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IMF Quota and Governance Reforms

Overview

The International Monetary Fund (IMF, the Fund) is a multilateral organization focused on the global monetary system. In December 2010, the United States and the other IMF member countries agreed to a reform package. It addresses two major concerns about the institution: (1) the representation of emerging and developing economies at the IMF does not reflect their contribution to the global economy; and (2) 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 capital base and update its governance structure. Specifically, it would increase IMF member contributions (known as quota) and voting power of developing and emerging market economies; reduce the total voting power of European countries; and reduce Europe's representation on the IMF's Executive Board, its main governing body.

As introduced in December 2015, the FY2016 Omnibus bill includes language that would authorize and appropriate an increase in the U.S. quota at the IMF, as well as authorize the executive branch to vote in favor of the governance reforms.

As currently structured, the two components of the 2010 reform package—the quota and governance reforms—are interlinked, and cannot be implemented separately. A double majority of the IMF membership (measured by 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 and the governance reforms must be approved. 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) the reforms require parliamentary approval or authorization. Since the United States has voting power of 16.74%, the quota and governance reforms cannot take effect without U.S. ratification by the United States. Furthermore, enough countries have already approved the measures that U.S. approval would allow the IMF to proceed with the reform package. Depending on the budgetary treatment of any new authorized U.S. contributions to the IMF, appropriations may also be required.

The IMF and the Global Economy

Total IMF quota contributions are approximately $331 billion. However, this figure represents just over 25% of the IMF's available resources. 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 $514 billion of supplementary resources to the IMF. Member countries also have established bilateral loan or note purchasing agreements with the IMF, which currently provide an additional $382 billion of financing to the IMF. Combining both quota and provisional resources, total IMF resources are approximately $1.23 trillion.

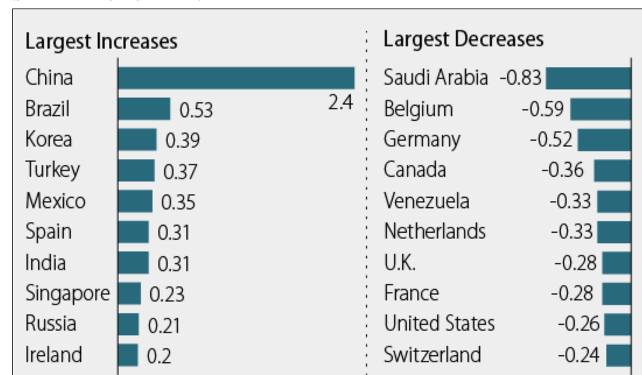
IMF rules call for a review of quotas every five years to ensure that total IMF resources are adequate and that countries' quotas reflect their relative share in the global economy. Despite major growth and change in relative contributions to the global economy, there has not been a major quota increase since 1998.

What is the Quota and Governance Reform Package?

Quota Increase and Voting Shares. The reforms would increase IMF quotas to approximately $736 billion and roll back contributions made in 2009 to the NAB. China, Brazil, South 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 1. Changes in IMF Quotas

(percentage points)



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

Under the proposed reform package, U.S. financial commitments to the IMF would not increase. Instead, about $56.7 billion of U.S. financial commitments would be transferred from the NAB to quota. The U.S. current quota commitment (about $58.5 billion) would approximately double to $115.2 billion. The U.S. commitment to the NAB (about $95.9 billion) would be reduced to $39.1 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 reforms would 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 to 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, South Korea, Mexico, Russia, and South Africa in the IMF, rather than risk them setting up alternatives to the IMF.

Opponents 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.

Congressional Action

In its budget requests for FY2014, FY2015, and FY2016, the Obama Administration included authorization and appropriation requests for the United States to endorse and ratify the 2010 reform package. During the spring of 2014, during debate on a Ukraine-assistance package, IMF funding legislation was included in the Senate version of the bill but was removed prior to passage.

The FY2016 Omnibus Measure

Following several years of negotiations between Congress and the executive branch, the FY2016 Omnibus includes several IMF provisions. If enacted, the FY2016 Omnibus would fully fund the increase in U.S. quota, which would increase by an additional $56.7 billion to $115.2 billion. At the same time, the proposed legislation rescinds an equal amount ($56.7 billion) from the U.S. contribution to the NAB, reducing the U.S. commitment to the NAB to $39.1 billion. The proposed legislation also includes language that would sunset U.S. contributions to the NAB in December 2022. Any U.S. participation in the NAB following this date would require future congressional approval.

Policy Requirements

End the "Systemic Exemption." The FY2016 Omnibus measures mandates that the transfer from NAB to quota cannot go forward until Treasury certifies it has taken "all necessary steps" to seek the elimination of the IMF's "systemic exemption" policy, introduced in 2010 to facilitate the IMF's Greek lending program. This exemption allows the IMF to approve large-scale lending programs to a country, despite concerns about the country's debt sustainability, if there is a high risk that not providing financial assistance would have spillover effects to other countries and potentially destabilize the global economy.

Recent IMF loans to Greece, Portugal, and Ireland would likely not have been justified in the absence of the "systemic exemption," which was introduced in 2010, In recent years, IMF staff has supported eliminated the "systemic exemption," and proposed other reforms to increase the IMF's ability to provide support to highly-indebted, systemically important countries.

Exceptional Access Consultations. The FY2016 Omnibus measure also would require that the U.S. Executive Director at the IMF consult with Congress in advance of approving large IMF loans. Treasury also would be required to submit a report to Congress providing a debt sustainability analysis and documentation justifying the loan.

Other Reporting Requirements. Three additional reporting requirements are included:

- The Congressional Budget Office would provide a report on its method of incorporating market risk in its cost estimates of U.S. contributions to the IMF and consider options for reforming the budgetary treatment of future U.S. contributions to the IMF;

- Treasury would be required to prepare an annual report analyzing the current lending, surveillance, and technical assistance activities of the IMF; and

- Treasury would be required to prepare a report on improving U.S. participation in the IMF that include analysis of IMF surveillance policies and products, improving implementation of IMF policy recommendations, and analysis of the IMF's transparency policy, among others.

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