Supplementary Reading

Building a strong Board

The IMF needs a stronger Executive Board. This is partly a matter of increasing the authority of the Executive Directors who are its members. To this end, the major shareholders should cease their micromanaging of the IMF and delegate more authority to their Executive Directors. They should, at the same time, take the lead in ensuring that senior, highly qualified officials are appointed to the Board. The intensity of Board work also requires that Executive Directors have strong Alternates; in fact, an upgrading of both positions is desirable. Moreover, large multicountry groups in the Board, such as the two African constituencies, the European Union, and others that may emerge following consolidation of the kind proposed below, will need more expert staff to deal with their complex tasks.

Apart from the authority of individual Executive Directors and their offices, strengthening the Executive Board also calls for reforms in its size and country composition. With regard to the latter, many member countries and observers believe that the system of votes and representation is skewed in favor of the industrial countries, which are the IMF's main creditors and command about 60 percent of the total voting power. One problem is that emerging market countries such as Brazil, China, India, and Korea, whose importance in the world economy has grown enormously over recent decades, have fewer votes than many industrial countries whose economies are now smaller than theirs. For instance, Brazil's quota is only two-thirds the size of Belgium's, and China's quota is smaller than Italy's; there are similar anomalies in comparative voting power. Another problem arises from the fact that basic votes have remained unchanged since they were set in the IMF's Articles of Agreement. With the growth of quotas, basic votes, which still represented more than 10 percent of total votes in the 1970s, have declined to barely 2 percent. Thus, the voting power of countries with relatively small quotas—including many developing countries that often need to borrow from the Fund—has been significantly eroded.

To address these problems, member countries need to agree to a package of measures to obtain more equity in voting power, including a new and more transparent quota formula, ad hoc quota adjustments to help resolve particular anomalies, and an increase in basic votes.

A major distortion currently is the fact that the combined voting power of the 25 European Union (EU) member countries stands as high as 32 percent. This voting power was established in the early years of the IMF when European economic integration was in its infancy and many European countries needed to borrow from the IMF. Today, the exclusion of intra-EU trade from the quota calculations, which would be appropriate for an economic union, would reduce the combined EU quota and voting power by approximately 9 percentage points, which could then be redistributed to other members.

Interestingly, the EU member countries' superior voting power has not translated into commensurate influence in the Executive Board. The aggregate voting strength of EU Board members is nearly twice as large as that of the United States, which stands at a little over 17 percent. Nevertheless, the EU's influence in IMF decision making lags well behind that of the United States because the EU has not been as effective in developing common positions.

Reforming the way the EU's aggregate quota is calculated would take care of some problems but not all. Some progress has been made toward a new and more transparent quota formula (which would include measures of GDP, economic openness, vulnerability to external shocks, and financial strength), but more work is required to reach consensus. One change that would increase the quotas of developing countries as a group would be to use GDP data converted on the basis of purchasing power parities (PPP), rather than market exchange rates, as is currently done. (PPP data use international market prices, which tend to be higher for developing countries than their own domestic market prices converted at market exchange rates.) The industrial countries resist the use of PPP data partly because of the central role of market exchange rates in the IMF's work. Further consideration of this complex issue will be required.

In the view of IMF staff, it will be difficult to develop a quota formula that is sensible in terms of both financial burden sharing and equity. Political decisions will be required to ensure very broad support within the membership for the promotion of reasonable equity in voting power while ensuring that the industrial countries remain majority shareholders to reflect their role as the predominant creditors of the IMF.

The required changes in the distribution of voting shares can best be achieved through a package of reforms implemented in the context of a general quota review that, according to the IMF's Articles of Agreement, must take place at a maximum frequency of every five years. This package could include a general increase in quotas involving a selective element distributed according to a new quota formula, supplemented by ad hoc adjustments for countries whose quotas are most out of line, and an increase in basic votes. Because the United States and the EU have comparable GDP levels, the future U.S. and EU quotas should be similar. In fact, it would make eminent sense for the United States and the EU to have identical quotas. Such a package would require the support of countries holding at least 85 percent of the voting power. Therefore, the support of the United States is essential.

In addition, the size of the Board should be significantly reduced. The present size of the Board—expanded from its original 12 members to 20 by 1964, and to 24 members in 1992 when Switzerland and the countries of the former Soviet Union joined the IMF—is too large for the institution to be fully effective. The unification of the 25 EU member countries into a single chair would represent a major step toward this objective. Currently, the EU is represented by seven chairs: France, Germany, and the United Kingdom each represent themselves, while Belgium, Italy, the Netherlands, and the Nordic group chair constituencies that include 19 EU members and 17 non-EU members. In addition, Spain holds the Executive Director position on a rotating basis in a constituency that includes a number of Latin American countries. Ireland is a member of the Canadian constituency, and Poland is a member of the group headed by Switzerland. A single EU chair in the Executive Board would, accordingly, reduce the size of the Board by 6 chairs—assuming that the 17 non-EU members in the four constituencies would be absorbed into other groups.

The merger of the EU's 25 members into one constituency would reduce the Board's size to 18 chairs. The developing countries (including Russia and the other transition countries), currently represented by 12 chairs, would then have twice as many chairs as the industrial countries, even though they would continue to hold less than half the total voting power. This would send a powerful signal to the developing countries to consolidate their chairs to strengthen their influence. The same holds true for constituencies that are led by the remaining industrial countries—Australia, Canada, and Switzerland. A feasible objective would be a reduction in the size of the Board from the current 24 chairs to 14.

A streamlined Board, represented by Executive Directors who are also senior officials from their own countries, would create a compact and powerful decision-making instrument in which developing countries would hold a majority of the chairs while the industrial countries would retain a voting power majority, albeit reduced.

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