The Governance of the IMF in a Global Economy

Ariel Buira[1]

I. Introduction

Following the commitment of all participants in the Monterrey Consensus to increase the voice and participation of developing countries and transition economies in the Breton Woods Institutions, the issue of governance has come to the fore of the IMF and World Bank. The Monterrey commitment was renewed in the IMFC and Development Committee communiqués of April 12 and 13, 2003, and reflected in recent administrative steps to strengthen the capacity of African constituencies.

Moreover, since 1997, following the Executive Board's approval of the Guidance Note on Governance, the IMF has increased its attention to issues of governance issues among its member countries. The promotion of transparency and accountability are at the core of the IMF's efforts to ensure the efficient use of public resources, as well as the domestic ownership of IMF-supported reform programs. In recent years the IMF has developed instruments to help countries identify potential weaknesses in their institutional and regulatory frameworks that could give rise to poor governance, and to design and implement remedial measures to an extent well beyond what was envisaged in 1997.

With resources of over $300 billion and an expanded mandate, the IMF is possibly the most powerful of all international institutions. In view of its great influence, two questions on the quality of its own governance arise:

1. How to attain the adequate voice and representation of all members in the decisionmaking process of the institution and,
2. Does the IMF meet the standards of transparency and accountability needed to ensure the legitimacy of its decisions, the ownership by member countries of the programs it supports, and the proper use of the public resources at its disposal?

---

[1]The views expressed in this paper are strictly personal. This paper draws on earlier work by the author on the subject, particularly "The Governance of the International Monetary Fund," in *Providing Global Public Goods*, 2002, edited by Inge Kaul et al, Oxford University Press, and "Reforming the Governance of the Bretton Woods Institutions," in *Financing for Development,* 2002, OPEC Fund Pamphlet Series, No. 33, Vienna.

Since the power structure of the World Bank closely parallels that of the IMF, the fundamental question to be addressed, in this connection, is thus: how can the decisions of these international financial institutions (IFIs) attain political legitimacy and help secure a greater ownership of economic programs without weakening their credibility in financial markets or their efficiency in attaining their policy goals.

To answer these questions, one must first understand the IMF's voting structure and the rules by which it is governed. This requires a review of the role of basic votes and quotas in the determination of the current distribution of voting power, the requirement of special majorities and how they affect political control and accountability.

II. Votes and Decision-making

At the Bretton Woods Conference in 1944 a compromise solution was adopted between two approaches for determining voting power, one that related it solely to members' contributions or quotas and the other based solely on the legal principle of the equality of states. The compromise reached based voting rights on a combination of the two: it gave each member country one vote for every $100,000 of quota plus 250 basic votes. Basic votes, and the voice in decision-making they gave smaller countries, were also considered to be necessary in view of the regulatory functions of the IMF in certain areas (Gold, 1972).

But with the nearly thirty-seven-fold increase in quotas since then, the share of basic votes in the total has declined from 11.3 to 2.1 percent, despite the quadrupling of the IMF's membership. This has substantially shifted the balance of power in favor of large-quota countries, away from the compromise agreement contained in the IMF's Articles of Agreement that sought to protect the participation of small countries in decision-making.

With the passage of time, inflation and growth have combined to increase the size of quotas, but as the number of basic votes has remained constant, small countries' participation in the total has declined; indeed, the basic votes of original members fell to 0.5 percent of total votes. As a result, today quotas ("shares" in the case of the World Bank) are virtually the sole determinant of voting power, and basic votes have little

significance.[2] Consequently, the voice of small countries in discussions has been substantially weakened and their participation in decision-making made negligible. The developing countries have advocated the need to increase the number of basic votes to maintain a better balance in decision-making, to no avail.

Box 1 reviews two extreme options for the reform of the "voting" structure of the IMF.

Box 1. Extreme Options for the Reform of the IMF Voting Structure

One Country One Vote

Applying the principle of the legal equality of states, which is the rule in most international institutions, there would be no weighted voting; all members would have the same say in the affairs of the institution. However, states differ greatly in size and economic power. Thus, if all financial contributions to the IMF were equal, they would have to be set at a very low level –a minimum common denominator– to be accessible to all members. Consequently, the resources of the IMF would be insufficient for it to attain its purposes, which would further reduce market credibility of IMF decisions. This could in turn aggravate the adverse effect of the inadequacy of financial resources on members needing IMF support.

If despite members having equal votes, financial contributions were not equal, (but rather based on the size of their economies), larger countries that make larger contributions, would tend to condition these on the adoption of certain policies, as in the case of the United Nations (UN) and several UN agencies and programs for example UNESCO, International Criminal Court, Kyoto Protocol on Global Warming, etc.). Thus, while politically representative of the membership, the one member one vote principle would not permit the effective functioning of the IMF.

Voting Power Solely Determined by Voluntary Contributions

If a pure market approach were adopted and voting power were based entirely on voluntary contributions, the control of the institution would be in the hands of a small number of rich member countries. Consequently, the system of decisionmaking could not be considered representative of the interests of the membership as a whole. The legitimacy of IMF conditionality and its other policies, recommendations, and regulatory functions would therefore suffer as policies would appear as unlikely to take into account the needs and interests of smaller members and of potential debtor countries.

