

# Improving Southern Voice on the IMF Board: Quo Vadis Shareholders?

## ***Part One: Introduction***

There is a growing and persuasive literature to suggest that the voice of developing countries in the International Monetary Fund (IMF) should be significantly improved. Several of these studies focus on the improvements which can be made to the internal functioning of the institution, in ways which favour the interests of developing countries.<sup>1</sup> Others focus more directly on the options for improving developing countries' representation, or voice, in the IMF Executive Board itself.<sup>2</sup> Yet however clear the argument, the obstacles to achieving these objectives are very significant indeed. Meaningful changes can only be made with the consent of the industrial countries, which hold a majority of the voting power in the IMF Board and of course in the IMF Board of Governors. And these members currently see little benefit in changing the status quo. This, in turn, presents an additional challenge: to identify processes which can unlock the current impasse between developing and industrial countries – largely represented by debtors and creditors respectively, on the issue of improved developing country influence in the decision-making processes in the IMF Executive Board.

The current paper focuses on the challenge of improving developing country voice on the IMF Board. It examines some of the recent literature on developing country representation in the Board and seeks to identify some options for improving such representation. This literature points broadly to the presence and the deepening of two parallel challenges which currently confront the collective membership of the institution. The first of these is a decline in the efficiency of conduct of board work, with inefficiency focusing on the long-term disadvantages to the institution and its membership, of imbalanced decision-making arrangements at the Board level. On this approach, inefficient representation arrangements are leading to less than optimal decision-making based on a failure to adequately understand the needs of the majority of the institution's clients; consequently to instances of poor policy and programme design; and ultimately in some instances to policy and programme failure. The costs of this challenge are significant and direct, both to the institution as a whole and to the members concerned. The second challenge posed by inadequate representation of developing countries in the IMF Board is based on the concept of a democratic deficit – the notion that the representation arrangements for developing countries in the IMF Executive Board have now become so unbalanced that there is a substantive claim that the overall

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<sup>1</sup> See for example Evans and Finnemore (2001), who provide a detailed treatment of potential organisational reforms which, if introduced, could significantly strengthen the voice of developing countries in the IMF. These proposals briefly touch on options to increase the voice of developing countries in the IMF Executive Board itself, but also focus on other options, including rebalancing resources and obligations in area departments; decentralizing staffing; increasing mid-career hiring to attract staff with direct experience in developing countries; and sub-contracting research to developing country researchers.

<sup>2</sup> See for example Buirra (2002); Bradlow (2001); and Mohammed (2002).

representation process is no longer democratic and does not promote the principles of consensus, cooperation, collaboration and multilateralism upon which the IMF was founded.

Unlike other forms of criticism of the IMF, which have focused on perceived operational failures and which have sought to assign blame for these largely to the management and staff of the institution, IMF Management and staff have little influence in the quest to improve developing country voice in the Executive Board. Addressing this challenge is solely the responsibility of the shareholders of the IMF. If there are to be changes which improve developing country representation, these cannot come from IMF management and staff, but will need to occur through decision taken by the shareholders of the institution, in practice through decisions of the Board of Governors.

Prima facie, this appears to make the task of addressing these challenges all the more complex. The recent conclusion of the Twelfth Quota Review process, for example, which resulted in a decision not to increase quotas and hence passed up an opportunity to make corrections in the quota arrangements – and therefore relative voting power in the Board – highlights the considerable inertia in the quota and voting process and the reluctance of the largest shareholders to make changes to quota and voting arrangements.<sup>3</sup> But as Buirra and other commentators note, there are now powerful economic and political reasons for changes in representation arrangements which favour developing countries.<sup>4</sup> These arguments are growing and it would be opportune to find mechanisms for open and detailed discussion of the various options which could be considered in any rearrangement of Board representation which benefits developing countries. Doing so will contribute to strengthening governance, addressing the concerns of a large segment of the IMF's membership and could reveal some options which limit the adverse economic and political concerns of creditors, particularly those who may expect any reforms to be adverse to their interests.

The current paper briefly considers these aspects of the relationship between developing countries and the IMF and their implications for reform of the representation arrangements for developing countries in the IMF Board. Part Two outlines the scope of the challenge confronting developing countries, in view of the current system of weighted voting, coupled with the current distribution of board seats among the membership. Part Three briefly sets out a case for improving the representation of developing countries in the Board. Developing country interests are to a large extent homogeneous and their claims for strengthened representation are largely based on a common set of arguments. This section outlines three key reasons for an early improvement in the status of developing countries in the Board. It also presents some of the specific arguments raised by sub-groups among developing countries. If the reasoning is so persuasive, why then are developing countries currently in so unfavourable a position? Part Three continues by examining some of these reasons; and concludes with some potential considerations which could point to a way forward.

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<sup>3</sup> Refer IMF (2003): Press Release No. 03/02: IMF Board Recommends to Governors Conclusion of Quota Review, IMF, Washington DC.

<sup>4</sup> See Buirra (2002).

Part Four of the paper illustrates the general claim for stronger developing country representation, by focusing on the representation arrangements for one large section of the IMF's membership, Sub-Saharan African countries, who represent approximately one quarter of the IMF's member countries and who are the most significantly affected by the imbalanced representation arrangements in the Executive Board. Correcting the extraordinary imbalances which have developed with regard to Sub-Saharan African representation would constitute a significant benefit for developing countries as a whole and a substantial rectification of the imbalances which have developed in recent years. Even then, however, additional steps would need to be taken to improve the voice of developing countries more broadly, including the claims for better representation by some specific developing countries. Part Five suggests a range of options and proposals for change in representation arrangements which can begin to address the twin challenges of weakening efficiency and a sense of weakening of democratic process. And Part Six concludes.

## ***Part Two: Voting Share and Board Presence – the Status Quo***

### **Introduction**

The magnitude of the challenge confronting developing countries in seeking to improve their status in the IMF Executive Board is formidable. There are two basic benchmarks for determining the relative scale of developing countries' claims for a stronger voice. Both represent important measures of relative power in the Board. Firstly, relative voting share; and secondly the relative share of board seats. In combination, they present an accurate reflection of the influence of developing countries in the Executive Board. These are examined below.

### **Determining Relative Voting Share – Two Approaches**

As regards relative voting share, there are at least two methods of computing the relative voting share of developing countries in the IMF Executive Board. The first approach assigns the voting shares of each individual member to a specific category (for example Emerging Market, HIPC, transitional and other countries) and aggregates the voting shares in each category. The second approach examines voting share on a constituency basis, based on the current distribution of Executive Board seats. Each approach has advantages and disadvantages. The category-based approach provides an accurate reflection of the precise voting share of groups such as emerging markets, or of developing countries as a whole. However, it does not take account of the fact that Executive Directors are not permitted to split their votes and to cast separate votes for each of the members they represent. Instead, they are required to cast a single block vote for all of their members. The second approach, which focuses on the constituencies as a whole, recognizes the reality of Board voting practice, but masks the fact that some

constituencies which are headed by creditor members may also represent debtor countries.

A comprehensive example of the former approach is provided in Evans and Finnemore (2001). This approach reveals that developing countries, comprising the emerging market economies, HIPC and Non-HIPC PRGF countries, India, China and a number of other developing countries, hold approximately 30.3% of the voting share in the Executive Board. A further 8.2% is held by the transitional and other countries, including, in Evans and Finnemore's methodology, the Russian Federation. By contrast, the G-7, the Netherlands, Belgium and Sweden hold a majority of 51.5%. When combined with all other OECD countries, the creditor members of the institution hold a majority of 61.45% of the total vote.

A second approach to assessing relative voting strength is to examine voting based on the current constituencies in the Board. The collective voting strength of the Executive Directors from developing countries, together with the number of developing country Executive Directors is illustrated Table 1.

The table highlights the fact that based on the current configuration of the Executive Board, there are typically eleven Executive Directors whose constituencies are headed by developing country members, almost all of whom are debtors. Ten of the available 24 board seats are occupied by developing countries and collectively these members hold 26.2% of the voting share. Note that the number of developing country Board seats rises to eleven seats when the constituency currently headed by Spain is chaired by Mexico or Venezuela.<sup>5</sup>

On the above analysis of voting power, if the ten developing country Executive Directors are joined by the Russian Federation, a single country constituency which has been an important debtor member in recent years, they hold a voting share of just under 29%. This aggregate falls considerable short of a simple majority of the voting power, which is the minimum required for any decision of the Executive Board. For developing countries to be able to carry a decision in their favour, they therefore clearly require to build alliances with creditor members.

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<sup>5</sup> Each constituency has its internal rules, among its members, for Board representation. In the case of the seat currently chaired by Spain, a rotation arrangement is in place which enables Mexico, Spain and Venezuela to rotate the constituency chair.

**Table 1 – IMF Executive Board: Voting Share and Distribution of Board Seats**

Country/ Constituency	Total Constituency Voting Share (%)
<b>1. Chairs Headed By Creditor Members</b>	
US	17.10
Japan	6.14
Germany	6.00
France	4.95
UK	4.95
Italy	4.19
Canada	3.71
<b>Total G-7</b>	<b>47.04</b>
Belgium	5.14
Netherlands	4.85
Iceland	3.51
<b>Total G-10</b>	<b>60.54</b>
Spain	4.28
Australia	3.33
Switzerland	2.85
<b>Total Creditor Group</b>	<b>71.00</b>
<b>2. Chairs Headed By Developing Country Members</b>	
Saudi Arabia	3.23
Indonesia	3.18
Nigeria	3.18
Egypt	2.95
China	2.94
Brazil	2.46
Iran	2.45
India	2.40
Chile	2.00
Equatorial Guinea	1.41
<b>Total Developing Country Group</b>	<b>26.20</b>
Russian Federation	2.75
<b>Total Debtor Group</b>	<b>28.95</b>

Source: IMF Voting Shares – IMF Website: [www.imf.org](http://www.imf.org)

## The Influence of Mixed Constituencies

Fortunately, in addition to the ten constituencies almost entirely comprised of developing country debtors, there are also currently eight mixed constituencies, containing both creditor and debtor members. These comprise the constituencies currently headed by Italy, Canada, Belgium, the Netherlands, Iceland, Spain, Australia and Switzerland. Of these, all of the above-cited countries, except Iceland and Spain, permanently head their constituencies, with Iceland rotating its constituency chair with a small group of Nordic members and Spain rotating its constituency chair with Venezuela and Mexico. For these mixed constituencies, one proxy to assess the likely degree to which a particular constituency would support a developing country position in the process of decision making, is the relative share of voting power among debtors and creditors within each mixed constituency.<sup>6</sup> Using this approach, the following table illustrates the creditor share of the total voting power in each of these constituencies.

