sup> In the event that the Executive Board determines that two member states have merged, the merged state succeeds to the membership of the two member states and, accordingly, has a quota that comprises the quotas of the two members that have merged. This approach was followed in 1990 with the merger of the Yemen Arab Republic and the Peoples Democratic Republic of Yemen into the Republic of Yemen.

the aggregate number of basic votes and the number of basic votes allocated to each member.<sup>13</sup>

23. **There is a question as to whether, from a policy perspective, such an outcome is desirable, as it would mean that the voting rights of all members would be affected as a result of the sanctions imposed against a single member.** The simplest way to avoid this outcome would be to include an additional proviso to paragraph 2 of Schedule L to the effect that the votes allotted to members with suspended voting rights are not to be excluded from the total voting power for purposes of calculating the basic votes of members under the Articles. (The text of such an amendment is set forth in Box 2.) The inclusion of this proviso would be consistent with the underlying intention of Section 2 of Schedule L, which was to ensure that the suspension of a member’s voting rights would not distort the voting process for other members (unless the suspended member’s voting rights were excluded from the voting power as provided for under current Schedule L, the suspension would always have the effect of the suspended member casting a negative vote in circumstances where decisions are taken by a specified percentage of the total voting power).

**Box 2. Illustrative Amendment to Section 2 of Schedule L  
Regarding Suspension of Voting Rights**

2. The number of votes allotted to the member shall not be cast in any organ of the Fund. They shall not be included in the calculation of the total voting power, except for purposes of: (a) the acceptance of a proposed amendment pertaining exclusively to the Special Drawing Rights Department and (b) the calculation of basic votes pursuant to Article XII, Section 5(a)(i).

#### IV. AMENDING THE FUND’S ARTICLES

24. **An amendment of the Fund’s Articles can only enter into force for all of its members if it is accepted by three-fifths of the Fund’s members having eighty-five percent of the total voting power.**<sup>14</sup> As contemplated in Article XXVIII, the procedure for the adoption of an amendment of the Fund’s Articles is in three stages.

<sup>13</sup> A member with suspended voting rights continues to be a member of the Fund and continues to be allotted votes (including basic votes) although, as stated in Section 2(c) of Schedule L, the “number of votes allotted to the member shall not be cast in any organ in the Fund.”

<sup>14</sup> Pursuant to Article XXVIII(b), there are a small number of amendments for which acceptance by *all* members is required.

- ... First, the Executive Board decides to propose a draft text of the amendment for approval by the Board of Governors.<sup>15</sup> This decision is taken by a majority of the votes cast. As noted in paragraph 17, above, the proposed text is accompanied by an Executive Board report to the Board of Governors, which becomes the official Commentary on the amendment. Pursuant to paragraph 4 of Resolution 61-5, the Executive Board's decision proposing the basic votes amendment would be taken simultaneously with the Board's decision recommending to the Board of Governors the second round of ad hoc quota increases contemplated under paragraph 3 of Resolution 61-5.
- ... Second, the proposed amendment must be approved by the Board of Governors, also by a majority of the votes cast.
- ... Third, the proposed amendment must be accepted by three-fifths of the members, having eighty-five percent of the total voting power. With respect to this last stage, before a member communicates acceptance of an amendment, it must take all necessary steps required under its own domestic law to enable it to accept new treaty obligations. In that regard, it must also take all steps necessary to ensure that the amendment will be given full force and effect under domestic law.

25. **When the third stage is complete, the Fund is required to certify this fact by means of a formal communication addressed to all members.** Amendments enter into force for all members three months after the date of this formal communication, unless a shorter period has been specified.

## V. ISSUES FOR DISCUSSION

26. **Directors may wish to comment on the following questions:**

- ... Are Directors of the view that the design of the proposed amendment on basic votes discussed in the paper is responsive to the request made by the Board of Governors in Resolution 61-5? If so, do Directors support the illustrative text of the amendment of Article XII, Section 5(a) set forth in Box 1?
- ... Do Directors agree with the approach proposed in paragraph 23 that would address the effects of suspension of a members' voting rights on the basic votes of other members? If so, do Directors support the illustrative text of the amendment of Schedule L set forth in Box 2?

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<sup>15</sup> Article XXVIII also contemplates that proposals for amendments may emanate from a Fund member or Governor.