Two possible lending policies could ensue:

- If the goal of shareholders with a controlling majority were the pursuit of profits, the cost of lending could be sharply increased to discourage borrowing by higher-credit-risk members or more likely,
- Loans could be made at "below market" rates of interest, subject to the acceptance by debtors of certain economic and/or political conditions of interest to the controlling members, but not necessarily in the best interests of the borrowers. Of course, the amounts disbursed would be the minimum necessary to attain their policy objectives.

Rather than a rules-based institution of monetary cooperation to which all members could turn to for assistance in dealing with their payments difficulties, such an IMF would simply be a foreign policy tool of the countries in control.

In view of the limitations of the extreme options presented in the Box, it appears that extreme solutions are to be avoided if the IMF is to attain a degree representativeness that

[2] In the World Bank a majority of the voting rights are vested in a few industrial countries while the principal stakeholders, the developing countries holding a small proportion of voting power provide most of the World Bank's income through the interest they pay.

would provide the necessary legitimacy and transparency, as well as the market credibility required for international monetary cooperation. This requires voting structures with a fine balance between creditors and potential debtors. To achieve greater representativeness and credibility, certain principles seem to be necessary:

- The institution should not be seen to be dominated by creditor countries. This seems necessary to ensure accountability, representativeness and legitimacy of decisions and a sense of ownership of programs essential to their success.
- Debtor and potential debtor countries should have a considerable voice but not an assured majority in decisionmaking. Leaving aside other considerations, this seems indispensable to secure market credibility of IMF-supported programs.
- Consequently, the total voting power of creditor and potential debtors should be in approximate balance. This would enhance the probability of each case being judged on its merits.
- Contributions to the IMF and access to its resources should be closely related to the size of members' economies.
- The size of the IMF should expand in keeping with the potential need for its resources, that is, related to the expansion of world trade and the growth of international capital movements.

III. Consensus and Qualified Majorities

Most IMF decisions are taken without a formal vote, simply by interpreting the opinion (or "sense") of the Executive Board. The IMF's Secretary arrives at this opinion by taking an informal tally of the 24 Executive Directors - for or against a decision - and their voting power. In practice, this often means an additional loss of influence for the many developing countries represented on the Board by a developed country Director, since the Director's position will normally reflect that of his own country or the majority of the votes in his constituency.[3]

[3] The Articles state that "all the votes which an Executive Director is entitled to cast shall be cast as a unit." See IMF Articles of Agreement Art. XII, Section 3.

The Articles of Agreement stipulate that some decisions require a qualified majority of the votes cast, that is, a particular proportion of votes. At the Bretton Woods Conference, it was initially proposed that qualified majorities should be required in only two cases (one being quota adjustments). The subsequently accepted Articles of Agreement, however, required qualified majorities, either a 70 percent or an 85 percent majority, for decisions in nine areas. With the First Amendment to the Articles of Agreement, the number of these decisions rose to 18; with the Second Amendment, the number rose to 53. Forty of these are Executive Board decisions; 13 are Board of Governors' decisions.

The obvious explanation for the increase is the desire to protect a particular interest that might be affected by such decisions, as decisions subject to a qualified majority can be taken only with the consent of the members having a high proportion of the total votes. Currently, the United States has 17.35 percent of the total vote, Japan has 6.22 percent, Germany 6.08 percent, and France and the United Kingdom 5.02 percent each. The Group of Seven (G-7) industrial countries have a combined total vote of 47.7 percent, and together with the votes of the Swiss Director, they account for 50.34 percent. If the votes cast by the Dutch and Belgian Directors which include those of a number of non-industrial countries are also added, the G-7 countries' combined vote exceeds 60 percent (see Appendix).

The concentration of voting power in the hands of the major industrial countries ensures that they have a controlling influence on IMF policies. Nevertheless, some of them have, in addition, sought actual veto power, either for themselves or for a few countries with similar interests. The result is that decisions on 18 subjects require 85 percent of the total vote, and can thus be vetoed by the largest member country. Twenty-one other questions must be decided by a 70 percent majority, and can thus be vetoed by the five countries with the most voting power.

Among the issues that the IMF Executive Board must resolve by qualified majority are decisions on quota size, rates of charge, exchange-rate arrangements, matters related to special drawing rights (SDRs), policies on access to IMF resources, payments to the IMF, use of the IMF's gold holdings and reserves, management of the IMF's investment accounts, publication of reports, remuneration of creditor positions, and temporary

suspension of IMF operations. Thus, all significant decisions, those related to the size of the IMF and the use of its resources, to SDRs, gold, and the international monetary system are subject to the will of one or a few countries.

Special majorities have been used to block decisions supported by an absolute majority of votes on increases in the size of the IMF (that is, quota increases) and on SDR allocations, sales of the IMF's vast gold holdings, and policies on access to IMF resources. The special-majority requirement has often had the effect of inhibiting even the discussion of important and difficult issues.

Since voting itself is weighted –which favors the industrial countries in decisionmaking– special majorities should not be necessary. For various reasons, however, the countries that have favored such majorities have not been prepared to do away with them. But even if these are retained, should any one country have the power to veto decisions on 18 subjects, in a multilateral institution for monetary cooperation?

IV. Review of Quota Formulas

Since quotas are the major determinant of voting power in the IMF, any review of the subject must consider the appropriateness of current quota formulas in terms of transparency, of the relevance of variables included and of the weights given to these, and of whether their results reflect the relative positions of countries in the world economy.