**Table 2: Creditor/Debtor Voting Share in Mixed Constituencies**

Mixed Constituency Headed By:	Creditor Share of Total Constituency Vote (%)
Italy	96.9
Canada	90.0
Iceland	94.6
Belgium	61.1
Netherlands	58.3
Australia	57.7
Switzerland	56.3
Spain	33.1

Source: Data From IMF Voting Shares, IMF Website: [www.imf.org](http://www.imf.org); May 2003.

The table illustrates that in seven of the eight mixed creditor/debtor constituencies, the majority of voting power resides with creditors. In the cases of the constituencies chaired by Italy, Canada and Iceland, creditors are in the overwhelming majority by voting power and would be expected to assign their vote to a position favouring creditors. The combined voting power of the G-7 (including the mixed constituencies headed by Canada and Italy), together with the voting share of the constituency currently headed by Iceland, aggregates 50.55%. This means that even if all five remaining mixed constituencies were to favour a position supported by developing countries and even if the Russian Federation opted to join this decision, these members would not be able to muster a simple majority of voting power.

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<sup>6</sup> This is a useful general proxy, although it should be noted that on many occasions, particularly in regard to country matters, each of the eight mixed constituencies have at times taken positions favouring developing countries.

Among the remaining five mixed constituencies, there is varying scope for building alliances with developing countries. Clearly, of all the mixed constituencies, the constituency currently chaired by Spain is considered most likely to cast its vote in favour of developing countries. With its cooperation, the potential voting power of developing countries as a whole increases to 33.2%. If Australia, which represents a series of Asia-Pacific countries, were to also cast its vote in favour of developing countries, the potential voting power of developing countries as a whole would increase to 36.6%.<sup>7</sup> This again remains well short of a simple majority of the voting power. For all these reasons, it seems clear that on an issue on which creditors and debtors are significantly divided, it is likely, based on the above analysis, that normally seven of the eight mixed constituencies would tend to vote in favour of creditor interests.

## **Conclusion: Relative Voting Share**

In conclusion, the above tables indicate that developing countries have a minority of seats in the IMF Board and hold approximately 29% of the voting share. Chairs represented by creditors currently enjoy approximately 71% of the voting share. There are eight mixed constituencies, with varying degrees of creditor/debtor mix. If some of these mixed constituencies opt to vote in favour of developing country interests, the share of the vote in favour of developing country positions rises accordingly. There are indeed numerous examples of individual mixed constituency members “breaking ranks” and voting in favour of a debtor position in the Board. However, the large bulk of these occur in regard to the details of country-specific programmes and not in respect of policy issues; and almost never occur by means of a collective shift in vote by all mixed constituencies. With creditor interests dominant in three of the eight mixed constituencies, there is no realistic prospect of developing countries assembling an alliance of Board members in favour of an explicitly debtor position.

The aggregates in Table 1, also reveal a further challenge for developing countries: whereas the aggregate voting share of creditor members is 61.45% (per the methodology used by Evans and Finnemore, 2001), the voting share which creditor members can muster, because of the practice of voting as an entire constituency, can rise to 66.7%.<sup>8</sup> This is in excess of the aggregate voting share of creditor members.

## **Additional Challenges For Developing Countries**

Aside from the consequences of the current delineation of constituencies in the IMF Executive Board for relative voting power, there are other additional consequences of the

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<sup>7</sup> In practice, the extent of such cooperation with developing countries, by the mixed constituencies containing both debtor and creditor members, hinges on the nature of the policy or financing programme under discussion. This occurs particularly in the case of country programmes.

<sup>8</sup> This excludes the votes cast by the Spanish Executive Director. If the latter constituency were to cast its vote in favour of a creditor position, the share of voting power which creditors could muster increases to 71%.

current delineation which favour creditor members. The first of these is that developing country Executive Directors tend to assume a disproportionately large share of the workload associated with the representation function in the Board: not only do they represent, on average several more members than most creditor members; but they represent members with financing programmes with the IMF, which many of the creditor members do not. The contrast is most clearly illustrated in comparing the respective responsibilities of the single-country creditor constituencies – particularly five of the G-7 (the USA, Japan, Germany, France and the United Kingdom, all of which are single country constituencies), with some of the largest developing country constituencies, which represent over twenty member countries, a large proportion of which have IMF-funded programmes. The challenge is compounded by two further factors.

Firstly, the large industrial members are better resourced and generally better informed. This decisively influences the representation function. Developing country members, because of their broader country representation responsibilities are obliged to spread resources more thinly. They do not enjoy the extensive institutional support provided by their constituency member countries; and representing as they do several, not one member, they are obliged to address coordination and intra-constituency political challenges which the single country creditor constituencies do not.

Secondly, the mechanism which has sought to address these different challenges among the membership – the process of staffing of Executive Directors’ offices – has tended not to keep pace with the expansion of the IMF’s role in developing countries. Staffing arrangements do offer some compensation, by linking the number of staff in constituency offices with the number of countries represented. However this approach should be bolstered for three reasons. Firstly, it takes no account of the intensity of programme relationships, for example whether a member has a financing programme or not; whether the member’s programme is in difficulty; whether particular relations attach, for example the fact that a member may be a large emerging market economy either in or about to enter into a crisis, or the fact that a member may, in addition to having a PRGF arrangement, also be a HIPC-eligible member. Secondly, staffing arrangements have also tended not to take account of the significant diseconomies of scale which arise with constituency representation in the case of large multi-country constituencies, particularly those with large numbers of IMF-supported programmes. Thirdly, the expansion of the IMF’s work in developing countries in recent decades has significantly outstripped the staffing resources provided to the constituency offices. Aside from addressing the challenges of constituencies representing large numbers of constituencies, it is considered important to address the needs of all developing country constituencies. A range of options are considered in Part Five of this paper to address these challenges.

A second additional challenge for developing country Executive Directors focuses on the term of office of Executive Directors. This has tended to favour, albeit inadvertently, the creditor members and particularly the appointed Executive Directors. The multi-country nature of constituency representation has meant that in some instances, developing country Executive Directors have tended to remain for shorter periods in the Executive Board, being obliged to yield the chair to other members of the constituency. In part this

has been attributable to internal rules within constituencies; and in part this has been attributable to the fact that Executive Director's elections take place every two years. A lengthening of the terms of service of Executive Directors, for example by holding elections every three or four years, would tend to favour the elective constituencies, by strengthening institutional memory in these constituencies and enabling developing country Executive Directors to have a strengthened influence on decision-making, by enabling these individuals to benefit from greater familiarity with board policies and procedures because of their longer terms of service.

## ***Part Three - Reasons For Improving Developing Country Voice***

### **Common Concerns of All Developing Countries**

Developing countries recognize a common set of reasons for improving developing country voice in the Executive Board. These are focused on three equally forceful sets of arguments. Firstly, the need for strengthened voting share and board presence due to the increased level of involvement of the IMF in developing countries in recent decades.<sup>9</sup> Indeed, the claims of developing countries for strengthened representation have grown in recent years, in tandem with the growing influence in the global economy of the large emerging market economies and the transition economies and with the IMF's significantly increased role in low-income countries. Secondly, the need to restore what has become a significant departure from the principle of effective consensus-based decision-making and a drift toward simple majority decision making. And thirdly, decision-making in respect of the interests of developing countries has tended to become unnecessarily poor and unbalanced. Developing countries argue that this is attributable to inadequate representation of developing country interests in the Board, in turn due to insufficient voting power and inadequate Board presence. Each of these arguments is highlighted below.

#### **(i) Increased Level of Involvement of the IMF in Developing Countries.**

All developing countries cite the substantial escalation in the IMF's work in developing countries in recent years. This work has expanded significantly in each of the last three decades, to the extent that at present, developing countries now account for by far the largest client base of the institution, are the focus of the significant majority of the IMF's policies, the entirety of the institution's financing, almost all of its technical assistance and a large part of IMF surveillance activity. Closely linked to this argument is the observation that the quantum of resources now provided by the IMF to its members has significantly increased in recent years, reflecting a deepening of the relationship between the IMF and developing countries.<sup>10</sup> In turn this would require strengthening their voting

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<sup>9</sup> Note that it has been nearly three decades since IMF financial resources were used by a large industrial country.

<sup>10</sup> Successive IMF Annual Reports since 1995 reveal that the increase has taken place in respect of the IMF's regular resources, as well as the PRGF. The IMF Annual Report for 2002, for example, notes that in

power and board presence. Representing as they now do a very large element of the *raison d'être* of the institution, these members accurately assert that they should exert a proportionately larger share of influence over decision-making in the institution.

**(ii) Need to Improve Cooperation, Collaboration and Consensus Decision-Making**

A further set of arguments for improved relative voting share and a stronger board presence focuses on the claim of developing countries that there has been a steady decline in the application of key principles which have been used in the past for the conduct of work in the IMF Board. Since its inception, the Board has generally sought to conduct its work in a cooperative, collaborative manner both among the diverse membership and of course among the Executive Directors themselves.<sup>11</sup>

In this context, it is often said that the Board seeks to arrive at decisions based on a broad consensus of the membership. This is certainly the intent of all Executive Directors, who recognize the benefits not only of a congenial and collegial approach to the day-to-day conduct of Board work, but who also recognize the value of decision-making based on the broadest support among the membership. However, in the context of the claim of developing countries that their voice and representation in the IMF Executive Board warrants strengthening, it is important to understand how the effort to build consensus is achieved in practice.

