

Reforming the Governance of the International Monetary Fund

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1. INTRODUCTION

THE International Monetary Fund (IMF) is attempting to enhance surveillance and harmonise rules related to member countries' banking and financial systems to strengthen the international financial architecture.¹ However, the efficacy of these initiatives depends upon the level of compliance by the Fund's member countries. Democratising the Fund will make the organisation's initiatives more effective as decisions produced by a democratic process have greater legitimacy and credibility amongst participating members. The turn toward issues of global governance moves the IMF reform debate beyond arguments about the proper size and scope of the Fund. Realistic changes in the governance of the Fund can be achieved by rationalising the Fund's quota regime, which forms the framework for the organisation's decision-making process as well as the basis for allocating member contributions to the organisation's resources. Reforms based on broadly accepted principles will enhance the Fund's legitimacy and accountability as a forum for global economic policy decision-making.

A failure to reform the Fund coupled with the recurrence of financial crises in the emerging market economies may hinder the growth of the global economy. As processes of production are subordinate to the flows of financial capital, financial crises have direct impacts on 'real' economic activity. Moreover, even though most financial crises are short lived, they exert long-term and asymmetric economic and social impacts on the lives of the most vulnerable members of the global economy. Recent financial crises and global economic trends have already mobilised non-governmental organisations, students and workers around the world

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¹ See Fischer (1999).

to protest the perceived inequities in the operation of the global economic system, including the policies of the global institutions such as the IMF. Thus, it is important and urgent for politicians and policymakers to undertake reforms of global institutions before another major crisis materialises.

Although the need for reform is urgent, it is important that reforms are transparent and based on principles. Reform efforts should not merely reflect *ad hoc* responses to shifts in economic strength and vulnerability in the international political economy. By grounding reforms on principles, the Fund will enhance its legitimacy and accountability as a rule-making body for international economic policies over the long term and across an increasingly democratic community of states. Of course, realistic proposals for reform must accept that the IMF is an international financial institution in which creditor confidence requires that the majority of the voting power must remain with creditor countries. Within this majority, the largest contributor, the US, will maintain its existing veto power over decisions requiring a supermajority. Nevertheless, there is great latitude for undertaking principled and forward-looking reforms within these constraints.

The next section traces the emergence of a 'democratic deficit' within the governance structure of the Fund, i.e. the 'quota regime'. Section 3 proposes a set of principles to reform the quota regime. Section 4 provides a sketch of the pattern of governance that might characterise the Fund if the quota regime is reformed. The final section concludes.

2. REFORMING THE FUND

In an increasingly integrated world economy, the distribution of power within the Fund must adapt to reflect the growing weight of developing and emerging market countries in order to make the Fund more effective as an institution. The volume of world trade flows has increased by six per cent annually over the past two decades, twice as fast as world real GDP, thereby indicating a deepening of economic integration.² Developing countries as a group have achieved the fastest expansion of trade and now account for one third of world trade, up from one quarter in the early 1970s. The developing countries' share of global GDP valued at purchasing power parity (PPP) has increased from 31.86 per cent in 1992 to 37.56 per cent in 2001, while the European countries' share has declined from 34.20 to 29.04 per cent over the same period.³ Unfortunately, the growing contribution of the developing countries to world output and trade is not reflected in the redistribution of power in international financial institutions such as the IMF.

² IMF (2001e, Ch. II).

³ IMF staff calculations. Complete calculations available upon request from the authors.

TABLE 1
The Disparity between Voting Power and Economic Strength

	<i>Votes on IMF Executive Board in 2001</i>	<i>GDP Valued at Market Exchange Rates (\$billion) in 2000</i>	<i>GDP Valued at Purchasing Power Parity (\$billion) in 2000</i>	<i>Population (millions) in 2000</i>
Belgium	46,302	230**	281**	10**
Italy	70,805	1,090**	1,464**	56
Netherlands	51,874	370	413	16
Brazil	30,611	503**	1,309**	175**
China	63,942	1,100	5,900	1,260
India	41,832	474*	2,233*	1,003

Notes:

* Data for 2000/01; ** Data for 2001.

Source: *Voting Data from IMF*, Annual Report (2001); *Economic and Population Data from Economist Intelligence Unit*, Country Reports (2002).