The discussion of quotas is necessarily complex since at the time of the Bretton Woods Conference, quotas were assigned several important roles:

- the determination of countries' contributions to the IMF,
- that of access to IMF resources, and
- determination of relative voting power.

The logic of having only one formula for determining these different roles has often been questioned. As Raymond Mikesell (1994) suggests, and in keeping with the well-known postulate of Jan Tinbergen (1952) of having one policy instrument for each policy objective, it makes considerable sense to separate the three functions performed by quotas.

However, since at Bretton Woods the membership saw merit in having contributions and access to resources based on the same formula, such a far- reaching departure from the traditional definition of quotas might make a change considerably more difficult to reach.

The formula developed by R. Mikesell in 1943 had the political objective of attaining the relative quota shares that the U.S. President and Secretary of State had agreed to give the "big four" wartime allies, with a ranking that they had decided: Thus, the United States was to have the largest quota, approximately $2.9 billion; the United Kingdom, including colonies, an amount about half the U.S. quota; the Soviet Union a quota just below that of the United Kingdom; and China somewhat less.

The formula produced by Mikesell to determine each country's quota share, was based on: 2 percent of national income, 5 percent of gold and dollar holdings, 10 percent of average imports, 10 percent of maximum variation in exports, and these last three percentages to be increased by the ratio of average exports/National Income! With variations in the weight given to these variables, and some changes in the definition (e.g., GDP for N.I.) of the main variables, the IMF continues to use the original formula to determine quota shares, which is combined with four others that give different weights to the same variables. An element of discretion is used in selecting the formulas to be applied in each case, for determining members' quotas and other considerations come into play. Consequently, the determination of quotas lacks transparency and over the time has become increasingly unrepresentative of the relative importance of member countries economies.[4]

Not surprisingly (see Table 1), current quotas do not accurately represent the actual sizes of economies, their ability to contribute resources to the IMF or their importance in world trade and financial markets. Moreover, as quota increases over the years have been predominantly (70 percent) across-the-board or equiproportional, a large element of inertia has tended to perpetuate the initial quota structure. While current quota formulas are difficult to defend by any reasonable criteria, strong vested interests make change difficult.

---

[4] Switzerland's quota is a case in point.

Table 1. IMF Quotas and Gross Domestic Products for Selected Countries

Country	Quota as of December 31, 2002		Share of world aggregate GDP in purchasing power parity, 2002	GDP, 2002 Billions of US dollars converted at market exchange rates
	Billions of Special Drawing Rights	As a proportion of total quotas		
Canada	6,369	2.99	2.01	728
China, People's Rep. of	6,369	2.99	12.67	1,237
Russian Federation	5,945	2.79	2.68	346
Netherlands	5,162	2.43	0.88	449
Belgium	4,607	2.16	0.59	247
Switzerland	3,458	1.63	0.45	268
Brazil	3,036	1.43	2.63	448
Mexico	2,586	1.22	1.90	642
Denmark	1,643	0.77	0.33	172
Korea, Republic of	1,634	0.77	1.78	462

Source: IMF World Economic Outlook Database.

The main reason for the difference between GDPs based on purchasing power parity (PPP) and those based on market exchange rates is that the use of market exchange rates substantially underestimates the GDPs of developing countries. This is because in developing countries the prices and wages prevailing in the tradable goods sector are higher than those in the non-tradable goods sector, a phenomenon generally not found in developed countries. As long as the non-tradable sector represents a substantial part of the economy, the valuation of this sector at market exchange rates pulls down the valuation of this sector below its valuation at PPP-based rates. Therefore, to a large extent, when the method of GDP conversion is chosen, the distribution of quotas is substantially determined.

Since the weakness of the available PPP-based GDP data in some countries is no worse than that of some of other data used in the calculations, the goal should be to work toward its improvement instead of its abandonment. The instability and large variations in

exchange rates introduce distortions in GDPs when converted at market exchange rates i.e. the 40 percent variation in the €-US$ exchange rate over the last two years. There are very large discrepancies between GDP estimates based on market exchange rates and those PPP-based estimates; but if all estimates have statistical problems and one measure favors one group while another favors another, as a minimum, would it not be reasonable to consider using both, perhaps averaging them?

V. The Size of the IMF

The first question to address would be the adequacy of IMF resources relative to the tasks it has been assigned, that is, is the size of the IMF, the sum total of quotas, adequate to enable it to fulfill its mission?

Recall that this mission includes:

> "To give confidence to members by making the general resources of the Fund temporarily available to them… *providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."* (Article I, Section V of the Articles of Agreement, my italics).

In this regard, the first thing to note is the sharp decline in the size of the IMF relative to world trade that took place over the last half century (see Table 2).

Table 2. Total IMF Quotas as a Proportion of World Imports

(percent)

Year	1944	1950	1965	1970	1978	1990	1998	2000
Percent	58	17	15	14	9	6	6	4

Source: IMF Report to the Executive Board of the Quota Formula Review Group and IFS.

It would seem that countries with the largest quotas, the creditor countries, have opted to limit their contributions to the IMF.[5] And, since the severity of the adjustment required tends to be a function of the amount of financing available, as financial support has declined, the adjustment process has become more severe and the rate of compliance with IMF programs has fallen (Buira, 2002). Therefore, the limited resources available to the IMF aggravate the contractionary nature of most adjustment programs it supports.