There is no precise definition of consensus. Optimally, consensus comprises a unanimous decision by all Executive Directors. Many board decisions are indeed taken on this basis. However, in instances where there are important differences of view among the membership, for example between debtor and creditor interests, some departure from a unanimous decision can and often does occur. How then is this latter form of consensus arrived at? As Van Houtven notes, Rule C-10 of the IMF's Rules and Regulations prescribes that the Chair shall "ordinarily determine the sense of the meeting, in lieu of a formal vote", with the "sense of the meeting" representing the position supported by Executive Directors who would have sufficient votes to carry the question if a vote were taken. On this basis, the Chair will seek to obtain the broadest spectrum of support, in terms of numbers of Executive Directors and voting share, provided that if put to a vote, there would be more than 50% of the total voting share in favour of the decision. On this basis, consensus could broadly be said to have been achieved when a reasonable majority of the Board members, with a reasonable majority of the voting share, agree a particular decision. It is therefore clear that a consensus would not be considered to have been reached if there were a clear majority of Executive Directors in favour of a particular

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2001, augmentations of existing arrangements and new arrangements contributed to a sharp rise in new IMF commitments in the IMF's Financial Year 2002 (p.57). The same report also notes that the IMF committed new PRGF loan resources of US\$2.7 billion and that a further commitment of US\$2 billion could be reached in 2002, particularly reflecting some large new arrangements (p.46). The size of individual financing packages has also significantly increased in recent years, both for the regular use of Fund resources (p.57) as well as for the PRGF (p.46).

<sup>11</sup> See Van Houtven (2002) for an extensive treatment of the efforts which are made to achieve this outcome.

decision, but the combined voting power of these members was less than a half of the total voting power of the Board.

On this basis, a consensus which on balance favours the interests of developing countries is very difficult indeed to achieve in the IMF Executive Board.<sup>12</sup> With only ten of the twenty four Board members from developing countries, in terms of mobilizing voices at the table, (rather than votes), a Board consensus cannot be reached if it attracts the support of developing countries alone. Alliances need to be made with a number of additional Directors from outside the developing country group. This would be possible - and of course desirable - were it not for the very significant imbalance in voting share in favour of creditors in the Board. As noted earlier, to attain even a simple majority of the voting power, the ten Executive Directors representing developing countries would then need to assemble, aside from additional Directors in support of their position, and aside from the combined votes of all eleven Executive Directors representing developing countries, at least a further 20% of the voting power, drawn from members not representing developing countries. In practice this means attracting the support of at least seven non-G-7 colleagues, at least six of whom chair constituencies in which creditors hold a majority of the voting power. Based on the current distribution of voting power and of board seats, building a consensus which on balance is in the interests of developing countries as a whole is therefore an unnecessarily harsh and formidable challenge.

Furthermore, what happens if no consensus, based on a broad majority of Directors and a broad majority of the voting strength, emerges? If positions differ, as they inevitably do given the wide range of issues under discussion at any one time, often on detail and occasionally on principle, a basis for arriving at a decision must be used. In practice, for the bulk of day-to-day policy and programme decisions, that basis is decision-making based on a simple majority of the voting strength of members.<sup>13</sup> In these instances, in practice simple majority decision-making supercedes consensus-based decision-making as the deciding factor. With a combined 29% of the voting strength, developing countries, face a significantly greater challenge in mobilizing a simple majority than the industrial country members, particularly the advanced industrial countries. As can be seen from Table 1, where no consensus can be reached and it becomes necessary to secure a simple majority of the voting power, this can quickly be achieved by a collective agreement among the G-7 chairs and a few other directors.<sup>14</sup>

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<sup>12</sup> Note that consensus does not mean favouring no group at all, but rather finding a formulation on a particular issue or a particular decision which takes on board the broadest possible spectrum of interests among the members. The outcome of such a process could be consensus-based, yet favour a particular segment or set of interests among the membership.

<sup>13</sup> Decision-making is conducted subtly and sensitively, typically by ascertaining the sense of the meeting as described above and without resort to a formal vote. But when a consensus decision, however desirable for the collective interests of the membership, cannot be secured, simple majority voting is nevertheless the basis upon which decisions are made.

<sup>14</sup> As can be seen from Table 1, a collective agreement between the G-7 members, who hold 47% of the total voting power and any **one** of five other creditor constituencies, can quickly mobilize a 50% simple majority. Hence, when consensus cannot be reached, it is possible given the current distribution of voting share, for eight Executive Directors to obtain a decision, when up to 16 Executive Directors are opposed to that decision. In practice, this would be an extreme outcome, which would rarely occur. But it is illustrative

Where does all this leave developing countries? To secure a decision which favours their interests, they have two possible choices. Firstly, to build a consensus within the Board. As we have seen, this is difficult, because they have less than a half of the number of Board seats; and they have far less than a simple majority of votes. Securing a consensus on either a policy issue or on a programme is possible, but exceptionally unlikely, if initiated by developing countries. Secondly, if a consensus cannot be secured, developing countries must seek to mobilize a simple majority of the voting power in favour of their position. With far less than a half of the voting share, this necessarily means securing the support of a significant number of the creditor members of the Fund. In practice, except with enormous compromise and dilution of policy impact, this option has repeatedly proved to be unsuccessful. The hurdle level to achieve a decision which might favour developing countries is simply too high. Given the significant challenges confronting developing countries in mobilizing even a simple majority of the voting power of the Board, clearly, the prospects for achieving a special majority are of course even more remote.<sup>15</sup>

The above analysis suggests that consensus-based decision-making remains possible in the IMF Executive Board; but that unless changes are agreed to the overall voting arrangements among members it will remain a lop-sided form of consensus, with declining credibility; a consensus which in practice means developing countries almost always having to join a consensus initiated and built by the developed country creditors and almost never a consensus built and developed by developing country debtors. This is despite the fact that most decisions are made in respect of developing country policies and programmes.

### **(iii) Institutional Inefficiency Arising From Lack of Ownership**

A third set of arguments for change in favour of developing countries focuses on the inefficiencies caused by unbalanced representation arrangements. A system of decision-making which makes it almost impossible for one segment of the membership to achieve an outcome, on any matter at all, which on balance favours its interests above those of the rest of the membership, is alienating to that group. In practice, because decisions are always seen to be arrived at based at best on a consensus centred on the interests of creditor members, there has been a growing sense of loss of ownership by the developing countries of policies agreed to by the Board. This can be and indeed has been costly, to the institution as a whole and to individual members. It has left scope for poor and

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of the extent to which weighted voting has now eroded meaningful opportunities for consensus-building. Developing countries argue that the extent of these imbalances are clearly not conducive to collaborative, consensus-based decision-making.

<sup>15</sup> Many important decisions require special voting majorities. Van Houtven (2002) notes that there are 40 categories of decisions which require a special majority of voting power in the Executive Board. Of these, 16 require an 85% voting majority and most of the remaining categories, which pertain to decisions regarding financing and operational issues, require a 70% voting majority. Note that with a combined voting share in excess of 15%, developing countries do enjoy a collective veto over decisions requiring an 85% majority; but with a collective voting share of less than 30%, they are unable to muster a veto in regard to decisions requiring a 70% voting majority.

inefficient decision-making, often based primarily on creditor vs. debtor interests – decisions which are not necessarily in the overall interests of the membership. There is adequate evidence to demonstrate how significantly the imbalance in representation arrangements has affected the efficiency of decision-making in the long term. These are most vividly illustrated during periods of crisis. For example, during the Asian crisis in 1997-98, a host of commentators, including several Asian member countries themselves, argued that Fund programme design was inappropriate and failed to take account of specific circumstances of member countries. The quality of decision-making and in turn programme design and content would have been far improved and the prospects of success strengthened had the recipient members had a stronger influence in the decision-making process. Similar arguments and similar criticisms have been raised in respect of many other individual country programmes.

Similar arguments have also been advanced in regard to fund policies, for example, in regard to the IMF's policy on conditionality. In the past, IMF conditionality has been the subject of extensive criticism. It has been an issue affecting all developing countries with IMF programmes. Despite clear and mounting evidence over many years that programme conditionality had become excessive, in many cases irrelevant and in many cases counter-productive to the interests of the programmes themselves, decisions approved by the Executive Board continued, over several years, to favour excessive conditionalities in IMF-supported programmes. This was despite repeated and well-argued objections by the debtor countries in the Board, both to the IMF's policy on conditionality and to the manner in which it was being implemented. Developing countries argue that the lack of voting power to carry their view resulted in substantive failure of the IMF's conditionality policy, caused unnecessary reputational damage to the institution, and contributed to programme failure in many cases. Fortunately, a fundamental change in conditionality policy was finally agreed, after an extensive consultative process, though only after many years of growing policy failure.<sup>16</sup>

The loss of ownership in policy making is most acutely borne by the IMF's lowest-income developing country member countries. These members, who are eligible for the IMF's Poverty Reduction and Growth Facility (PRGF), are able to muster barely 6% of the voting power in the IMF Board.<sup>17</sup> They have little scope to influence policy and must rely significantly on the persuasive power of their representatives in the Board and on the consensus-based style of decision-making. As we note below in the case of the Sub-Saharan African members of the Board, this makes it all the more important for these members to enjoy an adequate presence, in terms of numbers of seats, in the Executive

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<sup>16</sup> Objections to the severity and excessiveness of IMF conditionality have been widespread and persistent. More recently, given clear evidence of the failure of conditionality policy, a new approach to conditionality has been agreed by the IMF Executive Board. The new approach attaches value to parsimony of conditionality and the need for the IMF to focus on conditionalities relevant to its core areas of expertise. The new approach has begun to restore credibility to IMF conditionality policy, though only after over a decade of mounting failure in conditionality policy and immeasurable harm to the institution's reputation. The cost of poor conditionality policy to member countries cannot easily be measured but is considered to have been significant.

