



Task Force 7
Towards Reformed Multilateralism: Transforming
Global Institutions and Frameworks



TOWARDS A BALANCED QUOTA REFORM AT THE IMF

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Abstract




The global financial system is confronting a multitude of challenges, from uncertain growth and widespread debt to climate risks and beyond. The International Monetary Fund (IMF) has a vital role to play as the anchor of the global financial safety net (GFSN). Since the G20 has called for a “strong, quota-based and adequately resourced IMF”¹ as the anchor of the GFSN, it is imperative that G20 policymaking prioritise the fundamental reform of the IMF’s resources and governance. In December 2023, the IMF is scheduled to complete its 16th General Review of Quotas, an important process that is required by the IMF’s Articles of Agreement.


This policy brief identifies the key challenges and shortcomings of the IMF’s quota-based resources, funding, and governance. It recommends that the G20 issue a set of guiding principles for the IMF’s 16th General Review of Quotas to ensure a stepwise increase in quota-based resources at the IMF and guide the continuation of IMF governance reform to increase the voice and representation of emerging market and developing economies.² A renewed multilateral push for quota and governance reforms is essential to strengthening the IMF’s legitimacy as a quota-based anchor of the GFSN, and ensure its capacity to tackle the unprecedented risks to global financial stability.



The Challenge



1



The global economy is confronting a series of complicated and interrelated crises, such as increased interest rates in the Global North, a slower growth outlook following the COVID-19 pandemic, high inflation, and surging debt levels. As emerging market and developing economies (EMDEs) confront these challenges, the IMF has a vital role to play as the primary institution focused on financial stability in the multilateral system.³

Accordingly, the G20 has called for “a strong, quota-based and adequately resourced International Monetary Fund,”⁴ since at least 2014, and in 2016, the G20 began calling for a strengthening of the GFSN “with a strong, quota-based and adequately resourced IMF at its center.”⁵ Despite

these calls, the IMF continues to fall short of this standard in terms of the scale and composition of IMF funding.⁶ Voice and representation within the IMF also continues to be disproportionately allocated to advanced economies that, “despite only having 13.7 percent of the world’s population...have 59.1 percent of votes at the IMF.”⁷


The upcoming 16th General Review of Quotas provides a key opportunity to increase the permanent, quota-based resources of the IMF, ensure that the IMF is adequately resourced as the anchor of the GFSN, and improve the voice and representation of emerging market and developing countries. Accordingly, the G20 must ensure these objectives are met during the 16th quota review to ensure the legitimacy and effectiveness of the IMF as the centre of the GFSN.



The G20's Role



2




The G20 is best positioned to spearhead reforms at the IMF not only because of its role as the preeminent forum for financial stability issues, but also because the G20 members have 81.2 percent of the IMF's quotas and 78 percent of its voting power.⁸ Previously, the G20 played a key role in catalysing the 14th General Review of Quotas by designing reforms and ensuring their implementation. The G20 has also consistently reiterated the importance of the IMF as the anchor of the GFSN.

In 2008, the first G20 leaders' summit committed to reflecting the evolving global economic landscape in the IMF's governance in the voice and representation of EMDEs. Following the leaders' summit in Pittsburgh in 2009, the G20 agreed "to a shift in International Monetary Fund (IMF) quota share to dynamic emerging markets and developing countries of at least 5% from over-represented countries using the current quota formula,"⁹ in addition to other fundamental reforms. Because the G20 made these commitments, it did not leave negotiation over the shift in quota shares up to the IMF shareholders. Ultimately, these reforms "shifted more than 6 percent of quota

shares to EMDEs...and the doubling of the IMF's quota resources."¹⁰

However, implementation of these vital reforms was delayed because "the Obama administration was unable to obtain approval from the US Congress" on the reforms.¹¹ During this delay, the G20 played a crucial role, going as far as directly urging the US to ratify the reforms.¹² Thus, it is important to recognise that not only has the G20 been a pivotal forum of international financial governance where necessary and overdue IMF reforms were agreed to by leaders of the G20 countries, but it has also been an important international forum that pushed through the implementation of the reforms.