Moreover, this decline took place at a time when the importance of capital market flows to emerging market economies rose sharply and their volatility made recipient countries increasingly vulnerable to crises of confidence.[6] This volatility gave rise to reverse flows that frequently led to the emergence of financial crises, where exceptionally large and timely support was required to prevent the crisis and the ensuing recession.

Currently, the resources and access rules of the IMF do not allow it to provide sufficient financing to its member countries suffering from large trade imbalances or from volatile capital movements. Contrary to the purposes of the IMF, as set out in Article I of its Articles of Agreement, neither do they allow members to adjust without resorting to a sharp reduction in aggregate demand, leading to an economic downturn.

As we have seen in the Mexican, Korean, and many other crises, IMF resources proved inadequate both in providing the support required by countries that come under speculative attack and in allowing them to "*avoid measures destructive of national and international prosperity.*" IMF resources have had to be supplemented from other sources, with a resulting increase in complexity, delays, and, at times, unwarranted conditionality demanded by certain creditor countries participating in the financial rescue (Feldstein, 1998). In most cases, the countries affected have suffered massive currency depreciation, followed by a deep recession and often a banking crisis (the result of a wave of bankruptcies) while their trading partners faced substantial losses in exports to them.

---

[5] This because of the decline in the size of the IMF's resources and of the high costs of a crisis for countries that suffer them. I do think it is necessary to enter into a discussion of the "moral hazard" argument against increasing quotas.

[6] The volatility of capital flows to emerging market economies is a multiple of that faced by developing countries or industrial countries (see IMF, 2001, "SDR Allocation in the Eight Basic Period–Basic Considerations).

VI. On Reforming the Governance of the IMF

The governance of the IMF falls short of its own standards and recommendations to member countries in terms of transparency and accountability. Transparency requires that decisions be the result of an open discussion with broad participation. However, policy decisions are often taken outside the country's political process and financial support made conditioned on their adoption.[7] Accountability requires that those making decisions face up to their consequences. Although the current rate of program failures is very high, (see Chapter 3 on IMF Conditionality) the IFIs are not held accountable to the member countries that follow their policy prescriptions when, due to design failures or lack of financing, the results fall short of those envisaged. On this point Nayyar, op. cit., "The IMF has almost no accountability to governments in totality, let alone people at large, when things go wrong. Accountability is an imperative without which the IMF could continue to pursue the interests of a subset of the international community, often to the detriment of the general interest of people's and governments or the collective interest of the world economy." Legitimacy requires adequate checks and balances, and that all IMF members participate fully in decision-making. It requires that the views and interests of all IMF members, mostly developing countries and economies in transition be given due consideration.

It is in the best long-term interest of the IFIs that they reconcile countries' own objectives with the wider interests of the international community. This will not happen as long as decisions are made by a small group of industrial countries, the G-7, meeting outside the IMF. Furthermore, the current power structure, with a single country in a dominant position, undermines the IMF's accountability for its decisions and recommendations.

Is the reform of the governance of the IMF possible? Or rather, to what extent will the IMF be reformed?

[7] Discussing the IMF governance a recent study (Nayyar, 2003) states: "Indeed, its operations and programmes are shrouded in secrecy. The absence of public scrutiny means that there are almost no checks and balances. It is high time that the IMF practices what it preaches about transparency. This calls for a disclosure of information and an independent evaluation of operations. The accountability of the IMF is limited, at best, to finance ministries and central banks, which, in turn, have close connections with the financial community."

Because of its power structure, the IMF is seen by many observers in developed and developing countries, as an instrument of control, imposing austerity on developing countries to protect the interests of western creditors. On the conservative side, the Meltzer Report[8] castigated the IMF for fostering moral hazard by bailing out private financial institutions that invested in emerging markets with large injections of money, thereby absorbing the losses arising from their poor investment decisions.

While these criticisms have created a climate favorable to reform of the IMF, political barriers remain. The challenge is, therefore, to overcome the vested interests and resistance of industrial countries to giving up control, and of some others to giving up certain "acquired rights," particularly regarding voting power and representation on the Executive Board. Fortunately, senior officials, both in developing and in major industrial countries recognize that some measure of reform is necessary, indeed indispensable, to secure the legitimacy of IMF decisions and countries' ownership of Fund-supported programs. Indeed, the April 13, 2003, Development Committee communiqué states: "Enhancing the voice and effective participation of developing and transition countries in the work and decision-making of the Bretton Woods Institutions can contribute importantly to strengthening the international dialogue and the effectiveness of these institutions."

Reform is also required, among other things, to increase transparency of decision-making in the appointment of the IMF's Managing Director[9]. It is required, as well, to give a voice in policy discussions to certain groups of virtually disenfranchised countries, particularly African and other low-income countries.

The greater participation of borrowers in decision-making is increasingly perceived as essential for the ownership of Fund-supported programs, which in turn, is required for their success. Recent discussions on the reform of conditionality and the creation of an Office of Independent Evaluation in the IMF may be seen as recognition of this need.

---

[8] Report of the International Financial Institutions Advisory Commission, March 2000.

[9] The Managing Director of the IMF is traditionally an European, whereas the President of the World Bank is traditionally an American. There is no valid reason for excluding qualified nationals of developing countries from these positions.

