IMF reform: is there a way out?

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CONTENTS

I. Introduction

IMF reform has been one long-standing objective of developing nations, going back at least to the 1990s. They recognize the relevance of the Fund as a near-universal multilateral institution, especially in times of crisis. Precisely for this reason emerging market and developing countries (EMDCs), middle income as well as low income, seek greater voice and representation in the Fund. However, progress has been patchy, slow, and insufficient, leading to a sentiment of frustration and hopelessness.

The purpose of this paper is to address the topic once again, seeking to enquire whether there is still a way forward for IMF reform and to discuss what paths it could possibly take. It is the first stage of a study undertaken with support of the Bretton Woods Project to be followed up by a second paper that will be finalized by the end of this year or early 2024.

The present paper, of a conceptual nature, should be seen as work in progress intended for discussion among those interested in international governance issues. Its author is more a practitioner than an academic researcher of the matter, having been for more than eight years, from 2007 to 2015, a member of the IMF Board, as Executive Director for Brazil and other countries. A large part of what will be presented here draws on my practical experience of the IMF, especially of the workings of the institution, its governance, the steps taken to reform it and the many hurdles to reform.

The immediate reason for taking up this topic again is the fact that the institution is currently engaged in the 16th General Review of Quotas, to be completed by December 2023. As is well-known, quotas play crucial roles in the IMF, including as the main basis for the determination of voting power of member countries. However, IMF quotas, equivalent to shares in the institution's capital base, are only one of many aspects of governance. Board composition and Management selection procedures, among other issues, also play crucial roles in defining the way decisions are taken in the IMF and need to be addressed if the intention is to truly reform the institution's governance.

The paper will proceed as follows. It begins by an examination of the objectives and chances of success of the 16th Review of Quotas and other governance reforms. For reasons, mainly geopolitical, the predominant view, shared by me, is that possibilities of success are meager. The many reasons for this skepticism will be spelled out. The natural follow-up issue is what consequences would arise from another failure of the IMF to achieve meaningful quota and governance reform. What would result for the institution and, more broadly, for international financial governance? How should EMDCs react to another failure to reform? Should they give up on the IMF entirely? Should they foster alternative institutions and financing mechanisms? Or could they perhaps, without giving up on a truly ambitious reform or alternative mechanisms, seek to promote a minimalist or gradualist approach to changes in the Fund? This might be a way forward in case the 16th Review, as expected, fails to produce relevant changes, or fails completely. The paper addresses all these questions and moves on, in its final section, to an attempt to specify what a minimalist agenda might look like.

The main take aways from the paper can be anticipated in a few paragraphs. The rivalry between the West, led by the United States, and emerging countries, notably China, is at the root of the current widespread pessimism concerning IMF reform. Always a difficult endeavor, this reform now stumbles on the fact that the main shareholders, the United States, European countries, as well as Japan and other advanced nations, are dead set against contemplating any reform that would provide more decision-making power for China. China, however, is precisely the country that is most heavily underrepresented by any conceivable metric and, therefore, the one that most stands to gain from a redistribution of quotas and voting power in the Fund. In other words, China is at the same time the main reason and the main obstacle to reform. The other side of the coin is that the advanced countries, more specifically European members, are heavily overrepresented. Countries that control the institution would therefore definitely stand to lose from the redistribution of quotas and votes. The advanced world, notably Europe, is at the same time the main reason and the main obstacle to reform.

The failure of yet another attempt at reform would be a considerable, even if not lethal blow for the Fund. Given the institution's many functions and the practical difficulties of quickly replacing it by alternative multilateral or national financing mechanisms, the IMF will in all probability continue to play an important role in the foreseeable future. However, its centrality and relevance tend to diminish. EMDCs would nevertheless hardly be advised to neglect the Fund, for reasons that will be explored in this paper. Without giving up on the traditional ambitious goals of making the IMF more reflective of 21st century realities, they might contemplate working together to promote a more gradualist attempt at reform, by approving measures and specific reforms that could increase the relevance of the Fund to the developing countries, especially the low-income, small and climate vulnerable. The key to the definition of this minimalist agenda is to identify objectives, well defined, that would benefit the developing world and the institution without running up against the entrenched vetoes of the advanced world.