Just as it had in the lead up to the reforms of 2010, the IMF itself acknowledges the urgent need for further reforms in quota and governance.¹³ According to reports from the *Bretton Woods Project*, IMF Managing Director Kristalina Georgieva admitted to civil society members that if the IMF fails to successfully complete the 16th General Review of Quotas, it "would damage the institution's credibility and encouraged those present to 'lobby their governments'"¹⁴ for quota reforms.¹⁵



The G20 must follow its past playbook and ensure that another general review of quotas does not end in failure. As in the last set of reforms more than a decade ago, the G20 must play a key role in setting the agenda for quota reform by outlining a set of guiding principles for the IMF's 16th General Review of Quotas that ensures a stepwise increase in quota-based resources at the IMF and guides a continuation of IMF governance reform to increase the voice and representation of emerging market and developing countries.


Beyond this initial agenda setting, the G20 must play a key role in facilitating political consensus amongst the world's largest economies. When the 2010 quota and governance reforms were delayed, the G20 consistently expressed its disappointment and even "urge[d] the United States to ratify them."¹⁶ The G20 must commit to advocating for voice and governance reforms before they are agreed to at the IMF, but must also champion the cause to ensure their ratification.



Recommendations to the G20



3




In order to ensure that an equitably governed, sufficiently resourced, and quota-based IMF anchors the GFSN, this policy brief makes the case that the 16th General Review of Quotas must: scale up the IMF's quota-based resources; reform the composition of IMF lending resources in favor of permanent, quota-based resources; and improve voice and representation of EMDEs at the IMF. The G20 must play a key role in building political consensus for quota reform that incorporates these key pillars.

Scale up the IMF's quota-based resources

In terms of scale, the IMF's US\$1 trillion lending capacity falls far short of the potential needs of member countries in a time of crisis¹⁷ and constitutes less than 30 percent of the total US\$3.5 trillion in GFSN lending capacity.¹⁸ An overall increase of the IMF quotas will enable a significant expansion of the available sources of funding through the GFSN.¹⁹ In particular, if the IMF were to be sufficiently resourced such that it could cover the gross external financing needs of the most vulnerable countries through quota-based resources, the IMF's quotas would need to increase by as much as 267 percent, or US\$1.16 trillion.²⁰

To successfully execute its mission in a fair and equitable manner, the IMF needs to fundamentally reform its inequitable governance and implement "a substantial increase in its permanent resources which means a substantial increase in its total quota."²¹ That said, the size of the increase and the rebalancing of quota share at the Fund must be meticulously determined by the G20 to ensure the outcome is politically feasible. For example, any reallocation that results in the U.S. losing its veto power at the IMF would be summarily dismissed by the US Congress.

Beyond increases to their quota-based resources at the IMF, higher lending capacities for low-income countries and middle-income countries could be achieved through alternative avenues. For example, advanced economies have not turned to the IMF for funding in decades, with one exception being IMF finance for Portugal, Greece, Ireland, and Iceland during the 2007-2010 global financial crisis.²² The creation of new regional financial arrangements such as the European Stability Mechanism and the rise of bilateral swap arrangements have virtually eliminated the need for advanced economies to turn to the IMF.²³ The unused quota shares of advanced economies that have no



need to borrow from the IMF could be reallocated to fund increased lending for emerging market and developing economies.²⁴ Similar proposals have called for delinking quotas and resource contributions from lending access at the IMF.²⁵

Because the lending capacity of the IMF has failed to increase at the same pace as the global economy or global trade volumes, the IMF has struggled to maintain credibility and legitimacy because its size relative to global GDP or global trade volumes has fallen.²⁶ On multiple occasions, the IMF has had to rely on its non-quota-based sources of financing- a clear sign of the inadequacy of the Fund's 'permanent' quota-based resources.²⁷ Thus, the 16th General Review of Quotas must ensure that the IMF is no longer dependent on borrowed resources to boost its lending capacity and that the IMF's permanent, quota-based resources are sufficient enough to maintain its position as the anchor of the GFSN.