At the moment, a great disparity exists between the economic strength and voting power of the emerging market economies and smaller European countries on the IMF's Executive Board (see Table 1). Developing and emerging market country members need to have a more prominent platform from which their voices can be heard and incorporated into crisis prevention and management policies. As Peter Evans and Martha Finnemore have recently argued, the quality of information used for surveillance and the design of programmes depends critically on the level of member country participation.⁴ Hence, an increase in the effective participation of developing and emerging market countries is desirable in promoting the success of IMF crisis prevention and management policies. Moreover, as the IMF increasingly seeks to harmonise and coordinate strategies for crisis prevention and management, the Fund is becoming a rule-making institution whose decisions encompass international as well as national economic policymaking. The legitimacy of a rule-making process can be enhanced through the use of a democratic (i.e., a polyarchic) framework for governance.⁵ A polyarchic process of governance, characterised by the diffusion of power and networks of reciprocal influence, will also better resemble the process of governance within the growing number of democratic states on the Fund's membership roll in recent decades. These reforms will permit the Fund to act more effectively in times of crisis, as its decisions will hold greater legitimacy amongst the politicians

⁴ Evans and Finnemore (2001).

⁵ Dahl (1991, pp. 71–80). 'Polyarchy' literally means rule by the many. The term is intended to denote a representative democracy with substantial interest-group influence on government. See also McLean and McMillan (2003).

and bureaucrats who will need to monitor and implement Fund programmes. Moreover, the diffusion of decision-making power should help to prevent the blind acceptance and application of universal models of macroeconomic management.⁶

The governance structure of the Fund is a product of the political and economic agreements embodied in the quota regime. The IMF's quota regime is the basis for (1) determining a member's required contribution to the Fund and thus the overall size of the basic resources of the Fund;⁷ (2) the level of access to Fund resources for each member country; and (3) the distribution of voting rights within the organisation, including the right to a 'permanent' seat on the 24-member Executive Board, which is responsible for conducting the business of the Fund.⁸ The Executive Board is accountable to the Board of Governors, the highest policymaking body of the IMF, which consists of one Governor and one Alternate appointed by each member country.⁹ The quota regime is not an abstract formula; it is the basis of power relations between member states of the Fund. While it is true that consensus rather than actual voting characterises most decisions by the Fund's Executive Board, it is also the case that member countries will usually not submit issues which are likely to be vetoed by the US or defeated by the majority of member votes. In essence, the distribution of voting power implicitly influences the character and scope of issues on the Fund's agenda.

⁶ Sakakibara (1999). The 'constitutionalist' design of the Fund and World Bank, in which duties and actions were carefully proscribed by the Articles of Agreement, were originally intended to keep these institutions from imposing far-reaching structural reforms on sovereign members. However, in the wake of major financial crises, particularly since the 1982 Mexican debt crisis, the industrialised members of the IMF and World Bank have cast these institutions into the role of correcting weaknesses in domestic financial systems to ensure growth and poverty alleviation. See Woods (2001, p. 8). As the IMF agrees, 'Conditionality has evolved substantially over the history of the Fund. Some element of policy conditionality has been attached to Fund financing since the mid 1950s, but the scope for conditionality has expanded particularly since the early 1980s'. See IMF (2001d, para. 3).

⁷ Quota subscriptions provide the basic source of financing for the Fund. The Fund is also authorised under the Articles of Agreement (Article VII, Section 1) to borrow to supplement its quota resources. The Fund maintains two standing borrowing arrangements (i.e., New Arrangements to Borrow and the General Arrangements to Borrow) that allow the fund to borrow up to SDR 34 billion from a group of members and official institutions to supplement existing resources to offset or manage an impairment of the international monetary system. The Fund has also made *ad hoc* arrangements (e.g., during the oil shocks) to borrow from small groups of members and official institutions when payments imbalances were particularly large and/or skewed to finance special facilities and policies. The IMF may borrow from private markets but has never done so. See IMF (2000b, 19 – Decision No. 9862-(91/156) 15 November, 1991).

⁸ Countries with the five largest quota subscriptions (i.e., US, Japan, Germany, France and the UK) are allowed to appoint an Executive Director to the Fund's Executive Board. All other members are organised into regional groups and elect an Executive Director to represent their constituency. China, Russia and Saudi Arabia form separate single member country constituencies, thereby effectively retaining a separate and independent seat on the Executive Board.

⁹ The Board of Governors, whose members are usually ministers of finance or heads of central banks, normally meets once per year.