<sup>17</sup> See Evans and Finnemore (2001), who illustrate the fact that HIPC members hold 2.29% of voting share and the remaining non-HIPC PRGF members hold only a further 3.67%

Board. Their minimal voting strength means that they have no prospect of readily building a simple majority of the voting power, to generate a decision explicitly in their favour.

Similar to the above argument on IMF conditionality, these members are able to raise a closely related set of arguments in regard to the PRSP and HIPC processes. For example, these members assert that they raised significant objections, on grounds of both procedure and practice, when the PRSP initiative was launched in December 1999. These included inter alia the lack of institutional capacity in their countries to incorporate the new PRSP process and the consequent need for longer timeframes for implementation; the need for PRSP's to be conducted over a period longer than three years; the need for stronger support in linking PRSP objectives to the budget process in member countries; the need for countries emerging from conflict to be provided with other means to develop poverty reducing strategies which would nevertheless enable them to qualify for HIPC debt relief at an earlier stage; and several additional objections to the PRSP framework when it was launched.<sup>18 19</sup>

Although some objections were incorporated at the inception of the PRSP, the low-income members consider that the bulk of these were over-ridden because of the overwhelmingly superior voting power of the creditor group. The consequence was that in almost all instances, the PRSP process encountered precisely the challenges and difficulties which developing countries and particularly the PRGF members had predicted. Some of these have subsequently been corrected during an important review of the PRSP process in 2002, based again on evidence in the field of mounting and valid objections to aspects of the process. But developing countries note that these objections had been raised three years earlier. The three year delay unnecessarily damaged the institutions' reputation as an agency seriously interested in poverty alleviation and resulted in significant and unnecessary capacity constraints on low-income country members. Objections by this group of the membership to some aspects of the design of PRGF programmes remains ongoing. Given the current distribution of voting power and particularly of board representation, these members consider that there is little prospect of these challenges being addressed by relying on their direct experience of the flaws in PRGF programme design, because of their minimal voting strength and their limited voice at the table.

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<sup>18</sup> Concerns pertained to the process through which the PRSP would be initiated, rather than the principle of a country developing a poverty reduction strategy. Relevant and legitimate issues were raised regarding the pacing and phasing of PRSPs, the need for different approaches to PRSP preparation, the lack of domestic capacity to prepare PRSP's in many countries, the lack of fiscal resources to give effect to the recommendations which PRSP's were likely to generate; diversion of policy-maker's efforts from other crucial activities, including their macroeconomic reform efforts and their efforts to secure bilateral and multilateral debt relief. Only a few of these objections were translated into amendments to the framework at inception.

<sup>19</sup> Refer Public Information Notice (PIN) No. 02/31 – IMF Executive Board Reviews the Poverty Reduction Strategy Paper (PRSP) Approach, which reviewed progress with the PRSP. Many issues on which progress was made during this review were issues which had been raised three years earlier by SSA and other low-income country members when the PRSP was conceptualized.

The growing sense of lack of collective ownership of decisions, because there is no realistic means to achieve an outcome through Board decision-making which can explicitly favour developing country interests has had another, secondary, but serious consequence for institutional efficiency, by eroding the likelihood of success of individual country programmes. It has meant that in some – fortunately limited - cases recalcitrant policymakers have had a perennial handy excuse for not committing themselves to sound policies, ever aware that they can lay all fault at the Fund’s door because programme and policy decisions are perceived to be decided by the creditor members of the IMF. This can occur even when there has in fact been a broad consensus on a particular policy or programme decision.

### **Additional Concerns of Specific Groups of Developing Countries**

As noted above, in their representation arrangements in the IMF Executive Board, developing countries share a host of common challenges and common grounds for claiming improved voice in the Board. While there remains a strong degree of homogeneity of interests among developing countries, there are also a range of specific reasons which particular sub-groups among developing countries advance in favour of strengthened voice. For analytical purposes, it is useful to identify at least three significant strands within the developing country group in the IMF Board. These include the large emerging market economies, which generally enjoy access to international capital markets, the transition economies and the low-income members, broadly comprising members eligible for the IMF’s concessional Poverty Reduction and Growth Facility (PRGF).

Each of these sub-groups among developing countries emphasizes a range of specific reasons for improving their voice:

- The large emerging market economies emphasise their claim to a higher voting share and greater influence in the Board on the grounds that they are large and growing users of the IMF’s resources and that in some cases their economies have grown very significantly in recent years. Their relative quota and hence their relative voting share does not reflect this. These members focus their claims on the methodology used to calculate members’ quotas and hence their relative voting strength. They argue that important changes require to be made in the methods used to determine calculated quotas, to reflect their growing global economic influence. These include changing the basis, in the quota formulae, for converting GDP measured in domestic currency, from a market based exchange rate method, to the use of a purchasing power parity (PPP) index.<sup>20</sup> In addition,

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<sup>20</sup> These members note that PPP is used for calculations in the IMF’s World Economic Outlook assessments and in other international reports. Moreover, market exchange rates do not necessarily equalize the price of tradable goods across countries, even after allowances are made for quality and transport costs; and they note that the depreciation of market exchange rates may erode or underestimate the GDP growth of some countries in relation to others. The issue of choice of mechanism to convert domestic currency GDP was extensively considered in 2000, in a report of a panel of experts to the Executive Board. Refer

they challenge the weights used in several of the variables included in the quota formulae. In addition, some members assert that their actual quotas are well below their calculated quotas. Even without a change in the calculation methodology, based on the existing rules for calculating quotas, their actual quotas should be adjusted upward to more closely approximate their calculated quotas, thereby improving their relative voting share.

- A broadly similar case is made by the transition economies, who also argue that the IMF has increased its attention and focus on this category of countries in recent years. Some transition economies also emphasise the fact that they represent a growing claim on the use of Fund resources, as is the case with the emerging market economies. Accordingly these transition economies assert that they deserve an increased influence in IMF policy making, through improved voting share.
- The low income developing country members assert that their share in total voting power and their presence in the Board should be improved for several reasons: these members represent by far the largest proportion of countries who are members of the IMF; they argue that the principles of collaborative, multilateral and cooperative behaviour on which the institution is supposed to operate are not being adequately upheld given their current minimal voting share and board presence; that poverty reduction has become an increasingly important and indeed a central objective of the institution; and that the approach to determining quotas is inappropriate. This group of developing countries shares some of the arguments of the emerging market economies and the transition economies regarding the relative emphasis which should be placed among the variables used in the quota formulae. But they tend to go further, to suggest that the selection of the variables themselves should be changed, to reflect factors which more closely recognize the institutions' focus on poverty reduction. This group accordingly emphasizes the need to include a poverty index in the quota formulae. Representing as they do the group on which the IMF focuses a significant portion of both its operational resources and staff time for the purpose of contributing to global poverty alleviation, this group asserts that it deserves a strengthened voting share and an improved level of representation in the Board.

## **Accounting For the Low Aggregate Voting Power of Developing Countries**

If the combination of both the above three concerns common to all developing countries – the increased role of the IMF in developing countries; a departure from collaborative, participatory and consensus-based decision-making; and declining long-term efficiency of the decision-making process– as well as the specific range of concerns of the various

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IMF 2000: Quota Formula Review Group, Report to the IMF Executive Board, 2000, IMF, Washington DC.

sub-groups among developing countries, are sound arguments for increasing the collective voting share and board presence of developing countries, why is it that this has not occurred? Several reasons are cited in the literature:

- Firstly, successive quota reviews have tended to include a significant equi-proportionate element, or have resulted in a decision not to increase quotas at all. This has resulted in considerable stickiness in adjustments to relative quotas and therefore to relative voting power. This, it is argued, has prejudiced particularly the large emerging market economies within the developing country group, whose quotas could have been expected to increase had a greater non-equiproportional element been assigned to past quota increases.
- Secondly, the quota formulae have not been conducive to recognizing the arguments of developing countries, who assert that variables such as a PPP-based method for calculating GDP, as well as indices which include factors such as population and depth of poverty, should be included in the formulae. This latter set of arguments is particularly applicable to the low-income developing countries, who can identify no elements of the current five-formula quota calculation methodology which offer them any hope of an improvement in their relative quota share and hence voting power.
- Thirdly, the relative importance of the basic vote has declined over time, from 11.3% of the total vote, to 2.1% of the total vote at present.<sup>21</sup> This has resulted in developing countries, which represent the largest number of countries in the IMF, losing a substantial share of relative voting share to the creditor members. This argument is identified by all developing countries as a reason for their declining collective vote although it is most strongly emphasized by the lowest-income members of the IMF, as the basic vote has represented a large share of their total voting power and the decline in the relative influence of the basic vote has most significantly affected their voting strength.
- Fourthly, as regards increasing the number of developing country board seats, there has been no increase in the number of board seats for over a decade. This is despite the fact that there has been a very significant expansion in the membership of the IMF. The decision not to expand the size of the Executive Board is often justified on the grounds that an increase in the size of the Board will generate inefficiency. Examining the extent of increase in the size of the Board since the inception of the IMF suggests that the argument of likely increasing inefficiency arising from an increase in current size of the Board is likely to prove incorrect.

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<sup>21</sup> The implications of the systematic decline in the relative contribution of the basic vote in total voting power is extensively treated in Buirra (2002). Buirra highlights, inter alia the fact that a restoration of the relative share of the basic vote in total voting share would significantly increase the voting share of developing countries, while retaining a creditor majority and preserving the US veto. Note also the comparative analysis provided by Buirra, highlighting the fact that other international institutions have adjusted the level of their basic votes to preserve the general principle of equality of states, while others have enshrined this principle in their founding rules.

