

BROOKINGS-CIGI-G24 HIGH LEVEL SEMINAR

DELIVERING ON IMF QUOTA AND GOVERNANCE REFORM

January 12, 2012, 9:00am-5:00pm,
Stein Room, Brookings Institution

Issues for Discussion

Past Commitments and Future Reforms

Reform of IMF governance has figured prominently on the global agenda during the past several years. Although the call for reform and initial steps pre-date the crisis, the urgency and pace of reform was given new impetus by the crisis as reflected in the November 2008 Washington Summit Declaration. Between 2006 and the Fall of 2010 a series of reforms were adopted focusing primarily on quota and voting realignment. Taken together these represent the most significant efforts at addressing the imbalance in voting power and quota shares since the creation of the IMF. More modest steps have also been taken with respect to the other aspects of the IMF's governance. Yet there is a widespread sense that progress to date has been inadequate and, as the G20 Seoul Communiqué recognizes, there is a need to be more ambitious if the IMF is to play the central role that it is being called to play in the global economy with effectiveness and legitimacy. In particular the G20 has committed to a comprehensive review of the quota formula by January 2013, the completion of the Fifteenth Quota Review to implement a further quota adjustment by January 2014, a realignment of Board Chairs away from Advanced Europe and a move to an all elected Board. This session will set the stage for the remainder of the day by considering the linkage between the role, mandate and purpose of the IMF and the sufficiency or insufficiency of reforms currently underway and will focus on the following issues:

1. What is the assessment of the progress made on the various aspects of governance reform since 2006? What are the lessons that can be drawn from the reform process?
2. What would it take to deliver on the reforms committed to by the G20 and the IMFC in 2012-2013?
3. What additional reforms should be considered for the IMF to be able to play its role in the present crisis and beyond?

Principles for Quota Reform

The commitment to a comprehensive review of the quota formula by the G20 and the IMFC offers an important opportunity to achieve a truly robust basis for future quota and voting realignments. Such a review must start with a discussion of objective principles that should determine relative weights and voting power in a global economic and financial institution with the mandate that the IMF has for

effective surveillance and orderly adjustments. The review must also consider how these principles can best be reflected in a relatively simple and transparent formula and what variables can capture the underlying goals of representation while meeting a necessary test of robustness. The session provides an important opportunity to raise the bar and provide an input in the discussions that will follow in the months ahead. In particular the session should explore:

1. What are key principles that participants feel should guide the reform of the quota formula? How should the formula balance principles of democratic representation with the functional mandate of the IMF? How should the different roles that quotas serve be best reflected in a revised formula?
2. What should be the core variables that should be included in a revised formula and what should be eliminated? With what weights? If GDP is to be the principal variable, should it be primarily on a GDP PPP basis? What adjustments need to be made to address weaknesses identified in other variables, notably openness and variability? Should any other factors such as contributions be included?
3. With respect to democratic representativeness, should the share of basic votes be increased and population included as an additional variable? Should these both be included in the quota formula itself?

Other Governance Reforms

Since its creation in the 1940s the nature of the IMF's operations, and the extent and complexity of its surveillance and technical assistance activities have changed and expanded considerably. Yet its governance structures have not evolved in line with these changes. Although the Fund's role in the current crisis has shown it can respond rapidly, more needs to be done to enhance the institution's legitimacy and effectiveness beyond the crisis. Though much of the debate about IMF governance has focused on quotas and voting mechanisms, there have been a number of reports written on reforming the governing bodies of the institution and revising the procedures used for making decisions and holding decision-makers accountable, including by IMF Staff, the Executive Board Group (the Moser report), the Eminent Persons Group (headed by Trevor Manuel) and the IEO. Broadly, these reports address three broad areas of reform: enhanced ministerial-level engagement; representation, accountability and effective decision-making at the Executive Board; and leadership selection. These reforms are critical, both for the enhancement of voice and for the effectiveness of the institution.

1. What should be the goals and basis for the realignment of the composition of the Executive Board as agreed in the 2010 package of reforms?
2. What lessons can be learnt from the recent appointment of the MD of the Fund?
3. Assuming the Board is to perform more of an oversight role, what functions might be devolved to management (for example, surveillance) and with what trade-offs?

4. What is the assessment of the recommendations and actions taken to date regarding Ministerial engagement? What further reforms should be considered to enhance accountability and engagement by ministers/governors?
5. Should double majorities be considered? If so, for what type of decisions? Should the 85 percent special majority threshold be lowered?