Admittedly, the reform agenda that will be proposed here is much too coherent to be realistic, so to speak. Reality is always messier and fundamentally disorganized, but some concessions to order and logic must be made if a somewhat understandable agenda is to be set out on paper for discussion.

In this paper, I will avoid what is known as "fundese", the jargon created in the institution. "Fundese" serves a purpose: like all jargon, it can facilitate and speed up communication within the IMF and with a small community of outside experts. But it is also a barrier, intentional or not, to non-experts that may wish to understand how the institution works and evolves. Specific IMF concepts will be used sparingly and always defined beforehand. The IMF is relevant to a broader audience and reform of the institution can and should be discussed in an accessible and transparent way.

As a simplification and presentational device, the near universal membership of the Fund will be subdivided in three broad groupings: 1) The advanced countries, i.e., all the high-income members, including the US and Canada, most Western and Central European nations, Japan, South Korea, Australia, as well as a few other small non-European countries, such as Singapore and New Zealand. 2) The emerging market countries, middle-income nations in Asia, Latin America, the Middle East, as well some African nations. 3) The low-income countries from Africa, Latin America and Asia, poorer nations that rely on concessional financing, including from the IMF and the World Bank. One way to summarize the imbalance in the current international governance is to recall that the first group controls the Bretton Woods institutions, but accounts for only about 15% of the planet's population. The second and third groupings, although hosting 85% of humanity, have no decisive influence on the Washington-based multilateral institutions.

II. The 16th General Review of Quotas and other IMF governance reforms

The official objectives of the 16th Review, to be concluded no later than December 15, 2023, are valid and ambitious, covering very familiar ground. The stated goals and basic commitments are to revisit "the adequacy of quotas" and to continue "the process of IMF governance reform, including a new quota formula as a guide". The intention of ensuring "the primary role of quotas in IMF resources" is once again proclaimed. The expectation is also reaffirmed that "any adjustment in quota shares would be expected to result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members." This all fine. All these goals, without exception, are carried over *ipsis litteris* from previous unsuccessful, or only partly successful rounds of negotiations.

In so far as quotas and quota redistribution are concerned, there is nothing much to object to this formulation. In somewhat clumsy and involved language, it points to some major requirements of what would be an appropriate reform – an increase in quotas relative to borrowing in IMF funding, a new quota formula as a basis for quota realignment, increases in quotas shares of rapidly growing countries to reflect their increased relative positions in the world economy, and a likely rise in share of EMDCs a whole, coupled with protection of the voice and representation of LIC. If all these goals were to be achieved, the IMF would become a new institution.

It should not be forgotten, however, that in contrast to some earlier IMF reforms the reform currently underway is confined to quota matters, leaving out of consideration other aspects of IMF governance reform that were never adequately addressed. I refer to: i) the selection of the Managing Director (MD) and the other members of the Administration of the IMF; and ii) the composition of the Executive Board, mirrored in the composition of the International Monetary and Financial Committee (IMFC), the ministerial body that has an advisory role in the Fund.

Later in this paper, I will come back to these and other non-quota governance matters. For now, it suffices to point out that, first, Management, notably the MD, as in all multilateral institutions, has a leading role in the conduct of the institution. It commands the technical staff, chairs Board meetings, and has a decisive say in all matters, including governance arrangements. Second, the MD and his or her Deputies report to the resident Executive Board, composed of 24 chairs, which takes the final decisions on lending, surveillance, and other strategic issues. The IMFC, the ministerial level advisory body that meets twice a year, replicates almost exactly the composition of the Executive Board. The point here is that not only voting power but also the composition of the Board and of the IMFC, meaning the number of chairs held by different regions of the world, considerably influences governance, financial operations, surveillance, and other activities. Effective, well prepared, and experienced Executive Directors, together with ministerial engagement, make quite a difference in practice, and this is one of the main reasons why reference is often made to "voice and representation" as goals of IMF reforms.

In any case, quotas are a sufficiently relevant matter to make a difference even if tackled in isolation. And the goals of the 16th Review, as mentioned, are broad enough. If achieved they would bring the Fund closer to its desired *aggiornamento*, to the long-sought goal of at long last taking the institution into the 21st century. These objectives are not new at all and can now even be called "classic". They are basically those that have been on the table with the same or very similar language for at least 15 years. They were only very partially achieved, or not at all, in previous rounds of reform, and are now once again officially announced.