Indeed, quite the opposite effect may result from a modest increase in Board size. At the establishment of the IMF, the original 45 member states were represented by a 12-member Executive Board. By 2003, the membership since the founding of the institution had increased by a further 139 members. At present, the current 184 members are now represented by a Board of only 24 Executive Directors. Hence only 12 new Board seats have been created, to accommodate 139 new members.<sup>22</sup> A modest further increase in Board size, of up to two further seats, would relieve the enormous growth in workload, particularly on the largest constituencies; would generate long-term efficiencies in Board decision-making which would be likely to far outweigh any inefficiencies arising from a modestly larger Board; and would significantly address the issue of improving internal governance and participatory, consensus-based decision-making.

## **Is There A Way Forward?**

In the presence, simultaneously, of powerful arguments in favour of increasing developing country voting share and board presence, and significant obstacles to achieving this outcome, is there any basis to build a way forward? The challenge is indeed a formidable one. In the absence of a fresh review by the collective membership of the IMF, of the status quo and its implications for institutional efficiency and the long term relevance of the institution, the prospects for significant change are slim. Creditors hold a commanding majority of the voting share and board influence; and most decisions which would constitute an improvement in developing countries' voice would require securing a special majority of 85% of the voting share of the IMF's Board of Governors. Yet in regard to voting share, one important set of arguments appears to hold some promise: this is the issue of the extent, though not the principle, of a creditor majority of the voting power in the Executive Board.

As clearly noted above, creditor members clearly hold a clear majority of the voting power in the IMF Board. Two questions arise from this basic fact. Firstly, should creditors continue to hold a majority of the voting power? And if so, secondly, how large should be the size of this voting majority? In providing financing to its members, the Fund operates on principles akin to a credit union. Until such financing arrangements are changed, for an institution which relies significantly on the funding provided by its creditor members, the presence of a majority of voting power among creditors, particularly in respect of decisions which require financing, can be argued to be logical and appropriate. Without an assured majority, creditors would inevitably leave the institution and the financing which underpins a major aspect of the institutions' work would disappear. On this argument, at least in regard to financing decisions, creditors should hold a majority of the voting power.

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<sup>22</sup> For a more detailed treatment of the impact on Executive Board workload of the comparatively small increase in Board size, see Bradlow (2000). See also Van Houtven (2002), who notes that since the Second Amendment of the Articles of Agreement in 1978, which specified a Board of 20 Executive Directors, the size of the Board has increased by four Directors, while 57 more countries have joined the IMF.

Turning to the second question – how large should this majority be, or alternately, to what extent can the creditor-debtor gap in relative voting share be narrowed? The response to this question hinges on a number of factors, inter alia: firstly on the extent of political will among creditors to adjust downwards the aggregate creditor voting share; secondly on the question whether all creditors or only a sub-set of creditors would experience a downward adjustment; thirdly, if the former, whether any adjustment would be shared equally among all creditors – either equally in absolute terms or equally based on existing relative share; fourthly, if only a sub-set of creditors were to lose voting share, which would these be and why; fifthly, the influence of all of the above factors on the ability of the US to preserve its current veto on decisions requiring an 85% majority decision of the Board; and sixthly, the extent of impact of these decisions on the aggregate European voting share.

While these are formidable challenges and considerations, applying the collective minds of the IMF membership could generate important progress on some, if not all of these matters. Options and proposals which seek to address these challenges in a manner which takes account of the concerns of both creditors and debtors, while nevertheless achieving an improved voting share for developing countries, are considered below, in Part Five of this paper.

## ***Part Four – The Special Case of Sub-Saharan African Representation in the IMF Executive Board.***

### **Introduction**

Sub-Saharan African (SSA) members of the IMF receive the worst overall outcome in regard to representation arrangements in the IMF Executive Board. Their voice and representation capacity is stymied by the combined effect of two separate but pressing issues, comprising: (i) the minimal voting share of SSA members in the IMF Executive Board; and (ii) the minimal voice of SSA members in the Board, represented by the number of board seats afforded to members from SSA.<sup>23</sup> Each of these factors is examined briefly below. SSA members argue that these factors have collectively resulted in the unnecessary alienation of these members from the decision-making processes of the institution. And they argue that both of these factors can be corrected with minimal adjustment to the interests of the overall membership, but with significant benefits. These benefits would accrue to the institution as a whole, in terms of improved efficiency through better quality of decision-making in regard to policies for poverty reduction, a recovery of credibility regarding the consensus-based approach to decision-making and a significant restoration of the concept of uniformity of treatment among members.

There are currently 45 SSA member countries in the IMF. This represents almost exactly a quarter of the institutions' 184 members. Of these SSA members, almost all (44) are represented by two Executive Directors.<sup>24</sup> These two Directors hold a combined voting share of merely 4.4%. Hence nearly 25% of the combined IMF membership have 4.4% of the voting share; and have 2 of the 24 available Board seats. Using any conceivable measure to denote cooperation, collaboration and consensus-based approaches to decision-making and efficiency in decision-making based on the ability of SSA members to express their interests adequately, SSA members argue that this represents a miniscule and almost irrelevant share of both vote and seats.

The allocations do not resonate with the IMF's objective of addressing the interests of low income developing countries. SSA's share of voting power has remained consistently low, throughout successive quota reviews; and in recent reviews, it has in fact further declined. In the early years of the Fund, this approach might have been explained by the relatively small share of the institutions' human resources, time and financial resources allocated to its SSA members and by the fact that there were far fewer SSA members of the institution in earlier decades. But at precisely the time that SSA's relative quota and hence its relative voting share has declined, by contrast the needs of its members and the role of the Fund in SSA have both vastly increased. Unlike the IMF's role in earlier

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<sup>23</sup> Refer Memorandum of African Governors to IMF Managing Director, Special Meeting of Africa Group 1 Constituency, Maputo, Mozambique, June 1999.

<sup>24</sup> Note that one SSA member (Ghana) is also represented by the constituency chaired by Iran.

decades, in recent years there has been a growing range of critical policy issues on which the IMF Board now regularly decides, which directly affect the interests of SSA members. All of these policies have directly influenced the IMF's work in SSA member countries.<sup>25</sup> These include policy decisions inter alia on:

- The HIPC Initiative: Decisions regarding the HIPC Initiative have occupied a considerable portion of the Board's time and have taken up a substantial portion of the institution's resources, particularly since 1996. Aside from the regular reviews of progress with HIPC, there have been important policy decisions, inter alia in regard to tracking Poverty Reducing Public Expenditure in HIPC member countries (2002); and Debt Sustainability in HIPC member countries (2002). Moreover, with many HIPC-eligible countries still seeking to achieve the decision-point and several awaiting the completion point, the Board is expected to continue to devote time and institutional resources to this issue well into the future. Of 27 HIPC countries to which the IMF had committed resources as at 30 April, 2002, no less than 23 were from SSA.<sup>26</sup> And of the 12 Members eligible for HIPC at that date, but which had not yet reached the decision point, no less than 10 were from SSA.<sup>27</sup>
- On Poverty Reduction Strategy Paper (PRSP) policies and processes: There have been several board discussions focusing on the PRSP. Aside from the extensive deliberations at the launch of the PRSP itself, there has also been a major review of the PRSP in March 2002; the IMF has hosted several major international conferences on the PRSP; has adopted the Millennium Development Goals and sought to actively link the PRSP process with the objectives of the MDG's; and has participated actively in and endorsed the declaration of the Monterrey conference on financing development. Moreover, the majority of PRSP cases are from SSA; and a significant portion of the institutions' resources now focus on assisting these members develop sound PRSP's.<sup>28</sup>
- On the Poverty Reduction and Growth Facility: the facility replaced the former ESAF and has become the mainstream facility for all low-income member countries. Almost all SSA members are now pursuing PRGF programmes. Aside from the extensive involvement of the Board during the process of transforming

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<sup>25</sup> A key impetus to the IMF's involvement in low-income countries occurred in December 1999, when the Executive Boards of the IMF and the World Bank, launched the PRSP initiative; and in the same month, the IMF Executive Board transformed the former Extended Structural Adjustment Facility (ESAF) into the PRGF. The two decisions also inter-linked the IMF's role in the HIPC initiative, with both the PRSP and the PRGF initiatives. The combination of these two decisions placed poverty reduction at the centre of the IMF's work in low-income countries; and marked the beginning of a significant increase in the institutional resources, as well as Executive Board time, devoted to policies and programmes in low-income countries. For a detailed outline of the range of IMF initiatives to help reduce poverty, refer to Chapter 5, IMF Annual Report, 2002.

<sup>26</sup> Refer Table 6.3, IMF Annual Report, 2002, p.62.

<sup>27</sup> Refer Table 5.1, IMF Annual Report, 2002, p.53.

<sup>28</sup> The extent of IMF focus on SSA is highlighted by the fact that by end-April 2002, over two dozen SSA members were preparing PRSPs with IMF assistance; and 23 members had qualified for HIPC debt relief.

the ESAF into the PRGF there has been a significant review of the PRGF in March 2002; and the IMF's Independent Evaluation Office has conducted a study of protracted use of IMF resources, including those of PRGF members.

- On IMF conditionality: The Board embarked on an extensive review of IMF Conditionality between early-2001 and 2002, resulting in a series of key policy decisions on IMF conditionality.<sup>29</sup>
- On programme ownership. A key board discussion on programme ownership was held in November 2001. Domestic ownership of programmes entered into with the IMF has become an increasingly important objective.<sup>30</sup>
- And finally on a range of additional issues of direct relevance to the IMF's low-income members, including: (i) The Fund's support to countries emerging from conflict. Hence, for example, at 30 April 2002, four of the six members receiving the IMF's concessional post-conflict emergency financing were from SSA;<sup>31</sup> and (ii) On the Fund's policies in regard to arrears. Hence, of seven IMF member countries in protracted arrears to the IMF at 30 April 2002, five were from SSA. These members had combined protracted arrears of SDR2.298 billion, representing 97.6% of total protracted arrears to the IMF.<sup>32</sup>

For all of these reasons, including the facts that SSA represents the largest user, in comparison with any other region, of PRGF resources and that SSA members have in recent years become increasingly reliant on the IMF as one of their few remaining significant sources of international financial assistance, there are strong grounds for improving the voting share of SSA members. Indeed, for member countries so reliant on the resources of the institution, it is inappropriate that they should have so negligible an influence on the policies which directly affect their interests.