The formula specifications and the weight of variables involved in calculating members' quotas have become matters of political judgement and compromise that are intended to distribute power in a way that will command wide support from member countries, and creditor countries in particular.¹⁰ In addition, the quota regime effectively permits the US with 17.49 per cent of the total votes to retain veto power over decisions that require a supermajority of 85 per cent.¹¹ Hence, any proposed reform of the IMF quota regime must adhere to three basic guidelines. First, any viable reform of the quota regime must be simple and transparent, as an infinite number of permutations are possible through minor manipulation of the quota formulas. Countries whose relative power within the Fund will be diminished can be expected to resist any changes in the status quo. For this reason, an excessively complex quota reform programme will only fortify opposition from members who will have their voting share reduced. A proposal that lacks sound economic criteria for change will inevitably succumb to charges of 'politicisation'. Second, as a financial institution, creditors need to have a decisive voice in policy making otherwise they may lose confidence in the institution's lending decisions. Third, any reform of the quota system must not seek to remove the veto power of the largest individual creditor, the US; as such a proposal would be politically stillborn.

3. THE DEMOCRATIC DEFICIT

Despite periodic changes to the quota regime, developing and emerging market countries have argued that the distribution of voting power within the Fund does not adequately reflect their importance in the world economy. This 'democratic deficit' results from three factors: (1) the decline of basic votes in the Fund's quota regime which has reduced the voice of smaller countries in the governance of the Fund; (2) biases in the calculation of economic strength which have caused the IMF to neglect the strength of emerging market economies; and (3) the needless complexity and opacity involved in the calculation of quotas. As the legitimacy and representativity of the organisation is in question, the Fund will have to address this growing 'democratic deficit' if it wishes to speak to demands

¹⁰ See IMF (2001c, 57 – Box II.7).

¹¹ Decisions that require the approval of 85 per cent of the total voting power are: adjustment of quotas; calculation of reserve tranche positions (exclusion of certain purchases and holdings); changes in obligatory periods for repurchase; the sale of IMF gold reserves; acceptance of gold in payments to IMF; balance of payments assistance to developing members; fundamental changes in principle to the valuation of the Fund's reserve asset (i.e., Special Drawing Rights – SDRs); allocation of SDRs; prescription of official holders of SDRs; expulsion of members; and amendment of the IMF's Articles of Agreement. See IMF (2001c, p. 172 – Appendix II – Special Voting Majorities for Selected Financial Decisions).

from civil society to improve the governance of the organisation and provide a greater role for the developing and emerging market economies.

a. The Decline of 'Basic Votes'

At the Bretton Woods conference in 1944 two alternate formulas were proposed for determining voting power. In the first formula, voting power would be related solely to members' quota contributions (i.e., one dollar – one vote). The second formula related voting power to the Westphalian principle of the equality of states (i.e., one country – one vote). The Fund settled on a system that combined 'basic votes', which are distributed irrespective of quota size, and 'proportional votes' based on a member's quota contribution. The basic votes were designed to increase the voting power of those members whose quotas were below the average quota for Fund membership as a whole. However, a constitutional mechanism was not created to maintain the ratio of basic votes to proportional votes if the size of the IMF's membership fluctuated.

The relative importance of the basic votes increased substantially from 1944, when basic votes constituted 11.26 per cent of total votes for the 45 member countries, until the late 1950s as a result of the growth in new Fund members with smaller-than-average quotas. The relative importance of basic votes has declined considerably since then. In 1958, basic votes constituted 15.61 per cent of total votes but by 1995 basic votes constituted only 3.02 per cent. This decline occurred alongside an expansion in the number of Fund member countries from 68 in 1958 to 181 in 1995.¹² The decline in the relative importance of basic votes reflects, in part, the effects of regular quota increases since 1965, and more recently the marked slowdown in the new membership of relatively small members. The result of this decline is that smaller countries have very little voice in the governance of the Fund, even if they are able to form a united front.

b. Quota Calculations – Specification Biases

The democratic deficit within the Fund is exacerbated by biases that are built into the calculation of members' quotas. Current quota formulas are composed of five components:

- A country's gross domestic product at current prices for the recent year converted at market exchange rates;

¹² The number of countries included in the 1995 tally includes Brunei Darussalam and Sudan; Zaire (whose voting rights had been suspended); South Africa (which did not participate in the 1994 regular election of Executive Directors); and Bosnia and Herzegovina, Iraq, Afghanistan and Liberia – for which data was not available to make quota calculation under the Eleventh General Review.