As a result of the delay in moving forward on governance, the structure, and rules of decision-making in the IMF are still too much a reflection of the international political reality and balance of power that existed at the time of its creation at the end of World War II, almost 80 years ago. And the central imbalance to be corrected remains the discrepancy between relative size of members in the world economy and their voting power in the Fund. Correcting this discrepancy would indeed amount to ensuring an increase in the overall share of EMDCs in quotas and votes, particularly that of dynamic economies.

Even without revolutionary changes, i.e., even staying within or not departing very much from the current IMF framework in terms of quota formula and stated principles for quota redistribution, one could go a long way in achieving the goals of the 16^{th} Review. For instance, by making some changes to the variables and weights used in the current quota formula that goes back to the 2008 reform. This formula is relatively simple:

CQS = (0.50*GDP + 0.30*Openness + 0.15*Variability + 0.05*Reserves)^K.

Where: CQS is the calculated quota share of a member country; GDP a blend using 60 percent market and 40 percent PPP exchange rates; and K is a compression factor of 0.95.

A quick look at how these variables are defined by the IMF. GDP at market exchange rates is obtained by converting GDPs by currently observed market exchange rates. The PPP exchange rate is the rate at which the currency of one country would have to be converted into that of another to purchase the same amount of goods and services in each country. Openness is measured by the relative size of current payments and current receipts for goods, services, income, and transfers.[1] Variability is the standard deviation for current receipts and net capital flows. Reserves are the official international reserves, including foreign exchange assets in reserve currencies, SDR holdings, reserve position in the Fund, and monetary gold. The compression factor is introduced to reduce the dispersion of quota shares, diminishing the calculated quota shares of larger members, and increasing those of smaller members. Combined with basic votes, about which more will be said later, the compression factor produces a somewhat more balanced distribution of voting power among large and small countries.

The application of this formula determines the “calculated quotas”. Actual quotas and quota shares result from these calculated quotas plus ad hoc adjustments agreed to in governance reforms. If a country’ calculated quota share is higher (lower) than its actual quota share it is said to be underrepresented (overrepresented) under the formula.

Openness and variability, amounting to 45% of total weight, tend to distort in a major way the distribution of quotas to the advantage of most advanced countries and disadvantage of developing countries, without reflecting the relative importance of members in the world economy. An update of the quota formula in line with goals of the 16^{th} review would essentially involve taking out variability and openness or diminishing their weights, opening up space for an increase in the weight of the blended GDP variable. The preponderance of market GDP in the GDP blend also favors advanced countries. Increasing the weight of GDP PPP in the blend would favor EMDCs as whole since they are estimated to account for 58.9 % of world GDP PPP.

[1] On the use of PPP versus market exchange rates, see Callen (2017).

As an example, a revised quota formula, under an ambitious quota reform, could look like this:

CQS = (0.95*GDP-PPP + 0.05*Reserves)^K.

Alternatively, with somewhat less ambition, the revision of the formula might lead to something like this:

CQS = (0.95*GDP' + 0.05*Reserves)^K.

Where GDP' is a revised blend using 60 percent of GDP-PPP and 40 percent of market exchange rates GDP.

With a few and simple to spell out modifications such as these, a very significant change in calculated quotas could be produced, allowing them to better reflect relative weights in the world economy. Combined with a substantial increase in overall quota size, a game changing redistribution of actual quotas and quota shares could be put into effect. The desirable shift of quotas and voting power from advanced nations to EMDCs would be achieved by this combination of a new quota formula and a substantial increase in overall quota size.

In sum, as indicated, no radical departure from the current conceptual tools would be required to effect a fundamental change. What is mostly lacking are not new ideas or new formulas, but the political will on the part of the dominant shareholders to cede space to dynamic developing economies. Naturally, advanced country authorities do not recognize their unwillingness to move and resort to all sorts of rhetorical tricks and devices to disguise their resistance to fundamental change. A veil of hypocrisy seeks to protect them from public scrutiny. But what we have is a truly enormous and growing gap between the rhetoric of advanced countries and what they are willing to accept in practice. This leads to an equally enormous gap between stated objectives of reforms, as approved by the Board of Governors and the Executive Board of the IMF, and the actual meager outcomes of most rounds of reform. Ambitious reform requires consensus, it is stated, and the consensus is simply not there. So the narrative goes.