## INTERNATIONAL MONETARY FUND

## Resolution No. 61-5

## Quota and Voice Reform in the International Monetary Fund

*In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on August 31, 2006 for a vote without meeting:*

WHEREAS, the Executive Board has submitted to the Board of Governors a report entitled “Quota and Voice Reform in the International Monetary Fund” (hereinafter the “Report”);

WHEREAS, the Executive Board has recommended a two-year reform program to enhance the credibility and effectiveness of the Fund, as described in the Report; and

WHEREAS, China, Korea, Mexico, and Turkey have requested increases in their quotas to better reflect their positions in the world economy and the Executive Board has recommended increases in the quotas of these members as a first step in the two-year reform program referred to above;

NOW THEREFORE, the Board of Governors hereby RESOLVES that:

1. The quotas of China, Korea, Mexico, and Turkey shall be increased to the amounts shown against their names in the Annex to this Resolution, provided that a member’s increase in quota shall not become effective unless the member in question has consented in writing to the increase and has paid to the Fund the full amount of such increase. Each member shall pay 25 percent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by each member in its own currency. Both the written consent and the payment of the increase shall be made not later than 30 days after the date of this Resolution; provided that the Executive Board may extend the period within which the consent and the payment may be made as it may determine.
2. The Executive Board is requested to reach agreement on a new quota formula to guide the assessment of the adequacy of members’ quotas in the Fund. Such a formula should provide a simpler and more transparent means of capturing members’ relative positions in the world economy. As a means of achieving this objective, consideration should be given to placing significantly higher weight on members’ gross domestic product, together with ensuring that other variables, in particular the openness of members’ economies, also play an important role. The Executive Board is requested to start discussions on a new quota formula that can command broad support soon after the Annual Meetings in Singapore, and to complete its work before

the Annual Meetings in 2007, and not later than by the Spring 2008 meeting of the International Monetary and Financial Committee.

3. The Executive Board is requested, following the completion of its work as provided in paragraph 2 above, to recommend to the Board of Governors by the Annual Meetings in 2007 and no later than by the Annual Meetings of 2008 further increases in the quotas of those members that have requested that their quotas be increased, with a view to achieving a significant further alignment of members' quotas with their relative positions in the world economy, based on the new quota formula; any such increases in quotas shall not become effective until the amendment of the Fund's Articles of Agreement that is requested to be proposed under paragraph 4 has entered into force.

4. As an integral part of the reform program, and together with its recommendation for increases in quotas under paragraph 3, the Executive Board is requested to propose to the Board of Governors an amendment of the Fund's Articles of Agreement that would: (a) provide for at least a doubling of the "basic" votes that each member possesses pursuant to Article XII, Section 5(a) of the Fund's Articles of Agreement, and thereby at a minimum protect the existing voting share of low income countries as a group and (b) ensure that the ratio of the sum of the "basic" votes of all members to the sum of members' total voting power remains constant following the increase under (a) above in the event of any subsequent changes in the total voting power of members. The Executive Board is requested to put forward a specific proposal by the Annual Meetings in 2007, and no later than the Annual Meetings in 2008.

5. In the context of general reviews of quotas conducted after the completion of the steps identified in paragraphs 2 and 3 above, the Board of Governors will consider distributing any increase in quotas with a view to achieving 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.

6. The Executive Board is requested to act expeditiously to increase the staffing resources available to those Executive Directors elected by a large number of members whose workload is particularly heavy. The Executive Board is also requested to give consideration to the merits of an amendment of the Articles that would enable each Executive Director elected by a large number of members to appoint more than one Alternate Executive Director.

