

David Woodward

IMF Voting Reform: Need, Opportunity and Options

The Need for Reform

The IMF's economically weighted voting system gives rise to a serious asymmetry of political power in the institution, between developed and developing countries, both directly and through four indirect mechanisms:

- the constituency system and representation on the Executive Board;
- differences in the accountability of appointed and elected Executive Directors;
- Directors' workloads; and
- the potential for effective coordination.

It gives rise to systemic inertia, giving over-represented countries the opportunity as well as the incentive to block any redistribution of voting power unfavourable to them.

The Opportunity for Reform

Current circumstances provide a major opportunity for progress towards redressing these imbalances. The current Quota Review started at a time when the IMF was under increasing financial pressure, before the G20 London Summit and many "emerging market" economies were in a financial position to "walk away" from the Fund – potentially a very important bargaining chip in negotiations.

At the same time, the growing rhetoric in the IMF, the World Bank and some developed countries about governance and democracy, and heightened public awareness in some developed countries, both of development issues and of shortcomings in IFI governance, provide a major opportunity for domestic political pressure on their governments.

If these two factors can still be effectively harnessed, they could provide a potent combination to force concessions.

Options and Assessment

A number of options for voting in the IMF can be addressed against eight criteria as the prospective bases for a common developing country position:

- congruence with democratic principles;
- adequacy of representation for all individual member countries;
- avoidance of domination by one country or country grouping;
- proportionality of differences in votes between countries;
- appropriate balance between "creditor" and "borrowing" countries;
- adequacy of representation for all country groups;
- potential for a relatively symmetrical constituency system; and
- broad acceptability to developing countries.

A number of statistical indicators for the distribution of votes are calculated for each option using the post-Singapore (2006) scenario as a baseline. In each case, other political considerations affecting the potential for the option to be approved are also addressed.

The overall findings can be summarized as follows.

1. **Increasing the basic vote** (within the current quota system) offers substantial benefits to those countries with the smallest votes; but its beneficial effects become substantial only at 50 per cent of the total vote when the dispersion of the vote becomes excessively compressed and highly asymmetrical. While this makes it inappropriate as a complete solution, it may be suitable as a component in a broader package of demands.
2. The **Cooper** (GDP plus variability) and **EU** (GDP plus openness) formulas compound almost all the problems of the *status quo*, and have serious adverse effects for almost all developing countries. Developing countries have a strong shared interest in ensuring that

neither of these formulas is used as a starting point for discussion.

3. The **Buira** proposal (GDP at purchasing power parity plus variability) represents a significant improvement on the *status quo* in most respects, but is subject to data problems, and has negative effects on a number of politically important developing countries. Consideration should be given to options for overcoming the latter problem, and strengthening the benefits for developing countries as a whole – for example, combining the Buira quota formula with an increased basic vote and/or adding a population-related component.
4. **Population-only** options: votes directly proportional to population give rise to much too unequal a distribution to be a viable option. The square root of population performs much better against the criteria established, and has a negative effect on fewer (and overall, less politically important) developing countries than other options. The cube root, however, over-compresses differentials. This makes the square root a strong candidate for a common developing country position.
5. **Basic vote plus population** options offer considerable advantages to developing countries in aggregate; but they entail a high degree of compression, which is also highly asymmetrical. They also have adverse effects on several politically important developing countries, particularly the larger Latin America economies.
6. The **Mirakhor and Zaidi** approach (increased basic vote, population-weighted vote and inclusion of “demand” variables in the quota formula) is promising in principle, but requires further refinement and analysis, to strengthen its benefits, increase its simplicity and reduce its data requirements.

Recommendations

Major changes in the voting weights in the IMF will probably involve a long-term process, requiring a long-term strategy. It will also require solidarity between low- and middle-income countries to combine the political strength of the former (in providing a moral case for reform) with that of the latter (in presenting a credible “walk-away” threat). Given this context, setting an ambitious long-term objective should be used both as

an opening demand and as a baseline throughout the negotiation process.

Based on careful assessment of the alternative options, an opening position and long-term objective requires a call for separating the three functions of IMF quotas (as a determinant of financial contributions, access to Fund resources and voting weights), on the grounds of the changes in the Fund’s membership, *nature and role*, and in political culture, since the system was established in 1944, and replacement of economic weighting with an approach based exclusively on population, recommending the square root of population as the preferred basis.

Since such an ambitious objective will not be achieved in the current quota review, a common fallback strategy is also required to maintain developing country solidarity. A basis for such a fallback strategy can involve a combination of:

- the maximum attainable increase in the basic vote;
- introduction of a second basic vote proportional to population; and
- modification of the quota formula to redistribute quotas in favour of developing countries, based on either the Buira or the Mirakhor and Zaidi approach.

Over time, efforts should be focused on increasing the share of the first two components to 25 per cent (or preferably 33 per cent) of the total vote.

David Woodward is an independent development consultant based in Europe. Professor of Economics, Institute of Economics, Federal University of Rio de Janeiro, Brazil.

The author is very grateful to Peter Chowla of the Bretton Woods project, for his invaluable assistance in sharing his calculations of quotas and votes under different reform options, which have been used as the basis for the assessments in this paper, and to his colleagues Stephen Mandel and Stephen Spratt for assembling the data required.