III. European overrepresentation and resistance to change

It is actually unfair to put all advanced countries in one single basket. The main distortion in the Fund's governance is the overrepresentation of Europe[2], meaning among other things the discrepancy between the diminishing weight of the continent in the world economy and its oversized presence in the IMF's quotas. With a few exceptions, Spain being the main one, European countries are sizably overweight in terms of quotas and votes. In the case of other major advanced economies, relative size in the IMF corresponds roughly to their relative size in the world economy. This is the case of the United States and Japan, the largest and second-largest quota holders. While this may change over time, as US and Japanese economic growth rates lag behind those of EMDCs, mainly those in Asia, it cannot be said for now that the quota shares of these two major members are misaligned with their relative economic weight.

European overrepresentation goes way beyond quotas and voting power. Europe's presence is in fact so large that it rivals the US as a dominant force in the Fund. The continent's overrepresentation has three dimensions to it. First, as mentioned, quotas and voting power are much larger than the present share of Europe in the world economy. The 27 countries of the European Union hold 29.4% of voting power, nearly twice their 14.9% share of world GDP at PPP. If one adds to that the voting power of the

[2] For purposes of this paper, "Europe" is understood to include essentially the 27 countries of the European Union plus the United Kingdom, Norway, Iceland, and Switzerland.

United Kingdom to the EU27, a country that always acts as part of the European bloc in the IMF, the share of voting power held by European nations rises to slightly more than one third of total votes.

Second dimension: the large number of Executive Board and IMFC positions held by European countries, between 7 and 9 out of the 24 chairs, or about one third of the Board and the IMFC. In a few cases, European countries lead for part of the time, rotating with EMDCs, in multicountry chairs. Thus, the European share of positions in the Board and the IMFC fluctuates at around one third.

Third, the unwritten rule that reserves to a European national the position of MD, the highest position in Management, mirrored in the commitment to reserve to an American national the position of President in the World Bank.

On this point, one subtlety might be mentioned in passing. Legally speaking, the MD, as well as the other members of Management, currently four Deputy Managing Directors (DMDs), are not country or regional representatives and owe their loyalty exclusively to the institution. Politically speaking, however, nationality counts. In practice, the unwritten rule imparts a bias that favors Europe, given the crucial role of the MD. It is difficult to dispute this point once one gains any knowledge of how decisions are taken in the Fund, as well as in other multilateral institutions where the same discrepancy between legal frameworks and political realities are felt. The political dimension tends to override the legal one, especially in crisis situations. So much so that Europeans are loath to give up this privilege and can be expected to resist to the bitter end any attempt to eliminate it. The same holds of course for the US in the World Bank.

European resistance to reform is a long-standing intractable problem, at the root of a large part of the IMF's increasing legitimacy problems. Europe makes at most partial or even only verbal concessions on these matters. So, for instance, Europe joins the other IMF members in supporting misleading proclamations that the selection of the MD is "merit-based". For some curious reason, however, merit-based selection always ends up in the selection of a national from a European country… In the election that was won by Christine Lagarde in 2011, officially merit based as usual, a rather comic situation arose. Her candidacy was put forth early on and Europeans rushed *en bloc* to support her – even before the closure of the period for applications. They seem to have sensed somehow that, based on merit, any other conceivable candidates would be inferior to the European one.

IV. Geopolitics of IMF reform

For these and many other reasons, IMF governance displays in some crucial respects a remarkable stability. Changes to the decision-making structure come infrequently and far apart. This makes the institution predictable, for good and for bad.

The reasons for this stability – perhaps stagnation is a better word – are not difficult to understand. The rules that protect the existing governance structure are precisely those that would need to be rebalanced. The unequal distribution of voting power protects the unequal distribution of voting power; veto power protects veto power, and so forth. As Giordano Bruno said in his struggle with the Catholic Church, it is naïf to think that power will reform power. Changes occur, if at all, only when power suffers overwhelming pressure from outside or when power is divided within itself. From 2008 to 2010, a window of opportunity for reform arose precisely because of a division of views among the main shareholders. I will come back to this later.