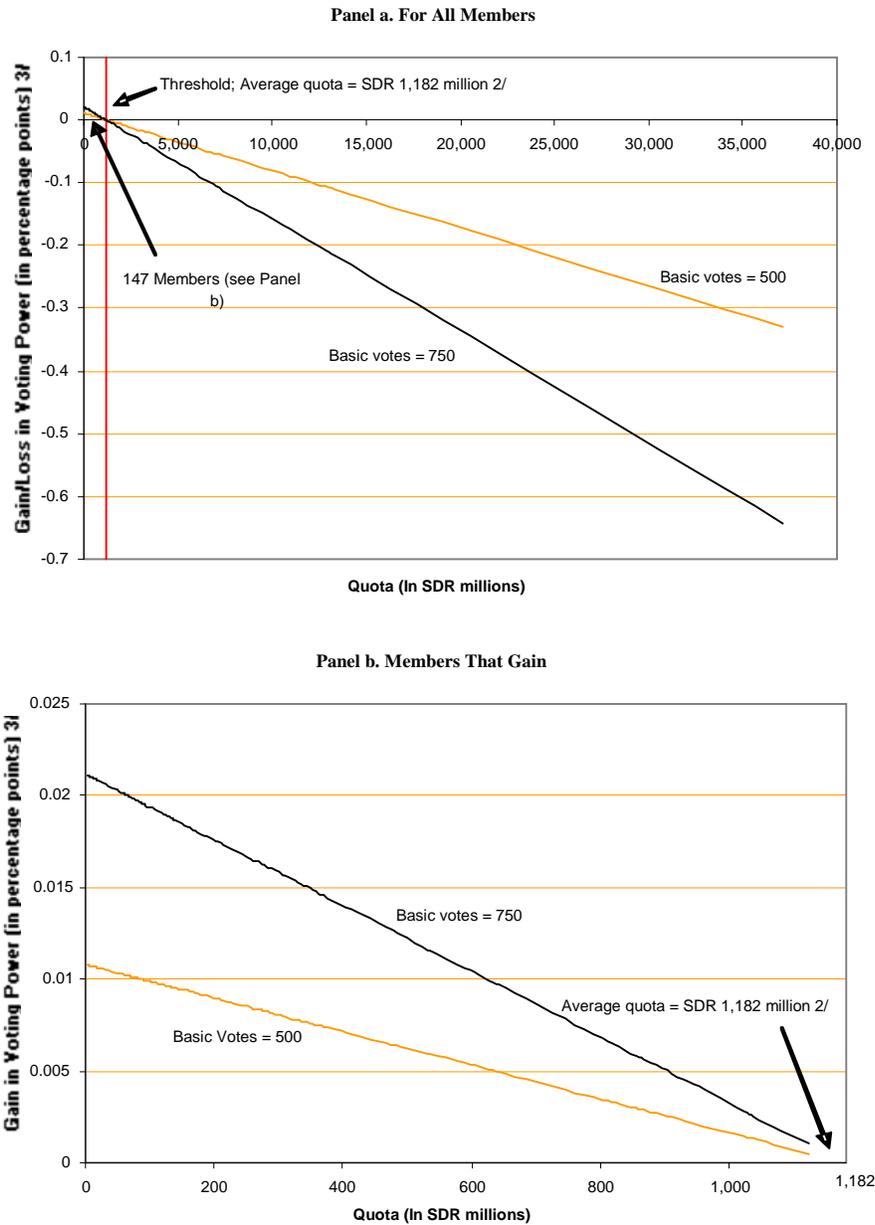
7. The Managing Director is invited to work closely with the Executive Board in developing the proposals pertaining to the reform package, and to have the staff complete the necessary technical work as expeditiously as possible. The Executive Board is requested to report to the Board of Governors on progress with the reform package by the time of the 2007 Annual Meetings.

## ANNEX

|        | Proposed Quota<br>(In millions of SDRs) |
|--------|---|
| China  | 8090.1                                  |
| Korea  | 2927.3                                  |
| Mexico | 3152.8                                  |
| Turkey | 1191.3                                  |

*The Board of Governors adopted the foregoing Resolution, effective September 18, 2006.*

**Figure 1: Effect of An Increase in Basic Votes on Relative Voting Power 1/**



Source: Finance Department.

1/ Most members (147) have quotas that are below average, and would gain relative voting power after a uniform increase in basic votes; 37 members have quotas that are above average, and would lose relative voting power after a uniform increase in basic votes. For those members that have voting shares that are less than (above) the average, an increase in basic votes has a relatively larger (smaller) impact because basic votes are a relatively larger (smaller) proportion of total votes. See *Eleventh General Review of Quotas – Issues Relating to the Size of Basic Votes* (1996).

2/ Average quota for Fund membership. Reflects the new quotas for China, Korea, Mexico, and Turkey approved by the Board of Governors on September 18, 2006. For Liberia, Somalia, and Sudan, Eleventh Review proposed quotas are used. Liberia and Zimbabwe are included although their voting rights have been suspended.

3/ Percentage point gain or loss in voting share arising from an increase in basic votes relative to the current level of 250 basic votes.