- The 12-month average of gold and foreign exchange reserves, including reserve positions in the IMF;
- The annual average of current payments (goods, services, income and private transfers) for a recent five-year period;
- The annual average of current receipts (goods, services, income and private transfers) for a recent five-year period;
- The variability of external current receipts for a recent 13-year period.¹³

With the exception of the last item,¹⁴ these components are intended to measure a member's economic 'strength' as well as its 'openness' to trade. There are biases in these components that result from problems of measurement and problems of discrimination in the composition of variables.

c. Variable Measurement Problem

The first bias in the calculation of quotas stems from a problem in how economic output is measured. Currently, the gross domestic product (GDP) of each individual country is converted from the local currency into a common numéraire currency based on prevailing market exchange rates. There are significant problems with the calculation of national income through the GDP at market exchange rates. The underlying theory that has facilitated this technique of comparison is that the exchange rates adjust automatically (through the action of the market) so that the local currency prices of a group of identical goods and services represent equivalent value in every nation. In practice, however, market exchange rates undervalue the non-tradable sector and they do not necessarily equalise prices of tradable goods across countries even after allowing for quality and transport costs; the latter can be explained in part due to the lagged effect of the exchange rate. As a result, it has long been observed that market exchange rates for a nation's currency often do not reflect that currency's true purchasing power at home.¹⁵ This can give rise to a significant under- or over-valuation of GDP of different countries when making cross-country comparisons of incomes which in turn can significantly affect a country's total allocation by the IMF.

A country's GDP converted at Purchasing Power Parity (PPP) rates better reflects the real value of total output produced by a country. PPP raises developing countries' GDP figures because it essentially uses international market prices to value countries' output, and international market prices tend to be higher than

¹³ IMF (2001c, p. 57).

¹⁴ The variability of the current receipts is the only need-based indicator; it takes into account the financial problems that countries are likely to face.

¹⁵ Summers and Heston (1991, pp. 327–68), Heston and Summers (1988, pp. 467–73) and Kravis, Heston and Summers (1978, pp. 215–42).

domestic market prices in developing countries. Differences between these two methods are sizeable for individual countries; PPP-GDP can be more than four times higher than GDP at market prices.¹⁶

Critics of the PPP approach sometimes argue that this method may not always correctly indicate a country's ability to contribute to Fund resources and that accurate data for all countries are not readily available.¹⁷ The objection overlooks the point that a large number of developing countries are now in a position to supply liquidity needs to the Fund as they have reasonably stable currencies, large reserves and comfortable balance of payments positions. Countries that have difficulty in meeting their contribution can be handled on a case-by-case basis. Issues of data quality and availability can be resolved through a determined effort to replace estimates by actual price surveys. By providing technical assistance, countries can be motivated to support price surveys. It should be noted that over 95 per cent of world output is currently available through the PPP technique, although there is some variability in the quality of the data.¹⁸ Moreover, the IMF's own publications, such as the *World Economic Outlook*, already present annual calculations of individual country GDP valued at PPP for 176 countries. Similarly, the World Bank publishes PPP-based figures for a significant number of countries. Finally, there is support amongst the numerical majority of Executive Directors for GDP valued at PPP.¹⁹

d. Variable Specification Problem

The second bias in the calculation of a member's quota stems from a failure to discriminate against entrepôt, 'maquiladora' and intra-currency union trade. The current calculation of economic 'openness', which sums a country's current receipts and payments, contains a bias in favour of entrepôt countries. Current receipts and payments give a rough indication of the resources generated in a country from transactions with the rest of the world and of the amount of resources devoted to consumption of goods and services created elsewhere.²⁰ Entrepôt states engage in the import and export of vast quantities of goods, thereby boosting their receipts and payments; however, these transactions have little domestic value added and consequently they highly overstate the underlying contribution to global output. A similar phenomenon exists in countries where 'maquiladora'

¹⁶ IMF Treasurer's Department and Statistics Department (2002, p. 6). A compromise formula or hybrid exchange rate based on a combination of PPP and market exchange rate is also possible, but has not been adequately addressed by the literature.

