

Brookings/CIGI Seminar Series
“Assessment of Current IMF Reform Proposals”
Friday, February 22, 2008

Presenters: Masood Ahmed, Director of External Relations, IMF; Ralph Bryant, Senior Fellow, Brookings; Amar Bhattacharya, Director of the Intergovernmental Group of 24

Moderators: Colin Bradford, Nonresident Senior Fellow, Brookings and Nonresident Senior Fellow, CIGI; Johannes Linn, Senior Fellow & Executive Director, Wolfensohn Center for Development at Brookings

Paper: “Reform of Quota and Voting Shares in the International Monetary Fund: ‘Nothing’ is Temporarily Preferable to an Inadequate ‘Something’” – Ralph C. Bryant, Brookings, January 2008

Three presenters provided a broad assessment of current IMF reform proposals, specifically surrounding quota and voting share reform. Masood Ahmed, the Director of External Relations at the Fund, presented an assessment of where specific IMF reform proposals currently stand in official discussions. Ralph Bryant, Senior Fellow at Brookings, presented an outsider’s assessment of the ongoing negotiations, focusing on the failure to agree on an objective quota formula that can serve as a viable foundation for both current and future adjustments in quota and voting shares. Finally, Amar Bhattacharya, Director of the G24, gave his thoughts on the views of developing countries on the current state-of-play in IMF reform issues.

Masood Ahmed:

Hoping the Fund can concentrate on its core values, constituencies should come to a compromise on the second-round of quota and voting adjustments at the Spring meeting. There need to be links between macro and financial aspects and global surveillance of capital markets and spillovers. There are great needs for low-income countries to learn from emerging markets and for the IMF to provide its views on financial market evolution to country and market participants.

Because reform is needed urgently, the quota reform is substantive enough to enact now. It is counterproductive to reevaluate the quota formula, and the outcome will not radically change what is currently on the table. The quota formula reform is a cornerstone, but the Fund also needs to focus on the issue of sustainable financing models of IMF income. For the IMF to make a credible case to its members, it needs to look into cutting expenditures and streamlining it over businesses. This will result in reducing a hundred million dollars in spending of Fund, which will in turn result in cutting staff. Downsizing is part of refocusing and hence it may be necessary in preserving the IMF’s relevance and legitimacy.

Ralph Bryant:

For successful governance reform of the IMF, satisfactory revision of the quota formula is crucial. The proposed formula currently on the table is far from satisfactory. Without various gimmicks which override the underlying formula, the formula delivers adjustments in quota and voting shares that move in the wrong direction (for example, producing smaller rather than larger shares for low-income countries). The industrial countries, however, are not willingly disposed to reduce their existing shares. All member countries of the IMF should be viewing adjustments in quota and voting shares not as a “zero-sum game” but rather as a “positive-sum game” in which developing countries receive a larger voice within the Fund to create a more global and effective institution. Alternative proposals for formula reform are discussed carefully in the paper, “Reform of Quota and Voting Shares in the International Monetary Fund: ‘Nothing’ is Temporarily Preferable to an Inadequate ‘Something’.” Although there is a risk of not taking action in April, there is a greater risk of implementing an inadequate formula that is not viable for the future of the Fund. Considering a new US administration will be in office next year, it’s better to wait to push forward with recommendations. The Fund should also be emphasizing and reviewing issues other than quota formula reform—for example, such functions as surveillance and crisis management.

Discussion:

A few participants noted that voting rights and the quota formula reforms are critical, but because the future of the IMF strongly depends on these reforms, the quota formula should be sustainable over time. Because the Fund is paid by taxpayers’ dollars, and because it is a common good for all people, accountability of the Fund is crucial. Hence enacting an effective formula is essential. This issue of quota formula reform is highly political especially between the high and low income countries. The low income countries will not incur any costs as they’re not invested politically but it’s of great importance to high income countries. If this formula goes to Congress and is not approved, the IMF will be damaged for the next five to ten years, a participant argued. Due to the new administration, pushing this quota reform forward to Congress next year would be better.

On the contrary, one discussant argued that the Fund cannot start the formula evaluation over again so the process needs to move forward. Fixing these issues is critical to the future sustainability of the Fund. Any loss momentum will cause political outcry from the Fund’s members.

Asked whether another ad-hoc quota increase, as was achieved for China, Korea, Mexico, and Turkey in September 2006, would be a possible answer, a participant noted that it would only serve as a short-term solution, affecting only a small proportion of countries.

Representation within in the Fund needs to be broader, but many questioned which elements are appropriate to achieve this. If the Fund does not move forward with

effective quota reform, it will risk losing the engagement of the emerging markets. Reviewing variables, such as countries' GDP, PPP-GDP, trade openness, and reserves, for a more transparent formula was recommended. Although there are many variables to devise an adequate quota formula, Bryant urged that the formula currently proposed for the Spring meetings is inadequate and needs to be reexamined for its viability in the future of the IMF.

Colin Bradford concluded the seminar by noting it was time to change the power structure of the IMF which is seen by many to be a post-World War II, transatlantic institution. By foregoing seats and votes, he believes the European Union and the United States will not lose its influence within the Fund but rather pave the way to a more effective and global institution.

Note: This summary was prepared by Eileen Gallagher at The Brookings Institution as a record of the substantive issues discussed at the seminar. No attribution of official views to specific countries or individual officials offered in the seminar is expressed or implied.