The decline in SSA's share of the overall voting power in the Fund is attributable to two factors. Firstly, the decline in the relative importance of the basic vote. The basic vote has declined from 11.3% of the total voting share to a current level of 2.1% of voting share. This factor has indeed significantly contributed to SSA's decline in voting share. Secondly, the region's share of the total voting power has declined due to the relatively poor economic performance of the region. Based on the current quota formulae, this has particularly acutely reduced SSA's quota and in turn its voting strength.

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<sup>29</sup> These discussions focused inter alia on: an initial discussion on IMF conditionality (Refer Public Information Notice (PIN) No. 01/28, March 2001); Strengthening IMF/World Bank Collaboration on Country Programs and Conditionality (Refer Public Information Notice (PIN) No. 01/92, September 2001); Guidance to IMF Staff on the Design and Implementation of Conditionality (Refer IMF News Brief, No. 02/63, July 2002); the approval of new conditionality guidelines (IMF News Release No. 02/42, September 2002).

<sup>30</sup> Refer Public Information Notice (PIN) No. 01/125, November 2001): IMF Reviews Strengthening Country Ownership of IMF-Supported Programs. The Board also discussed a series of earlier papers on this topic in March and July 2001.

<sup>31</sup> Refer Table 6.2., IMF Annual Report, 2002, p.63.

<sup>32</sup> Refer Table 6.7, IMF Annual Report, 2002, p.69.

## **Consequences of Declining Relative Voting Share of SSA Members**

There are many consequences of the declining relative voting share of SSA in the IMF Executive Board. SSA members assert that the most important of these has been a decline in the efficiency and effectiveness of Board decision-making in respect of issues relevant to the work of the Fund in SSA, particularly its work on poverty reduction. With an improved voice for SSA members, Board efficiency and effectiveness in regard particularly to the IMF's work in low-income countries could have been far more effective. The absence of adequate voice has meant a direct and unnecessary cost to the Fund's reputation and its ability to succeed in its own objectives of reducing poverty, by not adequately understanding and incorporating the views of a significant share of the membership, on a set of issues which in fact affects a majority of the IMF's member countries and on which these countries have the most incisive and direct experience and knowledge. Clearly more voices speaking on behalf of SSA would offer a greater opportunity for representatives of the region to articulate the needs of SSA members and much greater scope to forge a consensus on many of the matters of crucial interest to these members.

As noted above, the consequence of the absence of adequate votes and board seats in the SSA region is clearly illustrated by the decision-making processes which resulted in the establishment of the PRSP and PRGF initiatives; and by the consequences of being unable to influence IMF policy in regard to conditionality. In all of these instances, the weighted voting structure of the IMF Board, compounded by the inadequate number of voices at the table representing PRSP and PRGF members' interests, meant that the voices of the members most directly affected by these initiatives and policies were not adequately taken into account when these initiatives were launched or as the policy of conditionality was applied

The second important consequence of the combination of minimum voting power and minimum board presence has been to generate an impossibility-of-performance scenario, in which the two SSA Executive Directors seek to manage a work portfolio which is not only unbalanced in comparison with the workloads of other constituencies, but which in aggregate has become impossible to effectively manage. Both SSA constituencies represent almost entirely countries with active PRGF programmes, resulting in a work-intensive framework for these two offices. Moreover, because of the large number of members represented by these two constituencies, a situation has now developed whereby each SSA constituency now has at least double the number of programme countries in comparison with any other non-SSA constituency. In addition, most member countries within the two SSA constituencies are also HIPC-eligible, adding considerably to the workload. Furthermore, all of the remaining IMF arrears cases are now within the SSA fold.

The third and very significant adverse consequence of the low voting share/low Board presence combination has been to erode – and with the growth of SSA membership in the

Fund, to effectively remove - any realistic possibility that these members can build a consensus, except under the most extraordinary circumstances. Instead, for these members consensus decision making has come to mean joining a consensus already built by other members. For SSA members, concern regarding their consensus-building ability tends to focus on the number of SSA board seats, not on their relative voting share. Consensus building is immeasurably easier if seven or eight members of the board hail from the same region and decide to join forces on a particular issue or on a particular policy. To achieve a reasonable measure of consensus in the board, these members would need to persuade not much more than four or five Executive Directors of their view and if they comprise the largest creditors and if consensus were to be put beyond challenge, would need few if any additional votes to achieve a simple majority. If the two large SSA members, notwithstanding that they represent a quarter of the members of the institution, decided to join forces equipped with 4.4% of the vote, they would need to find at least ten other supporters in the Board and at least 45% of the vote, to build a consensus.<sup>33</sup>

A fourth consequence of the absence of effective representation for SSA members has been to contribute to progressively and unnecessarily reducing member commitment to programme ownership, thereby undermining a crucially important ingredient in programme success – domestic commitment to reform. Moreover, seeing little or no prospect of effectively influencing the decisions of the board which affect their interests has contributed to a strong sense of marginalisation by this segment of the membership, with these members perennially skeptical of the claim of ownership, having tended to settle, instead, into the role of receivers of policy decisions.

Several commentators have begun to recognize the extraordinary situation of the SSA members in the IMF Executive Board. The most detailed presentation of this issue thus far is that of Evans and Finnemore (2001), who after a detailed assessment assert that “the obvious remedy would be to divide the two African constituencies in half and add two more African ED’s.” As the authors note, this would not necessarily require changing voting shares; and under certain circumstances might also not require increasing the size of the Board.<sup>34</sup> The issue of inadequate representation of SSA board members has also been noted inter alia by Bradlow (2001) and Mohammed (2002). In addition, within the IMF itself, there has been some recognition that the representation of SSA members has become an important challenge.<sup>35</sup> In addition, a number of further papers have suggested considering a change in the rules, to enable any constituency with a specified number of members to elect an Executive Director; or setting a ceiling on the number of member countries represented by any one chair. In practice, implementing any

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<sup>33</sup> It is hardly surprising that for these board members, the incentive to actively build consensus is muted and viewed as something of a herculean and effectively Don Quixotic challenge.

<sup>34</sup> Refer Evans and Finnemore (2001), pp.13-14.

<sup>35</sup> See Van Houtven (2002), who notes that “The low voting strength of the two sub-Saharan constituencies, which together amount to 4.4 percent, is among the issues of concern in the size and structure of the Board in view of the exceptionally large number of member countries in the sub-Saharan groups, 45, many of whom have policy programs with the IMF and need technical assistance as well.”, p.22

of these options would also result in the establishment of one or more additional SSA Board seats; and would significantly address several of the abovementioned challenges.<sup>36</sup>

Several options are suggested in Part Five of this paper, to improve both the voting share and the board presence of SSA members.

## **Conclusion**

Improving the representation of SSA members in the IMF Board focuses on voting share and distribution of board seats. At 4.4% of voting share and one twelfth of available Board seats for a quarter of its membership, a situation has developed which is no longer consistent with the founding principles of the institution. The chasm which divides the desire to conduct business based on a cooperative basis with SSA members and the possibility of giving substance to this intent, has become wide and deep. It is a chasm which can be addressed and which warrants addressing, with relatively little adjustment, in the interests of effectiveness and efficiency of the entire membership. Options to address these challenges are considered below.

### ***Section Five: Options For Improving Representation of Developing Countries in the IMF Executive Board***

This section considers some potential options for reform of both the voting structure and the distribution of Executive Board seats in the IMF, which if implemented would address the substantive claims and concerns of developing countries in the Board; and would significantly address the challenges of loss of ownership of the decision-making process and attendant loss of efficiency in decision-making.

Several types of options are suggested. Firstly, those proposing initiating an all-inclusive dialogue among shareholders on the issue of developing country representation. Secondly, options which seek to address the imbalance in voting power. These include proposals based on a pre-determined creditor-debtor voting structure and those focusing on specific sub-groups among developing countries. Thirdly, options focused on the size of the Board. Finally, additional proposals and options for improving developing country voice in the Executive Board.

There are of course, no simple options. The suggested options are in most instances not mutually exclusive – a combination of more than one option could be considered if relevant. All options would require broad political consensus among the membership. Because of the zero-sum nature of aggregate voting power, most options, though not all,

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<sup>36</sup> See for example Alberich and Martinez (2002). The authors make a strong appeal for open and transparent rules for the election and appointment of Executive Directors.

necessarily imply that there would be some losers and some winners. Similarly, in addressing the imbalance in representation based on the current distribution of board seats, most scenarios imply that there are likely to be some winners and some losers. Some potential options to improve the voice of developing countries in the IMF Executive Board are as follows:

## **A. Options Focusing on All-Inclusive Dialogue**

These options focus on opportunities for all IMF shareholders to initiate a dialogue among each other, to address the challenge of developing country representation in the IMF Executive Board. This would represent an optimal approach. Several options could be considered:

**Option 1:** The IMF Executive Board could establish a committee of Directors to examine the key issues and to put forward a report to the Board of Governors. The report could be either an extensive treatment of the issue, containing recommendations; or it could constitute a brief statement of the key aspects of the challenge. The advantage of this approach would be that it would include the views of Executive Board members themselves, thereby providing a direct overview of the day-to-day challenges experienced by Directors. A disadvantage could be that the issue could prove to be too contentious to address at the level of the Executive Board, placing unnecessary strain on the regular conduct of Board operations.

**Option 2:** A second option for initiating a broad and all-inclusive shareholder dialogue would be for the Board of Governors to decide to establish a committee broadly representative of the membership, to examine the issue and to report back to the Board of Governors. If the Board of Governors were to take such a decision at the IMF and World Bank Annual Meetings in September 2003, the committee could be mandated to report back to the Board of Governors at the Spring 2004 meetings. The advantage of this approach would be that the discussion would be mandated at the highest level; and would avoid a potentially disruptive process from emerging in the Executive Board.