Reform the composition of IMF lending resources

While the US\$1 trillion firepower of the IMF is unimpressive when compared to other components of the GFSN or the size

of the global economy, the composition of IMF funding is equally concerning.²⁸ It is overly reliant on temporary sources of funding, as only US\$452 billion of the IMF's firepower comes from quota-based resources. More than half of the IMF's lending capacity comes from temporary sources of funding: multilateral borrowing arrangements (US\$408 billion) and bilateral borrowing agreements (US\$152 billion).²⁹

Rakesh Mohan has long argued that for the IMF to be seen as credible, it also needs legitimacy in the eyes of different stakeholders in the global economy.³⁰ Quota reform is the process to ensure that the IMF is sufficiently resourced relative to size of the global economy, global trade activities, financial flows, and increasing financial interconnectivity.³¹ The IMF has repeatedly breached "in both letter and spirit, as reflected in the 15th review ending after delays without any progress on quotas as well as formula"³² the important obligation of quota review for shareholders, as articulated in the IMF's Articles of Agreement.

Much like the 15th General Review of Quotas, the 16th review has also been delayed from 2020 to 2023, "notwithstanding the Articles being



very clear on no extension.”³³ Because of these delays, the IMF has cobbled together its under-impressive US\$1 trillion lending capacity that is only approximately 1 percent of global GDP.³⁴ For the IMF to serve as the “strong, quota-based, and adequately resourced”³⁵ anchor of the GFSN, the composition of the IMF’s resources must be rebalanced to prioritise permanent, quota-based resources over borrowed resources.³⁶


As the global economy faces a period of significant tumult, “there is an even greater need for the [international monetary system] and the International Monetary Fund within it to be seen to be effective and credible.”³⁷ The composition of IMF resources is especially concerning because non-quota-based resources disproportionately come from the largest members.³⁸ This “reduces the pressure for enhancement of permanent quota resources and, consequently, the reapportionment of quotas and associated changes in voice and representation.”³⁹ Therefore, the 16th General Review of Quotas must not only scale up IMF’s lending capacity to ensure that it can anchor the GFSN but also shift the composition of IMF’s resources to quota-based resources.

Improve voice and representation at the IMF

Voting power at the IMF is determined by a country’s share of IMF quotas.⁴⁰ And despite dramatic shifts in the composition of the global economy, advanced economies continue to dominate the governance of the IMF.⁴¹ In practical terms, this means that the countries that are most likely to borrow from the IMF have limited influence on the Fund’s governance and its decisions.⁴² The IMF’s skewed voting structure disadvantages EMDEs, as oftentimes there is no accountability of the IMF leadership and other decision-makers to the governments or people being impacted by their decisions.⁴³

The response of many countries in times of global liquidity constraints has been to construct regional alternatives for crisis finance or to choose bilateral swaps over multilateral solutions.⁴⁴ Clearly, the emergence of new institutions led by EMDEs illustrates the extent to which these countries are dissatisfied with status quo global governance structures.⁴⁵

Data from the Global Financial Safety Net Tracker highlights that bilateral swaps were often selected over multilateral



forms of liquidity finance during the COVID-19 crisis. While swaps are an important and necessary component of the GFSN, it is concerning that countries are increasingly turning away from the multilateral components of the GFSN in favor of bilateral form of finance.⁴⁶ This further marginalisation of the IMF and multilateralism underlines the urgent need for the 16th General Review of Quotas. The current quota formula needs to be updated based on the members' economic status and the changing economic and financial conditions in the world economy.⁴⁷ The quota formula is key to determining quota distribution. Estimates by the Group of 24 highlight that out-of-lineness, or the difference between calculated quota shares based on the quota formula and actual quota shares, amount to approximately one eighth of quotas.⁴⁸ Reducing out-of-lineness of actual quota shares would mean nearly half of the adjusted quotas would be allocated to China and that the US would see a quota reduction of 2.47 percentage points.⁴⁹

While González (2022) notes that such a shift is politically infeasible, these figures do also show the extent to which actual quota shares are out-of-line with quotas calculated under the formula.⁵⁰ According to an illustrative analysis provided by the IMF, a new quota formula could result in a potential shift from the over-represented members to those, mainly of emerging market and developing economies, that are under-represented.⁵¹ The openness indicator provides an example of one such driver of over-representation of quota shares at the Fund. Since the openness variable is measured through openness/GDP ratio, the variable is “biased towards countries in monetary and currency unions such as those in the Euro area.”⁵²

The G20 has a unique opportunity to initiate critical action to advance governance reforms that will ensure there is more voice and representation for emerging market and developing economies at the IMF.

Attribution: William N. Kring et al., “Towards a Balanced Quota Reform at the IMF,” *T20 Policy Brief*, June 2023.

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