¹⁷ Quota Formula Review Group (2000, pp. 57–58, and 2001, pp. 13–14) and IMF Treasurer's Department and Statistics Department (2002, pp. 4, 6).

¹⁸ *Ibid.*, p. 58.

¹⁹ IMF (2001f).

²⁰ Quota Formula Review Group (2001, p. 15).

activity is large.²¹ Moreover, to the extent that some countries belong to a currency union (e.g., the European Union), intra-currency union trade boosts the ‘openness index’ even though intra-currency union trade is not subject to balance of payments crises as members share a common currency. In other words, states within a currency union do not generate a financing need that needs to be addressed by the Fund. Given the growing magnitude of intra-EU trade, this is not a trivial issue. It is estimated that quota figures for members of the EU would fall by as much as 9.2 per cent if intra-currency union trade were subtracted.²² The IMF should not incorporate intra-currency union trade in the assessment of economic openness.

Critics of this position will argue that sharing a currency with one or more members does not imply that members cannot run into balance of payments difficulties. Nor does a currency union guarantee that a member might not be tempted to raise tariff barriers in a manner that might threaten the prosperity of its trading partners.²³ However, it is not necessary to terminate Fund interaction with members of currency unions. It is only suggested that intra-currency union trade should not be used as a factor in the determination of member quotas as this variable is not very relevant in assessing financing needs or balance of payments issues.

e. Complexity and Opacity

Finally, adding to the democratic deficit is the extreme complexity of the quota formulas and the non-transparent process by which these formulas are applied. Currently, there are five different quota formulas. The five formulas use essentially the same set of economic variables, but combine them in different ways with different weights. Members may use whichever formula they prefer to generate higher calculated quotas. Large, closed economies tend to prefer the revised ‘Bretton Woods’ formula in which GDP is the most heavily weighted variable. Small, open economies tend to prefer one of the four ‘derived’ formulas in which trade and openness have greater weight, and GDP holds relatively less weight.

The calculation of quotas becomes opaque because in practice the role of quota formulas has declined in the determination of quotas, and quota share adjustments have been relatively small. However, the quota formulas play a role in determining the extent of the increase in quota share as well as the proportion of selective increases.²⁴ A principled reform of the quota regime would eliminate

²¹ ‘Maquiladora’ economic activity refers to the trade generated by foreign-owned assembly plants on international border areas, which import products duty-free for rapid assembly and subsequent export.

²² IMF (2000a, p. 108 – Table 9.1).

²³ Quota Formula Review Group (2000, p. 63).

²⁴ IMF (2001c, p. 63).

the unnecessary complexity and opacity of the current regime. A simple and transparent quota formula would have the added benefit of improving relations with civil society groups that have demanded greater transparency in the governance structures of the Fund.

4. PRINCIPLES FOR A NEW QUOTA REGIME

The International Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF has reaffirmed on several occasions that 'Quotas should reflect developments in the international economy'.²⁵ However, recent attempts to reform the quota regime have produced unsatisfactory results. For example, an IMF-commissioned independent group of academics and policy makers, known as 'the QFRG' (Quota Formula Review Group) or 'the Cooper Group', proposed an alternative quota formula that actually increased the G-7 countries' aggregate calculated quota share to more than 59 per cent, compared to their aggregate calculated quota of 54 per cent at the time (and an actual aggregate quota of 46 per cent). The failures of the Cooper Group may be attributable, in part, to its restrictive mandate not to make any recommendations that would require a change of the IMF's constitutions, the Articles of Agreement. In order to discover the best options, it may be necessary to rework the Articles.

The present quota regime is a single policy instrument that aims to fulfil three important functions.²⁶ First, quotas determine the required contribution of member states to the Fund. A quarter of a member's quota is paid in reserve assets; the remainder is paid in the member's own currency. Quotas constitute the financial base of the IMF and therefore determine the size of the Fund's resources. Second, quotas determine the level of a member's access to the resources of the Fund. Members may draw a quarter of their quota, known as the reserve tranche. As the reserve tranche is composed of the member's own contribution in hard currency, the country may use the tranche without any conditionality to meet a balance of payments problem. Drawing an amount greater than a quarter of one's quota requires the approval of the Fund. Upper limits on borrowing (e.g., for structural adjustment programmes) are a function of the size of a member's quota. Third, the quota regime determines voting power within the Fund. While the Fund recognises a basic number of votes for all members, relative voting power in the Fund is determined by the size of a member's quota.