**Option 3:** A third option would be for an external agency to initiate a process of dialogue among as broad a cross-section of the membership, to identify the key aspects of the challenge of developing country representation, to seek consensus and to identify areas in which progress may be able to be made; and to make recommendations to advance the issue. The advantage of this approach would be that a dialogue could begin relatively promptly. An important disadvantage would be that the process would not have been initiated by as wide as possible a cross-section of the IMF's membership.

## **B. Options Pertaining to Voting Power**

A range of options could be considered, to address either some or all of the claims of developing countries for increased voting power in the IMF Executive Board. Clearly, these options would necessarily require a broad political consensus among the membership of the institution. Without such consensus, given the existing voting structure, no progress will be able to be made. These options include:

**Option 4:** Perhaps the simplest, most efficient and possibly quickest approach to addressing the claims of developing countries would be to secure an upfront agreement among all shareholders that it is in the long-term interests of the institution to effect an increase in the overall voting share of developing countries. Broadly, such an agreement could entail an understanding that the voting share of developing countries, or more precisely, of IMF debtor countries, would be established, in perpetuity, at some percentage below 50%, but considerably more than the current level. Decisions on how this increase were to be allocated within the developing country group, as well as decisions as to how the corresponding decrease would be effected from among the developed countries, would be taken at the time of the in principle decision. This would represent significant progress in correcting the imbalance in voting shares which has developed between developing and developed members. If the gap between creditor's share and debtor's share of voting power were meaningfully reduced, this option would yield the benefits of preserving the confidence of creditors that they would always retain the majority of voting share; while giving confidence to IMF debtors that meaningful opportunities are available to mobilize a simple majority which could favour their interests. This would sharply reduce the debtor/creditor polarization which currently exists; would give substance to meaningful universal ownership of the institution; and would significantly improve the prospects for programme and policy success. It could be agreed to phase the implementation of such a decision over a medium-term cycle of 2-3 quota review periods, thereby minimizing potential for sudden and large corrections.

What magnitudes might be engendered by such an option? At present, creditor members hold a very significant majority of the voting power. As noted earlier, their voting share by country is 61.5%; and by virtue of the current distribution of Executive Board seats, creditors are able to increase their voting power to 70%. In view of the strong and significant arguments in favour of improved developing country voting share, it would be reasonable to propose a downward revision in overall creditor share which resulted in creditors in the IMF holding a voting majority, of approximately 52%. This would result in an approximately 10% reallocation of voting power to debtor members. The retention of a permanent creditor majority in the institution, could be structured to preserve the US veto and could also be structured to retain a significant European voting share, including the current European veto. In addition, depending on the mechanisms used to effect such a revision, the relative ranking of voting strength among the creditor group could be preserved, either entirely or to a large extent.

If political agreement were unable to be achieved to improve the interests of all developing country members, a further set of options would be to agree to enable one or

more sub-sets within the debtor group to benefit from an overall political agreement to improve their voting status. These options include:

**Option 5:** An additional option would be to increase the basic vote by an agreed margin.<sup>37</sup> This option would have the advantage of being applicable to all members of the institution; would not result in any reduction in voting share of any members; and would correct the significant decline in the voting share of the smallest members of the IMF. Many authors have proposed restoring the basic vote to its relative share in the total vote at the time of establishment of the IMF, hence increasing the share of the basic vote in total voting share from 2.1 Percent to 11.3 Percent. The precise degree of adjustment would require a political consensus among the membership. As Buira (2002) shows, increasing the basic vote to the its relative share of the total vote at the time of inception of the IMF would preserve the US veto, maintain an overall European member veto and maintain a creditor majority in the total vote. It would also increase the share of developing country vote to approximately 47%, thereby considerably narrowing the creditor-debtor gap, while still maintaining a creditor majority.

**Option 6:** A variant on the above option would be to agree to increase the basic vote by a specified percentage – perhaps some level less than the 11.3% needed to restore the level set at the IMF’s establishment; and to combine this with a selective allocation to some developing countries. The combined effect of the increase in basic vote and the selective increase to specified developing countries could be pre-determined, resulting, for example, in a net increase in developing country voting power equivalent to that which would occur had the basic vote been restored to its level in 1944, or to any level agreed by the membership as a whole.<sup>38</sup> This approach would address the concern of the larger developing countries – typically the emerging market economies – that their relative influence in the IMF would decline despite the fact that they represent the largest users, in quantum of resources, of IMF resources. This approach could also be used to address the concerns of some Asian members, that the influence of Asian members in the global economy has grown and merits an increase in relative quota and shareholding.<sup>39</sup>

**Option 7:** To address the strong preference among Emerging Market Economies, Transition Economies and many low-income countries that a PPP-based method of computing GDP is a more appropriate approach than the current exchange-rate based approach, this option would entail focusing efforts on garnering an agreement among the

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<sup>37</sup> Many commentators have recommended this option. See for example Buira (2002).

<sup>38</sup> The determination as to which developing countries would benefit from the selective portion of such an increase would depend on the objectives. Groups of members who could justifiably benefit include the emerging market economies, some transition economies and the stronger performers among the PRGF countries. A selective increase could also be used to achieve certain political objectives which might be perceived to be in the interests of the overall membership, including facilitating some members in, for example, SSA, from exercising a leadership role within this group, in the IMF Board. At present, the presence of two SSA board seats, each with over twenty members, results in the inability of even the largest members within each group from exercising leadership on behalf of the group. This situation would be further accentuated in any scenario increasing the basic vote.

<sup>39</sup> The suggestion that an increase in basic vote would need to be re-balanced by some selective increases to emerging market members is taken up in Buira (2000).

collective membership that there would be a gradual migration from the current approach to the PPP method. The migration to a PPP approach could be agreed to take place in steps, over for example two or three 5-yearly quota reviews. This would entail a gradual shift over a 10-15 year period, thereby allaying the fears of some members that their voting share would be significantly adversely affected. An envisaged final timeframe, for example 2018 or 2023 (15 or 20 years hence) could be agreed, by which time a final approach would be expected to be fully implemented. This option could also include the concept of a floor on the downward adjustment of voting share of members most significantly prejudiced by the change, in each round of correction and on aggregate. In this manner, the adjustment would not precipitate a sudden pronounced correction in relative voting shares. However it would, over time, correct a significant flaw in the methodology used for computing GDP. The approach could also serve as an incentive for those countries which have not yet developed a PPP-based measure of GDP, to do so within a reasonable timeframe. For countries which currently do not have PPP-based data, the average degree of correction among all other member countries could be applied, or some other basis mutually agreed by the collective membership, in computing their quota share.

**Option 8:** This option would focus on the voting share of the low-income PRGF-eligible members, resulting in an agreement to increase their collective voting share by a specified percentage; and deducting such share from all other members. The deduction could be achieved in several ways: by deducting a fixed number of votes from each non-PRGF member; by effecting deductions based on existing relative shareholding with the larger shareholders relinquishing a comparatively larger proportion of their voting share; or some other commonly agreed method. Depending on what method was used to reallocate voting power, an advantage of this approach could be that in relative terms, all non-PRGF members could retain their relative ranking in voting terms, while the PRGF members would increase their aggregate voting share. Furthermore, because the relative share of PRGF members in total voting share is minimal, their relative shareholding could be significantly improved – for example doubled or trebled - without a significant adjustment in the voting shares of the non-PRGF members. This option would enable the IMF to give further substance to the claim that it is willing to hear the views of its clients; and would significantly promote ownership of its policies and programmes, by the institution’s members. Note that in preference to “deducting” votes from some members, the same outcome could be achieved by allocating a selective quota increase to the PRGF members.

**Option 9:** To address the low aggregate voting share of SSA members, this option would consist of a political agreement among the combined membership to: (a) Ensure that the combined voting share of SSA members does not decline beyond its current level; and (b) to allocate the SSA members a predefined share of the total voting power. This share would be greater than the current level of 4.4%, with any increase being drawn from an agreed pool of non-SSA members. Since the overall aggregate increase would be likely to be relatively small, perhaps an adjustment of between 3% - 4%, spread among a large segment of the membership and possibly among all non-SSA members, the adverse implications for each non-SSA member would be negligible. In addition, the current

relative ranking of voting share among the non-SSA members could be maintained, by an agreement to this effect by all members. The net effect of this option would be to preserve the relative voting ranking among all non-SSA members, while increasing SSA's share in the total vote. This would allow for several benefits. Firstly, it would address the acute imbalance which has developed in SSA's overall voting share. Secondly, it could be structured to permit the creation of a third and possibly fourth SSA Executive Board seat, each with a meaningful voting share (see Option 10 below). Thirdly, it could be structured to benefit SSA members selectively rather than collectively, for example favouring those members who have been high performers within the group, those who can offer strong leadership to the group and those for whom a special case is warranted.

### **C: Options Pertaining to the Size of the Board**

**Option 10:** This option would entail the establishment of at least one or possibly two additional board seats for SSA members. The advantage of this approach would be to eliminate the impossibility of performance which has in the past characterized SSA board representation; to allocate the work load among three or four rather than two constituencies; and to enable SSA members to achieve effective representation in the IMF Board. Note that a sub-division of the existing two seats into three seats, with approximately 15 members per seat, would continue to result in the three SSA members having the largest workloads among all 26 board members of a reconstituted and enlarged board.<sup>40</sup>

A method of achieving the same outcome without explicitly favouring any specific region, would be to set a ceiling on the number of countries which are represented by an Executive Director. In practice, this would result in splitting the two large SSA seats, which represent 21 and 23 members, into at least one additional seat. Careful attention would need to be given to the level of the ceiling. If the ceiling were set at, for example, ten members per constituency, this would result in three more seats for SSA members; and would also require some non-SSA constituencies which represent more than 10 members relinquishing some members. In practice, a ceiling of between 13-15 members would constitute an optimal outcome, ensuring that SSA members secured at least one and additional Board seat; and enabling all other constituencies to remain intact, or to effect a voluntary reshuffling if they considered it desirable.