The Elements of Reforming Governance

What elements should a reform of the governance of the IMF include? While such reform is a political issue, experience suggests that certain elements should be addressed if reform is to succeed:

Restructure the Executive Board

Representation on the Board could be regulated so that an increase in the number of Directors representing developing countries is matched by a corresponding reduction in the number of Directors from industrial countries. The region with the greatest number of representatives on the Board is Europe, which currently holds eight chairs, and a vote some 82 percent greater than that of the United States, (while the GNP of the European Union is smaller than that of the United States). Thus, Europe would seem to be the obvious candidate for a substantial reduction in the number of votes and chairs it holds (see Table 3). Such a reduction, accompanied by an increasing representation of developing countries, would go far to redress the unbalanced representation of the Board.

Table 3. Quotas and Voting Power of Selected Industrial Countries in 2000

	GNI[1] (PPP)	GNI[1] (billion $) at market exchange rates	IMF Quotas (million SDRs)	Votes
Austria	214	204.5	1,872.3	18,973
Belgium	282	251.6	4,605.2	46,302
Denmark	145	172.2	1,642.8	16,678
Finland	127	130.1	1,263.8	12,888
France	1,438	1,438.3	10,738.5	107,635
Germany	2,047	2,063.7	13,008.2	130,332
Greece	178	126.3	823.0	8,480
Ireland	97	86.0	838.4	8,634
Italy	1,354	1,163.2	7,055.5	70,805
Luxembourg	20	19.2	279.1	3,041
Netherlands	412	397.5	5,162.4	51,874
Portugal	170	111.3	867.4	8,924
Spain	760	595.3	3,048.9	30,739
Sweden	213	240.7	2,395.5	24,205
United Kingdom	1,407	1,459.5	10,738.5	107,635
European Union	8,864	8,459.4	64,339.5	647,145
United States	9,601	9,601.5	37,149.3	371,743
Memorandum Items				
World	44,459	31,315	212,666	2,172,350
All Industrial Countries	24,793	24,994	130,567	1,347,885
Developing Countries and Transition Economies	19,666	6,321	82,099	824,465

[1]/ In 2000

Source: World Bank, *World Development Indicators*, 2002. *IMF Survey Supplement*, September 2002.

Another reason for suggesting a reduction in the number of European Union Directors is the process of monetary unification that has resulted in a monetary union among 12 countries, which now have a common interest rate and exchange rate policy vis-à-vis the rest of the world. The large intra EU trade in goods and services had the effect of

increasing the quotas of EU countries. Since the adoption of a single currency makes this trade akin to domestic trade, when the Euro zone quotas are adjusted for this, they decline by 9.3 percent of total quotas. This adjustment would by itself result in an important redistribution of voting power and a different composition of the Executive Board. In fact, the European Central Bank participates in the discussion of all countries that have adopted the Euro as well as in the discussion of a number of other important policy subjects (see Box 2).

Box 2.

EUROPEAN CENTRAL BANK: OBSERVER STATUS

1. The European Central Bank (ECB) shall be invited to send a representative to meetings of the Executive Board on:

- Fund surveillance under Article IV over the common monetary and exchange rate policies of the euro-area;
- Fund surveillance under Article IV over the policies of individual euro-area members;
- Role of the euro in the international monetary system;
- World economic outlook;
- International capital markets reports; and
- World economic and market developments.

2. In addition, the ECB shall be invited to send a representative to meetings of the Executive Board on agenda items recognized by the ECB and the Fund to be of mutual interest for the performance of their respective mandates.

3. At Executive Board meetings, the representative of the ECB will have the status of observer and, as such, will be able to address the Board with the permission of the Chairman on matters within the responsibility of the ECB.

4. The Fund shall communicate to the ECB (i) the agenda for all Board meetings and (ii) the documents for the Executive Board meetings to which the ECB has been invited.

5. The decision shall become effective upon receipt by the Fund of a certification by the ECB that it will preserve the confidentiality of all information and documents communicated by the Fund to the ECB, as specified by the Fund, and that any such information and documents shall be solely for the internal use of the ECB.

6. This decision shall be reviewed before January 1, 2000.

Decision No. 11875-(99/I), December 21, 1998

EUROPEAN CENTRAL BANK–OBSERVER STATUS–EUROPEAN UNION ACCESSION COUNTRIES

It is understood, for the purposes of paragraph 2 of the Decision on the Observer Status of the European Central Bank (ECB) (Decision No. 11875-(99/1), adopted December 21, 1998), that the ECB shall be invited to send a representative to meetings of the Executive Board on Fund surveillance over the policies of, and to meetings of the Executive Board on use of Fund resources by, members that are accession countries to the European Union, provided that there is no objection from the member concerned.

Currently, the following members are accession countries to the European Union:

Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, Slovenia and Turkey.

The Executive Board will be informed by management, after consultation with the Presidency of the Council of the European Union, of any changes to that list. (EBD/01/40, 4/20/01)

Decision No. 12479-(01/43), April 27, 2001

While one might think that all members of the European Monetary Union could be represented by one Director, it would suffice to reduce the number of European Union Directors to less than half the current number. For example, couldn't Belgium, the Netherlands, and the Scandinavian countries be represented by one Director instead of three? Could not France and Germany share a Director? This would of course require a reshuffling of existing constituencies.

In order to be able to give adequate attention to the needs of the countries it represents, perhaps no Executive Director should represent more than, say, 10 countries. In addition, the staff in the offices of Executive Directors that represent more than one country should be increased significantly, in proportion to the number of countries represented. These measures would permit Directors representing large constituencies to play a more active and effective role in policy discussions.[10]

While important, a stronger voice at the Board for developing countries is not by itself sufficient; to be effective it must be accompanied by increased votes.

