March 26, 2014

IMF Quota and Governance Reforms

Overview

What Is the Issue? The International Monetary Fund (IMF, the Fund) is the multilateral organization focused on the international monetary system. In December 2010, the United States and the other 187 IMF member countries agreed to a reform package that addresses two major concerns about the institution: (1) that the representation of emerging and developing economies at the IMF does not reflect their contribution to the global economy; and (2) that the size of the IMF's financial resources has not kept pace with increased economic activity in the global economy. The reform package would double the IMF's general resources and update the governance structure to increase the IMF member contributions (known as quota) and voting power of developing and emerging market economies, and reduce the total voting power of European countries and reduce Europe's representation on the IMF's Executive Board, its main governing body.

> "These reforms will lead to a major overhaul of the Fund's voice and governance, strengthening the Fund's legitimacy and effectiveness." *IMF Press Release No. 10/477, December 16, 2010*

What Is the State of Play? The quota and governance reforms are interlinked, and cannot be implemented separately. A double majority of the IMF membership (voting power and number of total members) is required to adopt the reforms. For the quota increase, IMF members representing at least 70% of IMF contributions must consent to the increase. The governance reforms must be agreed by three-fifths of the IMF's 188 members (113 members) having 85% of the IMF's total voting power. In many cases (including the United States) this involves parliamentary approval. Since the United States has voting power of 16.75%, the reforms cannot become effective without ratification by the United States.

Administration Policy. Successive Administrations have supported IMF governance reform efforts. A modest reform agreement was negotiated between 2006 and 2008 under President Bush and ratified by the United States in 2009 under the Obama Administration. During negotiations for the current reform package, U.S. officials had a major role in brokering compromises between overrepresented European countries and underrepresented emerging economies and crafting the current reform package. The inclusion of doubling IMF quotas, however, has made passage of the reform package more difficult. The Administration sought for several years to have Congress introduce funding language outside of the regular budget cycle and did not include a formal request until the FY2014 budget request. No IMF authorizations or appropriations were provided in FY2014 and the Administration has resubmitted its request to ratify the reform package in its FY2015 budget request.

The IMF and March 2014 Ukraine Legislation

Since U.S. support to Ukraine would be contingent on Ukraine agreeing to an IMF loan and economic reform program, the Administration urged Congress to include the IMF reforms as part of a broader package of Ukraine-related legislation. Countries are allowed to borrow 200% of their quota annually and 600% cumulatively, and the quota reforms—which increase Ukraine's quota from $2.1 billion to $3.1 billion—would increase the amount of financing available to Ukraine.

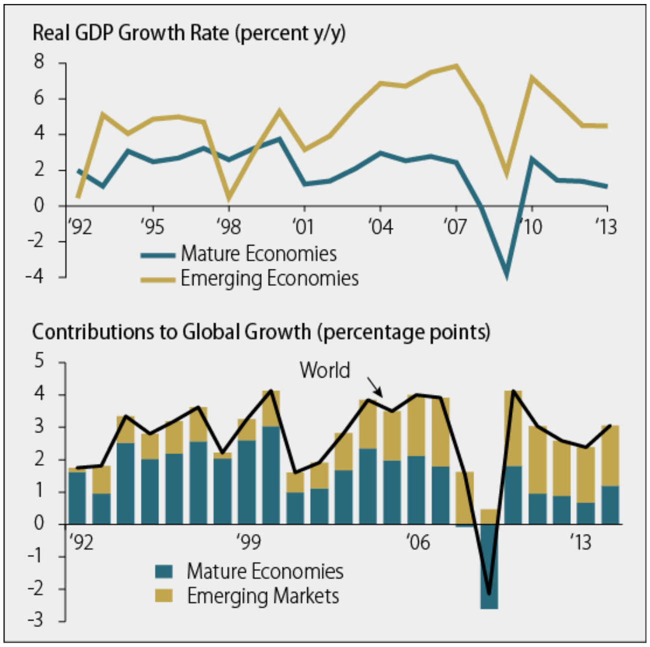
The Senate Ukraine assistance bill (S. 2124), as introduced and passed by the Senate Foreign Relations Committee, included IMF reform language but was removed by Senate leadership to ease passage in the House, where there was greater opposition. Critics argued that the IMF has sufficient available capital to fund any potential loan program and that there are "exceptional access" for countries to borrow from the IMF amounts in excess of their normal access limits. Rather than attaching the IMF language to a Ukraine-related measure, they argued, it would be more prudent to address U.S. funding to the IMF as part of the regular appropriations process. Neither the House (H.R. 4152 and H.R. 4278) nor Senate (S. 2124) Ukraine measures contains any IMF-related language.