²⁵ IMF (2001a, pp. 156, 159).

²⁶ The quota regime also determines allocation of SDRs as a reserve asset. A decision to allocate SDRs has only been reached twice. In 2001, SDRs accounted for less than one half of one per cent of members' non-gold reserves (IMF, 2001c, p. 89).

As noted earlier, the IMF conducts reviews of all members' quotas every five years, and members may request an *ad hoc* review at any time.²⁷

The basic problem of the quota formula is the mismatch between instruments and objectives. This is a classic 'assignment problem'. Presently, there is only one instrument to achieve multiple objectives. In this context, Jan Tinbergen, argued that an optimal arrangement requires one instrument for each policy objective.²⁸ To achieve an optimal arrangement, three instruments should be used to achieve the three objectives of the quota regime: contribution, access and voting.

a. Contribution – Share of Global Output

A member's contribution to the Fund's resources should be based on a member's stake in the global economy as well as ability to pay, which is a function of its share of global output. The Fund's major contribution towards global stability and balanced growth comes through its crisis prevention and management roles. In periods of economic crisis the Fund acts as a catalyst for private sector involvement and as a *de facto* international lender-of-last-resort. The Fund also carries out extensive economic surveillance and recommends uniform standards and rules for monitoring the global economy. Members need to support the global public good the Fund provides, consistent with the size of their economies. *Ceteris paribus*, a larger economy uses greater resources and has a greater systemic impact in the event of a financial or currency crisis; hence larger economies should contribute more to the resources of the Fund than smaller economies.

With greater economic integration, a country is now susceptible to contagion even though it may adopt sound economic policies. Developing, emerging and developed countries are likely to be affected. These negative spillover effects, which include the 'financial globalisation hazard' of rapid capital flow reversal, put a country's stake in the globalised system at risk.²⁹ A country's stake in the global economic system or its 'value-at-risk' is its gross domestic product, i.e. its national income. Therefore, a member's contribution to the Fund is best determined using that country's value-at-risk as a basis.

If the quota regime were only used to determine members' contributions to the Fund resources, one variable could suffice: the national income (measured by GDP valued at PPP). The transparency of a single variable would help redress the current mismatch between calculated and actual quotas.

²⁷ The 12th General Review of Quotas is scheduled to be completed in January 2003.

²⁸ Tinbergen (1952). See also Theil (1961) and Blinder (1997, pp. 3–19).

²⁹ Calvo (2001).

b. Access – Gross Financing Need

Access to the resources of the Fund should be based on gross financing need. Quotas need to be officially de-coupled from the determination of access policy. Currently access to Fund resources is supposed to be limited to 300 per cent of a member's quota. However, as nearly 70 per cent of the Fund's outstanding credit is currently confined to five borrowers, who are borrowing much more than 300 per cent of their quota, it is apparent that the present access policy is not being observed.³⁰ In some cases, access to reserves is well beyond the present access norms. In fact, Turkey exceeded 2,900 per cent of its quota in 2002.³¹ Therefore, it is evident that the rules concerning access to Fund resources were not used as a factor in determining access limits for these large borrowers. By approving large facilities to these countries based on need, the Fund has recognised *de facto* the limitations of the present quota-based access limits. It should be recognised *de jure* and the link between access and quotas should be broken. Moreover, the new Fund facilities created to deal with capital account crises, i.e. the Contingent Credit Lines (CCL) and the Supplemental Reserve Facility (SRF), implicitly recognise that financing should be based on need rather than quota. The SRF and the CCL have no general access limits linked to a member's quota; however, there is an expectation that the CCL will not exceed 300–500 per cent of a member's quota unless under exceptional circumstances.³² Uncoupling the quota formula from access considerations would have the added benefit of effectively countering questions relating to equality of treatment, which has been raised in recent years by some of the smaller borrowing members.

Access to Fund resources should be on the basis of gross financing need, subject to two prudential norms. First, the Fund should supply only a limited percentage of the gross financing need, thus confirming the role of the Fund as a catalyst for private sector involvement in crisis management. For example, the Fund could impose a limit of 20 per cent of the calculated gross financing need.³³

³⁰ The five borrowers are Turkey (SDR 14,510.5 million or 28 per cent of the Fund's General Resources Account – GRA), Argentina (SDR 10,849.8 million or 21 per cent of the GRA), Indonesia (SDR 6,884.9 million or 13 per cent of the GRA), Russia (SDR 5,515.5 million or 11 per cent of the GRA), and Brazil (SDR 3,249 million or 6 per cent of the GRA) (IMF, 2002b, pp. 24–25).