Revise Quota Formulas

To improve the proposed formula, overall quotas should be related to world trade and capital movements, or to world GDP. A first approach would be to ensure that the size of the IMF not fall below an agreed proportion of world trade or of world GDP. Note that total IMF quotas have fallen from 58 percent of world trade in 1944 to about 4 percent today. Simply establishing a ratio of say 15 percent of imports would more than treble IMF resources. This would enable it to reduce the costs of adjustment to members, making the institution far more relevant to their problems. Total quotas could be adjusted more or less automatically at three yearly intervals to keep them from lagging behind the growth of the world economy. Additionally, total capital flows to prospective borrowing countries could also be considered in determining countries' potential need for IMF support.

Restore the Role of Basic Votes to their Original Function

[10] The Boards of the IMF and the World Bank approved in April 2003, the addition of three advisors to each of the two Executive Directors that represent a total of 44 sub-Saharan African countries.

Basic votes should be increased to an agreed proportion of total voting rights, and, in future, should rise in the same proportion as total quotas. The increase in the share of basic votes, since it favors smaller members and reduces the relative position of the larger economies, is a potentially divisive issue for the developing countries themselves. To be acceptable to developing countries as a whole, it would have to be accompanied by a significant increase in the quotas of the larger developing economies through the revision of quota formulas.

Use PPP-Based GDP Estimates in Quota Formulas

Using PPP-based GDP estimates in formulas would avoid the current underestimation of the economic size of developing and emerging market economies. This should also help correct their under-representation on the Board. Increasing the stake of developing countries in the IMF should substantially increase their contributions, consistent with their ability to contribute, and lessen the concern of current creditor countries about the risk of IMF lending.

VII. Concluding Remarks

Since the distribution of power is a political issue, a realistic approach to the quota formula issue might begin with finding an overall outcome that may be acceptable to both developed and developing countries and then work backward to define precisely how it could be reached (i.e., the weight to be assigned to the two components of voting power - basic vote and quotas- that would produce the desired result). While this may appear to lack objectivity, it is probably the only realistic approach and would be far from unprecedented.

Will the European Union and other industrial countries that hold a privileged position be prepared to yield part of their power to the broader membership of the IMF and the Bank? There are strong vested interests against, as well as sound political and economic reasons for their doing so. Much has changed in the political map of the world since 1945. As a number of former colonies became sovereign countries, and the Soviet Union gave way to a number of independent economies in transition, the membership of the Bank and the IMF has expanded from 45 to 184 countries.

The structure of the world economy has also changed considerably since the Bretton Woods Conference of 1944. The developing countries now account for a growing share of the world's output and trade, with China, India, Brazil, and Mexico among the world's 10 largest economies measured in real terms, with other newly industrializing countries having become major economic players, without attaining adequate representation in the IMF and the Bank.

Trade has grown beyond expectations and as official credit flows have declined, the growth of private international financial markets has soared. Vastly expanded international capital markets have created new opportunities but their volatility pose difficult challenges that the IMF is currently ill equipped to address, except at an enormous cost to the countries.

In the face of the major transformations in the global economic and political order, the IMF needs a more representative and transparent decision-making process to increase its resources and enhance its democratic legitimacy. If globalization is to work for the benefit of all countries, the recognition of the IMF as a truly multilateral institution is crucial. Democratic legitimacy and participation are not contrary to the pursuit of sound policies and of the purposes of the IMF.

EXECUTIVE DIRECTORS AND VOTING POWER
As of *May 19, 2003*

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
APPOINTED				
Nancy P. Jacklin *Meg Lundsager*	United States	371,743	371,743	17.10
Ken Yagi *Michio Kitahara*	Japan	133,378	133,378	6.14
Karlheinz Bischofberger *Ruediger von Kleist*	Germany	130,332	130,332	6.00
Pierre Duquesne *Sébastien Boitreaud*	France	107,635	107,635	4.95
Tom Scholar *Martin A. Brooke*	United Kingdom	107,635	107,635	4.95
Willy Kiekens	Austria	18,973		
(Belgium)	Belarus	4,114		
Johann Prader	Belgium	46,302		
(Austria)	Czech Republic	8,443		
	Hungary	10,634		
	Kazakhstan	3,907		
	Luxembourg	3,041		
	Slovak Republic	3,825		
	Slovenia	2,567		
	Turkey	9,890	111,696	5.14
Jeroen Kremers	Armenia	1,170		
(Netherlands)	Bosnia and Herzegovina	1,941		
Yuriy G. Yakusha	Bulgaria	6,652		
(Ukraine)	Croatia	3,901		
	Cyprus	1,646		
	Georgia	1,753		
	Israel	9,532		
	Macedonia, former Yugoslav Republic of	939		
	Moldova	1,482		
	Netherlands	51,874		
	Romania	10,552		