An ancillary challenge presented by this approach would be the determination as to how the resulting three African constituencies would be comprised. There would clearly require to be some reshuffling within the existing two constituencies. In practice this challenge would be addressed internally among Sub-Saharan African countries. There are

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<sup>40</sup> Even with one additional board seat, SSA members represented by three constituencies would continue to have the largest number of PRGF programme countries, members with PRSP's, HIPC members, members emerging from conflict and members in arrears to the Fund. In practice, however, the current impossibility of performance engendered by a two-seat SSA representation in the Board, would be ameliorated.

grounds for optimism that a suitable arrangement could be established, as a number of key entities could be utilized to forge a broad Sub-Saharan African agreement on the composition of the three African chairs. These could include the African Union, the NEPAD, as well as the contributions to this determination by key regional institutions in East, West and Southern Africa.

Note that it is often suggested that the circumstances of SSA members can be adequately addressed by assigning these members an additional Alternate Executive Director position and/or by increasing the number of staff in the Executive Director's offices. Implementing these suggestions would certainly ameliorate one aspect of the challenge confronting SSA members: the impossibility of adequate performance given inter alia the large number of member countries represented in each of the two current constituencies, the large number of programme, off-track, post-conflict and arrears cases within them, as well as the challenge of representing a very large share of HIPC members. In this regard, a recent decision by the Executive Boards of both the IMF and the World Bank, to allocate three additional Advisor (IMF) and Senior Advisor (World Bank) positions to the constituency offices represents a significant step forward in helping ameliorate the workload in the two offices. However, these options do not take account of the magnitude of the challenge which has arisen in the last three decades from lumping all SSA representation into two very large constituencies. The increase in staffing to the SSA constituency offices, although an important improvement, is unable to address the functional breakdown which characterizes work in large intensive constituencies of more than twenty countries, each with more than 17 programmes that are either active or in intensive-care mode. Nor is it able to address the challenge of diminished member country ownership in the decision-making process itself; nor the challenge of enabling SSA members to have meaningful opportunities to forge and join a board consensus. And nor do these options facilitate a correction of a significant political challenge to the overall membership, that a quarter of the institutions' membership currently holds only two Board seats.

Achieving additional Board seats for SSA members would only be achieved of course by the willingness of the Board to increase its size;<sup>41</sup> or alternately by the willingness of some members to reduce the number of non-SSA board seats.

As regards the willingness of the Board to increase its size, it is often argued that an increase in size will contribute to decreased operational efficiency. It should be noted, however, that any such decrease, were it to occur, would be marginal, given the addition of up to two more seats to the current 24; and any losses in efficiency would be likely to be far more than compensated for by the benefits of correcting the significant deficit in African representation arrangements, through significantly improved SSA voice; greater ability of the Board to integrate SSA views in decision-making, contributing to improved quality of decisions in respect of poverty-related policies; the improved likelihood of success in SSA PRGF programmes; and improved governance and democratization of the institution which would be widely recognized.

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<sup>41</sup> Note that this would require approval by an 85% majority of the Board of Governors.

As regards the prospect of a decrease in the size of the Board, to enable one or two more SSA seats to be created, this would clearly require an extraordinary political consensus among the collective membership. In practice, as many commentators have noted, this would be mostly likely to be achieved by reducing the number of European chairs in the IMF Board, from the current 7-8, to (if only SSA claims to further Board seats were to be considered) 5-6 seats.<sup>42</sup> In this regard, the possibility of a union between the French and German seats has been considered; and a further possibility could be to achieve agreement, among the remaining 5-6 European chairs, to a reduction in one further European seat. In practice, unless there is agreement to enlarge the size of the Executive Board, which appears unlikely given objections by the large industrial countries and particularly the USA, the resolution of the current acute minimization of Africa's voice in the IMF Executive Board will only be able to be resolved once the European chairs determine how to reduce their representation, including the number of European board seats, in the IMF Executive Board.

**Option 11:** This option entails the creation of an additional new board seat to reflect the increased economic strength of Asian member countries. The advantage of this approach would be that it would be perceived to address an imbalance, by recognizing the growing influence of Asian members in the world economy. In practice, the creation of such a seat would be likely to favour Korea, whose economic growth has been particularly pronounced in recent years. Per the provisions of the Second Amendment of the Articles of Agreement, this option would also require an 85% voting majority of the Board of Governors. An important disadvantage of this approach is that it would tilt the overall balance among the (non-SSA) developing countries away from the current perceived approximate balance between Latin America, Asia and the Middle East, toward a stronger representation by Asian members.<sup>43</sup> For this reason, it is often argued that the preferred approach to recognizing the increased influence by Asian economies is to increase the relative quota of selected Asian members, on the basis suggested in Option 6 above.

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<sup>42</sup> There are strong grounds for proposing a reduction in the number of Directors representing European members: the region already has by far the largest number of seats in the Board in comparison with other regions, while its GNP is only 70% larger than that of the US which has a single chair; in addition, increased regional integration in Europe has rendered the region more akin to a single monetary, economic and trading block, suggesting the possibility of reducing the number of board seats to a single seat. This of course would be a radical change in representation arrangements and on balance would not be in the interests of the collective membership of the IMF. However, some reduction from the current 7-8 seats would be reasonable. For a discussion of some options for reducing the number of European seats as well as the aggregate European vote, see for example, Buirra (2002).

<sup>43</sup> At present, Latin American and Caribbean members have three seats (headed by Brazil, Argentina/Chile and Mexico/Venezuela, the latter except in two of every six years, when Spain assumes the chair); Asian members, excluding Japan, have three seats (China, India, and Thailand/Indonesia) and one Alternate position (Korea); and Middle Eastern members have three seats (Egypt, Iran and Saudi Arabia).

## **D: Further Options and Proposals**

**Option 12:** A further detailed set of options has been suggested by Kelkar et al (2003). These options, which would also require broad political consensus, engender separating the various functions served by quotas. Kelkar et al. note that the basic problem of the quota formulas has been a classic assignment problem, namely a mismatch between the number of instruments and objectives. Currently, there is only one instrument, namely the quota that is aimed at achieving multiple objectives such as determination of members' contribution to the Fund, their access to Fund resources and their influence in the governance of the Fund through voting rights. Kelkar et al. suggest that the number of instruments should be not less than the number of policy objectives. As there are three policy objectives, at least three instruments are needed. To achieve this, quotas should be confined principally to determining members' contributions to Fund resources; quotas should be delinked from access policy and a greater role should be assigned to the Westphalian principle (one country one vote) in the determination of voting rights. The proposals of Kelkar et al. would represent a very significant departure from current practice. The proposals offer a range of new and innovative options for improving the influence of developing countries in the IMF Executive Board. It would be important for these proposals to be discussed and explored in greater detail among a broad cross-section of the IMF's membership.

**Option 13:** This option would seek to address the challenge of relative lack of institutional memory and staffing constraints of the developing country members. In regard to institutional memory, an option would be to increase the length of service of all elected Executive Directors to between three and five years. This would enable developing country Executive Directors to acquire greater influence, through the ability to become more familiar with Fund policies and practices, as well as board procedures. For many developing country Executive Directors, their terms conclude after two years, resulting in little ability to build institutional knowledge. Regarding staffing constraints, one option would be to allocate additional staff on the basis of the number of member countries in a constituency with IMF-supported programmes. A specific proposal would be to allocate an additional Advisor position for every three member countries supported by IMF programmes. As the number of member countries with IMF-supported programmes in a given constituency would vary over time, some historical averaging could be used to determine the additional staff numbers to be assigned per constituency. Coupled with the existing policy of allocating staff on the basis of number of countries represented, the advantage of this approach would be that it recognized the varying degrees of intensity of workload.

### ***Part Six: Conclusion***

Creditors in the IMF Executive Board should, particularly in regard to financing decisions, maintain an assured majority of the voting power. But as this paper has argued, the current margin beyond that required to assure a simple majority, has become illogical and excessive. Collectively, the excess surplus of votes held by the creditor group beyond a simply majority of votes strikes at the foundation of the principles of collaboration and

consensus decision making upon which the Fund operates, weakens the institution, reduces operational efficiency, gnaws away at the institutions' legitimacy, erodes ownership of programmes and policies by the collective membership, has bred understandable resentment by the debtor group and offers no tangible benefit to the collective membership. In recent years the excess majority of voting power has also precipitated a range of efforts by the more powerful debtor members to find other institutions and mechanisms to express their opinions. All of these arguments suggest that a narrowing of the extent to which creditors hold a voting majority in the IMF Board would be desirable and in the collective interests of the membership as a whole. There are a range of potential options to achieve this outcome, all of which require political consensus among the membership and some of which are able to preserve some of the factors to which creditors attach significant importance, including the principle of creditor majority, the US and European veto power and relative ranking among creditors. Mechanisms should be found to initiate consideration of these options.

In addition, while the size of the Executive Board has evolved over time to take account of the growth of the membership, some important inconsistencies have developed in this process. These focus particularly on the disproportionate number of constituencies representing European members; and the fact that accommodation for growth in membership has been made for all but the two large Sub-Saharan African constituencies. Correcting the second inconsistency need not have a bearing on the first challenge, but requires a decision to increase the size of the Board.

Some innovative new proposals have been suggested which re-examine the multiple functions of IMF quotas. Detailed examination of these could yield options for progress in correcting the imbalance which has developed in regard to developing countries' voice in the IMF Executive Board. It would be useful to actively find methods to discuss these proposals.

Finally, the terms of duty of Executive Directors should be lengthened, to improve the capacity of those developing country Executive Directors who serve for only two years, to contribute to policy and programme discussions and to build institutional memory in their constituencies; and staffing rules would benefit from reforms which took account of relative intensity of workload. While intensity is difficult to define, one useful proxy is the number of countries in a constituency with IMF-supported programmes. Supplementing the existing rules, which assign staff based on number of countries represented, with this additional approach, would help alleviate the disproportionate burden on developing country constituencies.

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