³¹ Although Turkey's quota in the IMF is small relative to its geopolitical importance, the commitment of IMF loans at almost ten times the normal limit is unprecedented in the history of the IMF (Mussa, forthcoming).

³² The CCL is aimed at preventing the spread of a financial crisis, by enabling countries that are 'basically sound and well managed' to secure precautionary financing in case a crisis should occur. The SRF was established in December 1997 to provide assistance to members experiencing balance of payments difficulties resulting from 'a sudden and disruptive loss of market confidence' reflected through pressure on the member's capital account and reserve holdings (IMF, 2001c, pp. 184, 196).

³³ Sources for bridging the financing gap outside of the private sector could be (a) domestic adjustment effort; (b) multilateral banks; (c) bilateral country assistance; and (d) loan restructuring.

Second, a prudential norm should be in place to limit Fund exposure to any one individual borrower. For example, the Fund could limit access beyond 10 per cent of the Fund's total resources. Of course, these illustrative numbers are based on a much larger Fund size than the present. Increasing the size of the Fund is an important issue but would require a separate discussion. It suffices to say, however, that an access policy based on gross financial need may require a re-evaluation of the Fund's resources.

c. Voting – Proportionality, Sovereignty and Liberal Democracy

Voting rights should balance a member's financial contribution with the principle of sovereign equality. There are two common principles for determining voting rights in international organisations: (1) one country – one vote (the Westphalian model); and (2) one dollar – one vote (the free-market model).

Maintaining a strong link between a member's financial contribution to the Fund and its voting power is necessary to inspire confidence among creditor members and financial markets. However, there remains the need to balance the capitalist norm with the principle of sovereignty in order to improve the governance of the Fund. The principle of sovereign equality can be advanced by enhancing the weight of basic votes in the determination of voting power. This is necessary as the share of basic votes has steadily declined over the past, and with near universal membership of the Fund, this trend is likely to continue with every further quota increase.

Basic votes continue to be important for countries with small quotas.³⁴ Table 2 illustrates the current role of basic votes as a per cent of total voting power in the IMF. In 2001, out of 183 members there are 25 members for whom basic votes comprise more than half of the members' individual voting power, while basic votes make up at least 30 per cent of total voting power for 34 members, and 20 per cent of total voting power for 60 members. The aggregate voting power of these 25, 34 and 60 members is 0.406, 0.699 and 1.919 per cent of the total membership's voting power respectively.³⁵ The table shows the increase in voting power that would occur if basic votes were doubled to 500 basic votes per member or if the proportion of basic votes to the total number of votes had been kept constant since 1945.

It is apparent that any increase in the size of voting power of these relatively small members, nearly all of which are non-oil-producing developing countries, would have an effect upon the highly skewed distribution of voting

³⁴ A member's voting power is equal to 250 basic votes plus one additional vote for each SDR 100,000 in quota (IMF, 2001c, p. 55 – fn. 28).

³⁵ East Timor became the 184th member of the IMF on 23 July, 2002.

TABLE 2
Illustrative Voting Shares – No Change in Quotas and Increased Basic Votes (in per cent)

<i>Current Members</i>	<i>No.</i>	<i>Total Voting Power w/250 Basic Votes per Member (Per cent)</i>	<i>Total Voting Power w/500 Basic Votes per Member</i>	<i>Total Voting Power w/Basic Votes per Member (1945 Ratio)*</i>
Countries in which Basic Votes are >50 per cent of their Quota	25	0.406	0.678	1.651
Countries in which Basic Votes are >30 per cent of their Quota	34	0.699	1.064	2.379
Countries in which Basic Votes are >20 per cent of their Quota	60	1.919	2.548	4.820

Notes:

This table is based on actual quotas except for nine countries which have not yet consented to their quota increases, for which the 11th General Review proposed quotas are used.

* In 1945 basic votes constituted 11.3 per cent of total votes. If the basic votes component had not deteriorated, each member would currently have 1,488 basic votes.