	Ukraine	13,970	105,412	4.85
Luis Martí (Spain) *Mario Beauregard (Mexico)*	Spain	1,891		
	El Salvador	1,963		
	Guatemala	2,352		
	Honduras	1,545		
	Mexico	26,108		
	Nicaragua	1,550		
	Spain	30,739		
	Venezuela, República Bolivariana de	26,841	92,989	4.28
Pier Carlo Padoan (Italy) *Harilaos Vittas (Greece)*	Albania	737		
	Greece	8,480		
	Italy	70,805		
	Malta	1,270		
	Portugal	8,924		
	San Marino	420		
	Timor-Leste	332	90,968	4.19
Ian E. Bennett (Canada) *Charles X. O'Loghlin (Ireland)*	Antigua and Barbuda	385		
	Bahamas, The	1,553		
	Barbados	925		
	Belize	438		
	Canada	63,942		
	Dominica	332		
	Grenada	367		
	Ireland	8,634		
	Jamaica	2,985		
	St. Kitts and Nevis	339		
	St. Lucia	403		
	St. Vincent and the Grenadines	333	80,636	3.71
Vilhjálmur Egilsson (Iceland) *Benny Andersen (Denmark)*	Denmark	16,678		
	Estonia	902		
	Finland	12,888		
	Iceland	1,426		

	Latvia	1,518		
	Lithuania	1,692		
	Norway	16,967		
	Sweden	24,205	76,276	3.51
Michael J. Callaghan (Australia)	Australia	32,614		
Michael H. Reddell (New Zealand)	Kiribati	306		
	Korea	16,586		
	Marshall Islands	285		
	Micronesia, Federated States of	301		
	Mongolia	761		
	New Zealand	9,196		
	Palau	281		
	Papua New Guinea	1,566		
	Philippines	9,049		
	Samoa	366		
	Seychelles	338		
	Solomon Islands	354		
	Vanuatu	420	72,423	3.33
Sulaiman M. Al-Turki (Saudi Arabia) *Abdallah S. Al Azzaz (Saudi Arabia)*	Saudi Arabia	70,105	70,105	3.23
Sri Mulyani Indrawati	Brunei Darussalam	2,402		
(Indonesia)	Cambodia	1,125		
Ismail Alowi (Malaysia)	Fiji	953		
	Indonesia	21,043		
	Lao People's Democratic Republic	779		
	Malaysia	15,116		
	Myanmar	2,834		
	Nepal	963		
	Singapore	8,875		
	Thailand	11,069		
	Tonga	319		
	Vietnam	3,541	69,019	3.18
Ismaila Usman	Angola	3,113		

(Nigeria)	Botswana	880		
Peter J. Ngumbullu	Burundi	1,020		
(Tanzania)	Eritrea	409		
	Ethiopia	1,587		
	Gambia, The	561		
	Kenya	2,964		
	Lesotho	599		
	Malawi	944		
	Mozambique	1,386		
	Namibia	1,615		
	Nigeria	17,782		
	Sierra Leone	1,287		
	South Africa	18,935		
	Sudan	1,947		
	Swaziland	757		
	Tanzania	2,239		
	Uganda	2,055		
	Zambia	5,141		
	Zimbabwe	3,784	69,005	3.18
A. Shakour Shaalan (Egypt)	Bahrain	1,600		
Oussama T. Kanaan (Jordan)	Egypt	9,687		
	Iraq	5,290		
	Jordan	1,955		
	Kuwait	14,061		
	Lebanon	2,280		
	Libya Arab Jamahiriya	11,487		
	Maldives	332		
	Oman	2,190		
	Qatar	2,888		
	Syrian Arab Republic	3,186		
	United Arab Emirates	6,367		
	Yemen, Republic of	2,685	64,008	2.95
WEI Benhua (China) *WANG Xiaoyi (China)*	China	63,942	63,942	2.94
Fritz Zurbrügg (Switzerland)	Azerbaijan	1,859		
Wieslaw Szczuka (Poland)	Kyrgyz Republic	1,138		
	Poland	13,940		

	Serbia and Montenegro	4,927		
	Switzerland	34,835		
	Tajikistan	1,120		
	Turkmenistan	1,002		
	Uzbekistan	3,006	61,827	2.85
Aleksei V. Mozhin (Russian Federation) *Andrei Lushin (Russian Federation)*	Russian Federation	59,704	59,704	2.75
Murilo Portugal (Brazil)	Brazil	30,611		
Roberto Steiner (Colombia)	Colombia	7,990		
	Dominican Republic	2,439		
	Ecuador	3,273		
	Guyana	1,159		
	Haiti	857		
	Panama	2,316		
	Suriname	1,171		
	Trinidad and Tobago	3,606	53,422	2.46
Abbas Mirakhor	Afghanistan, Islamic State of	1,454		
(Islamic Republic of Iran)	Algeria	12,797		
Mohammed Daïri (Morocco)	Ghana	3,940		
	Iran, Islamic Republic of	15,222		
	Morocco	6,132		
	Pakistan	10,587		
	Tunisia	3,115	53,247	2.45
Yaga V. Reddy (India)	Bangladesh	5,583		
R.A. Jayatissa (Sri Lanka)	Bhutan	313		
	India	41,832		
	Sri Lanka	4,384	52,112	2.40
Guillermo Le Fort (Chile)	Argentina	21,421		
A. Guillermo Zoccali	Bolivia	1,965		