The IMF and the Global Economy

Total IMF member contributions are approximately $367 billion. In addition to its quota resources, the IMF maintains standing multilateral borrowing arrangements to temporarily supplement available quota resources and borrowing. The main borrowing arrangement, the New Arrangements to Borrow (NAB), is a set of credit arrangements between the IMF and 38 member countries that can provide about $571 billion of supplementary resources to the IMF. Since quota increases are difficult to achieve, members have found separate borrowing arrangements to be an attractive vehicle, such as during the financial crisis in 2009, when IMF Members increased the NAB by an additional $500 billion.

IMF rules call for a review of quotas every five years to ensure that total IMF resources are adequate and that countries' quotas reflect their relative share in the global economy. Despite major growth and change in relative contributions to the global economy, there has not been a major quota increase since 1998. Faster economic growth in emerging economies than in the rest of the world doubled the share of emerging market countries' contribution to global GDP from 20% in 1996 to 39% in 2013. Emerging market countries accounted to 76% of global growth in 2013 (Figure 1).

Figure 1. Global Growth

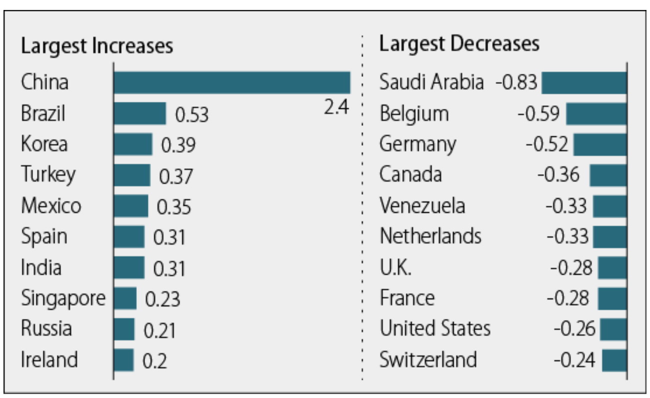


Source: Institute for International Finance, adapted by CRS graphics specialist Amber Wilhelm.

What is the Quota and Governance Reform Package?

Quota Increase and Voting Shares. The reforms would increase IMF quotas to approximately $736 billion and rollback contributions made in 2009 to the NAB. This change would add less than $80 billion to total IMF financing available to the IMF. China, Brazil, Korea, and Turkey, would see the largest increase in quota shares (Figure 2). In total, 6% of total quotas and voting power would shift to emerging market and developing countries.

Figure 2. Changes in IMF Quotas (Percentage Points)



Source: International Monetary Fund, adapted by CRS graphics specialist Amber Wilhelm.

Under the proposed reform package, total U.S. financial commitments to the IMF would not increase. Instead, about $63 billion of U.S. financial commitments would be transferred from the NAB to quota. The total U.S. financial commitment to the IMF would remain at about $170 billion. The U.S. current quota commitment (about $65 billion) would approximately double to $128 billion. The U.S. commitment to the NAB (about $105 billion) would be reduced to $42 billion.

Governance Reforms. Day-to-day authority over IMF general operations is handled by a 24-member resident Board of Executive Directors. There are presently two categories of Executive Directors, appointed and elected. Under current rules, the five countries with the largest quotas appoint their own Executive Director.

The 2010 proposed reforms eliminate appointed Executive Directors and require that all Executive Directors be elected. Since Germany, France, and the United Kingdom will likely continue to be among the five largest contributors to the IMF, the reforms allow for potential future consolidation of European representation on the Executive Board. For the United States, this reform has no practical impact on its ability to have its representative on the Executive Board. Instead of appointing an Executive Director as the largest IMF shareholder nation, the United States would use its substantial voting power to elect its own representative on the Executive Board. IMF members also committed to maintain a 24-member Executive Board and reduce by two the number of Executive Directors representing advanced European economies.

Arguments for and Against the Reforms. Proponents argue that the quota and governance reform package is necessary for maintaining the effectiveness and legitimacy of the IMF. They contend that the under-representation of emerging economies reduces the ability of the IMF to constructively engage its full membership on policy issues such as global macroeconomic surveillance, developing policies on global capital flows, and sovereign bankruptcy, among other issues. They further argue that it is better to embed countries such as Brazil, China, India, Indonesia, Korea, Mexico, Russia, and South Africa in the IMF, rather than risk them setting up alternatives to the IMF.

Opponents of the reforms argue that the IMF has sufficient resources to address financial crises through the expansion of the NAB. Some opponents are also skeptical that emerging economies support the existing norms and values of international financial institutions. Any reforms increasing the voice and participation of emerging markets at the IMF, they argue, might result in the support of IMF policies that are less aligned with the preferred policies of advanced economies.

For more information, see CRS Report R42844, *IMF Reforms: Issues for Congress*, by Rebecca M. Nelson and Martin A. Weiss and CRS Report R42019, *International Monetary Fund: Background and Issues for Congress*, by Martin A. Weiss.

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