January 25, 2007

**The Chairman's Summing Up  
Proposed Amendment of the Articles of Agreement Regarding Basic Votes—  
Preliminary Considerations**

**January 19, 2007**

Directors welcomed the opportunity to hold a preliminary discussion on a proposed amendment of the Articles of Agreement regarding the basic votes of Fund members. They emphasized that such an amendment is an integral part of the two-year reform program to enhance the credibility and effectiveness of the Fund, as recommended by the Executive Board and endorsed in the September 2006 IMF Board of Governors' Resolution 61-5 on Quota and Voice Reform. Directors also emphasized that progress on the design of a basic votes amendment should parallel the ongoing work on a new quota formula.

Directors noted that the basic votes amendment requested in the Board of Governors' Resolution would accomplish two objectives. First, the amendment would provide for an increase in the current number of 250 basic votes for each member. The amount of this increase would, at a minimum, be the greater of (a) an amount that would double the existing number of basic votes of each member, or (b) an amount that would protect the voting share of low-income countries as a group from the effects of the first and second rounds of ad hoc quota increases contemplated in the two-year reform program. It was noted that an increase that provides for more than this minimum amount would be consistent with the Board of Governors' Resolution. Second, the amendment would ensure that the ratio of the sum of the basic votes of all members to the sum of members' total voting power resulting from this increase in basic votes would remain constant in the event of subsequent changes in the total voting power of members.

Directors generally acknowledged that the amount of the increase—and therefore the ratio to be specified in the amendment—will need to be discussed and agreed at a subsequent stage, given that this amount will be linked to the size of the second round of ad hoc quota increases, which has yet to be decided. Nevertheless, some Directors reiterated the importance of providing a substantial increase in basic votes to enhance the voice of low-income countries. Some Directors suggested that a more than doubling of basic votes should not be ruled out, nor should the principle of restoring the ratio of basic votes to total voting power that existed when the Fund was founded.

Directors considered that the amendment proposed in the staff paper is responsive to the request in the Board of Governors' Resolution. Nonetheless, a few Directors would have preferred a mechanism to prevent—rather than only mitigate—any erosion in the voting power of low-income members as a group in the event that the Fund's membership decides

in future on non-equiproportional increases in the quotas of other members following the second round of ad hoc quota increases envisaged in Resolution 61-5. From this perspective, some Directors suggested that it would be important in the context of the present exercise to consider an increase in basic votes that would aim at enhancing, rather than merely protecting, the voting share of low-income countries as a group.

A possible alternative approach was also put forward, under which the Articles of Agreement would be amended to provide for a selective increase in basic votes explicitly targeted to low-income members, possibly combined with a mechanism to ensure that the proportion of basic votes in their total voting power would remain constant in the event of future changes in the total voting power of all members. However, Directors considered that such an approach would not be responsive to Resolution 61-5 and could be divisive among members. Several Directors noted, moreover, that this approach would imply fundamental changes in the Fund's governance framework; it was also noted that significant operational difficulties could arise in the implementation of such a proposal.

On the basis of a careful consideration of the issues and taking account of all the views expressed, Directors generally endorsed the illustrative text of the amendment set forth in Box 1 of the staff paper. Regarding specific design features, most Directors agreed with the overall framework pursuant to which the basic votes allocated to each Fund member would, in the aggregate, correspond at all times to the percentage of total voting power that would be specified in the amendment. Most Directors also agreed that basic vote adjustments should take place automatically upon changes in quotas and/or Fund membership, and that fractional basic votes should be precluded, observing that both of these features would simply incorporate into the basic votes system elements that are similar to those applicable to quota-based votes.

Directors observed that, under the proposed amendment, the aggregate number of basic votes, and the number of basic votes allocated to each member, would increase or decrease from time to time, reflecting changes in members' quotas and in the number of Fund members. While the absolute number of basic votes would change, the amendment would ensure that the specified ratio of total basic votes to total voting power remains constant at all times. An alternative approach—under which the ratio of basic votes to total voting power would rise above the level specified in the amendment, where necessary to prevent a decrease in the absolute number of basic votes allocated to each member—was not supported.

Directors also considered the implications that suspension of a member's voting rights would have on the proposed basic votes system under the current terms of Schedule L of the Articles of Agreement. Directors were of the view that the basic votes of all members should not be decreased as a result of the sanctions imposed against a single member. They therefore agreed with the approach proposed in the staff paper to address this issue, and endorsed the illustrative text of the amendment of Schedule L set forth in Box 2 of the paper.

Directors looked forward to completing the Executive Board's work on the basic votes amendment based on today's preliminary discussion, as well as to further discussions on the new quota formula and on the second round of ad hoc quota increases.