(Argentina)	Chile	8,811		
	Paraguay	1,249		
	Peru	6,634		
	Uruguay	3,315	43,395	2.00
Damian Ondo Mañe	Benin	869		
(Equatorial Guinea)	Burkina Faso	852		
Laurean W. Rutayisire	Cameroon	2,107		
(Rwanda)	Cape Verde	346		
	Central African Republic	807		
	Chad	810		
	Comoros	339		
	Congo, Democratic Republic of	5,580		
	Congo, Republic of	1,096		
	Côte d'Ivoire	3,502		
	Djibouti	409		
	Equatorial Guinea	576		
	Gabon	1,793		
	Guinea	1,321		
	Guinea-Bissau	392		
	Madagascar	1,472		
	Mali	1,183		
	Mauritania	894		
	Mauritius	1,266		
	Niger	908		
	Rwanda	1,051		
	São Tomé and Príncipe	324		
	Senegal	1,868		
	Togo	984	30,749	1.41
			2,171,658[3] [4]	99.94[5]

[1]Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department.
[2]Percentages of total votes 2,173,313 in the General Department and the Special Drawing Rights Department.
[3]This total does not include the votes of Somalia, which did not participate in the 2002 Regular Election of Executive Directors. The total votes of this member is 692 - 0.03 percent of those in the General Department and Special Drawing Rights Department.
[4]Liberia's voting rights were suspended effective March 5, 2003 pursuant to Article XXVI, Section 2(b) of the Articles of Agreement. The total votes of this member is 963 - 0.04 percent of those in the General Department and Special Drawing Rights Department.
[5]This figure may differ from the sum of the percentages shown for individual countries because of rounding.

Source, *IMF Annual Report* 2002.

Bibliography

Bhagwati, Jagdish, 1998, "The Capital Myth" in *Foreign Affairs*, May/June, Vol.77, No. 3, pp. 7-12.

Buira, Ariel, 1995,"Reflections on the International Monetary System," *Essays in International Finance,* No.195, Princeton, N.J., Princeton University, International Finance Section.

Buira, Ariel, 1999, "An Alternative Approach to Financial Crises," *Essays in International Finance*, No. 212, Princeton University, Princeton N.J.

Buira, Ariel, 2002, "An Analysis of IMF Conditionality," Oxford University, *Discussion Paper Series*, No.104.

Buira, Ariel, 2002, "The Governance of the International Monetary Fund," in *Providing Global Public Goods*, 2002, edited by Inge Kaul et al., Oxford University Press.

Buira, Ariel, 2002, "Reforming the Governance of the Bretton Woods Institutions," in *Financing for Development,* 2002, OPEC Fund Pamphlet Series, No. 33, Vienna.

Feldstein, Martin, 1998, "Refocusing the IMF," *Foreign Affairs*, March/April, Vol. 77, No.2, pp. 20-33.

Gold, J., 1972, "Voting and Decisions in the International Monetary Fund," IMF, Washington, D.C.

Horsefield, Keith J., 1996, *The International Monetary Fund, 1945-1965; Twenty Years of International Monetary Cooperation*, Vol. 1, IMF, Washington, D.C.

IBRD, Articles of Agreement, Washington, D.C. 1946.

IMF, Articles of Agreement, Washington, D.C. April 1993.

IMF, 2001, "Selected Decisions and Selected Documents of the International Monetary Fund," 26th Issue, Washington, D.C., December 31.

----, 1984, "The International Monetary Fund: Its Financial Organization and Activities," Pamphlet Series No. 42, Washington, D.C. International Monetary Fund.

----, 2001, "Review of the Fund's Experience in Governance Issues," SM/01/30, Washington, D.C., March.

----, 2001, "SDR Allocation in the Eight Basic Period–Basic Considerations," available on the IMF external website.

----, 2000, "Country Experiences with the Use and Liberalization of Capital Controls," IMF Occasional Paper, Washington, D.C., January.

----, *IMF Survey*, various issues, International Monetary Fund, Washington D.C.

----, *International Financial Statistics*, various issues, International Monetary Fund, Washington, D.C.

----, 2000, "Report to the IMF Executive Board of the Quota Formula Review Group," Washington, D.C.

Kapur, D., Lewis, J. and Webb, R., 1997, "The World Bank, the First Half Century," The Brookings Institution, Washington, D.C.

Mikesell, Raymond F., 1994, "The Bretton Woods Debates: A Memoir," Essays in International Finance No.192, Princeton University, International Finance Section, March.

Miller-Adams, Michelle, 1999, "The World Bank, New Agenda in a Changing World," Routledge, London.

Mohammed, Azizali, "Governance Issues in Intergovernmental Groupings of Developing Countries", mimeographed.

Nayyar, Deepak, 2003, "New Roles and Functions for the UN and the Bretton Woods Institutions," UNU/WIDER, may be accessed online at http://www.wider.unu.edu/publications.

Quota Formula Review Group, 2000, "Report to the IMF Executive Board," April 28, IMF, Washington, D.C.

"Staff Commentary on the External Review of the Quota Formulas," 2000, prepared by the IMF Treasurer's Deptartament in consultation with Legal, Policy Development and Review, Research and Statistics Departments, IMF, June 6, Washington, D.C.

Annex: External Review of the Quota Formulas, 2000, EBAP/00/52 Supplement 1, May 1, IMF, Washington, D.C.

Tinbergen, Jan, 1952, "On the Theory of Economic Policy," North Holland, Amsterdam.

Woods, Ngaire, 2001, "Making the IMF and the World Bank More Accountable," in International Affairs, R.I.I.A. Vol. 77, No.1, January, pp. 83-100.

World Bank, "World Development Report 2000," Appendix Tables, Washington, D.C.