Source: Data derived from IMF Staff calculations.

power within the Fund. Currently the ten countries with the largest quotas control 54.022 per cent of the total vote, while the next 113 countries control 44.059 per cent, and the bottom 60 countries control 1.919 per cent of the total voting share. If each country were given basic votes at the original '1945 ratio' of 11.3 per cent of total votes, it would be possible for the 173 middle- and bottom-tier countries to hold a simple majority over the top ten countries. Moreover, the bottom 60 countries would benefit the most by having their total voting power increase from 1.919 per cent to 4.820 per cent. Finally, it should be noted that even if basic votes were revalued to the original '1945 ratio', the US would not lose its veto power.

In order to prevent further erosion of voting power amongst the poorest members, it is necessary that basic votes be determined on an *ad valorem* basis. The Fund's Articles of Agreements should be amended to ensure that basic votes would constitute 11.3 per cent of total votes regardless of future quota changes.

5. CONCLUSION

If voting power were determined through a set of weighted averages for GDP valued at PPP (88.7 per cent) and basic votes at the historic '1945 Ratio'

(11.3 per cent), the results would appropriately reflect the economic weight of the developing countries without eroding the veto power of the US (see the Appendix). Current voting shares for the advanced economies would drop from 62 to 51 per cent. Asian and African countries would have a greater voice. In fact, a coalition of Japan, China and India would be able to have veto power. Similarly, a coalition of Africa and Latin America or Japan and Latin America would also have veto power. The voting share of Middle Eastern countries, not including Saudi Arabia (which is a creditor to the IMF), would remain relatively the same. The voting share of smaller European states would decline significantly, but the EU countries as a whole would retain a veto power. The proposed reform of the quota regime would create far more 'winners' than 'losers' and thus has a realistic chance of securing approval.

The redistribution of voting power would not only redress the current imbalance amongst industrial, emerging and developing countries, it would also create a more 'contestable market' for veto power as different coalitions of states will be enabled to cooperate more effectively in order to prevent policies with which they disagree. A highly contestable market in veto power should encourage greater dialogue between member countries, as coalitions of member countries would be empowered to effectively block the approval of programmes pending a discussion of programmes that influence their interests. This increased pluralism would not lead to deadlock as the large members (e.g., the USA) have a vested political, economic and military interest in supporting developing countries that are strongly linked to their economic and security system (e.g., Mexico and Turkey). As the IMF is already a political institution, a reformed quota regime would make the politics of the institution legible and create greater space for genuine dialogue on the governance of the global economy.

As the Fund works to set standards and harmonise rules to strengthen national banking and financial sectors of member countries, the ability of different states to participate in the process of global governance will become increasingly important. The legitimacy conferred upon rules agreed through a more democratic framework, particularly amongst the growing number of democratic member countries, represents an important means of reducing transgression or nominal compliance. Enhancing the democracy of the Fund will increase inputs from alternative perspectives, thereby contributing to crisis prevention and management while allowing a multiplicity of capitalisms to flourish.³⁶ A democratic Fund, in which different capitalisms exist and compete side by side, represents a good start for the next century of capitalism.

³⁶ See Albert (1993).

APPENDIX

Present and Proposed Quota and Voting Power¹

Country Category ²	GDP-PPP 1997–99 Average (SDR Billion)	Present Quota Share (Per Cent)	Proposed Quota Share on Basis of GDP-PPP (Per Cent)	Present Voting Share (Per Cent)	Proposed Voting Share on Basis of GDP-PPP (87.7%) and BV (11.3%) (Per Cent)
Advanced Economies	16,303	62.763	55.492	61.768	50.950
Major Advanced Economies	13,375	46.030	45.523	45.146	40.811
Other Advanced Economies	2,929	16.732	9.969	16.622	10.139
USA	6,315	17.383	21.494	17.030	19.127
Japan	2,282	6.229	7.767	6.110	6.951
EU	5,900	30.106	20.083	29.647	18.740
Developing Countries	11,320	29.697	38.530	30.529	42.019
Africa	1,086	5.493	3.695	5.962	6.427
of which Sub-Saharan Africa	873	4.496	2.970	4.952	5.599
Asia	6,181	9.120	21.038	9.250	20.390
Western Hemisphere	2,504	7.456	8.523	7.666	9.536

Notes:

¹ BV stands for Basic Votes; PPP refers to GDP valued at purchasing power parity.

² Country Categories based upon IMF *World Economic Outlook*.

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