Since the second decade of the 21st century, a geopolitical context has emerged that makes the always difficult reform of international governance a near impossibility – meaning by "reform" fundamental change and not mere tinkering at the margins. In the IMF and the World Bank, as well as in many other spheres, the West is playing a long-winded defensive game, a systematic and fierce resistance to any fundamental revision of the international governance rules. Even piecemeal and partial changes are resisted. To be sure, disagreements do arise within the Western camp, but they are infrequent and almost never sufficiently strong to open the way for fundamental reform.

This state of affairs is regrettable but ultimately understandable. Transfer of power never, or rarely, occurs voluntarily. The usual pattern is for dominant countries or sectors of society to hang on to privileges and positions of power as long as possible. Enlightened recognition of new realities seldom happens in practice.

Thus, the gap between IMF governance and economic reality keeps increasing year by year. There is nothing that the West can do about this uncomfortable trend – except of course to give in to the rebalancing the governance rules they are so attached to. Status quo is increasingly difficult to defend with rational arguments or to disguise with clever rhetoric. And not allowing economic, political, and demographic changes to be appropriately reflected in the IMF's governance structure does considerable damage to the institution's standing in the world. Nonetheless, the desirable transfer or sharing of power, even only partial, is delayed indefinitely.

The issue is of course fundamentally political or geopolitical. It always has been, since the institution's early times. However, in the last 10 or 15 years the geopolitical dimension became critical. It will remain so in the foreseeable future. So much so, that it can be said without exaggeration that the issue not really technical in any sense of the word. The apparently complexity of quota criteria, definitions and calculations play only a very secondary role in obstructing change, if only because quota reform is far from being rocket science. It is mostly a lot of arithmetic reinforced by definitions and IMF jargon. No major conceptual effort is required to grasp the essentials of the matter.

The essentials of the matter lie in the West´s attachment to the institution as an instrument of international power and control, as well as in the way China's rapid rise is perceived as a strategic long-term threat. The West's attachment to the institution they created is easily understood. The United States, European and other advanced countries, sometimes referred to as "the international community", attach great value to the IMF. For many reasons, including the fact that they use the institution as a political tool, providing support to client countries or allies, and denying support to countries that do not fall into line. This leverage arises from the fact that the United States, European, Japan, together with a few other developed countries, easily form the simple majority required to approve or reject loans to member countries. A friendly country can obtain financial backing, in large amounts, even without a convincing adjustment program, whereas a country that is frowned upon by the West will not obtain support even if willing and able to follow a strong adjustment program. Discrimination, not evenhandedness is the rule. While not the only reason, this is key to understanding the attachment of the advanced countries to the IMF and their reluctance to contemplate any substantial redistribution of power within the institution.

This governance arrangement worked well for many decades, in the second half of the 20th century and into the early years of the 21st. However, tectonic shifts in relative economic power disturb the comfortable hold of the advanced world on the Bretton Woods institutions. The West can still cling, as it does, to its predominance, but at the cost of making the Washington multilateral institutions increasingly outdated. This is understood by all the parties involved.

In short, the increasingly multipolar world slowly but surely undermines the arrangements established at the end of World War II under US leadership. The IMF's unbalanced decision-making is increasingly inconsistent with the desire of the advanced countries to proclaim its global standing as a universal or near-universal financial institution.

V. Implications of China's rise for the IMF

The multipolarization of the world is a complex phenomenon that has many aspects to it. For the matter at hand, as for many others, it is convenient to single out one of these aspects – China's extraordinary rise to power in economic and political terms, with implications that go well beyond East Asia. Since the 1980s, China's economic dynamism has led to a rapid and uninterrupted rise in its share of world GDP, cross border trade, and international lending and investment. In PPP terms, the most relevant too to assess relative economic size of countries, it has become the world's largest economy, overtaking that of the United States in 2018. The joint GDP of the BRICS – Brazil, Russia, India, China, and South Africa – is now larger than that of the G-7, reflecting China and India's rapid economic expansion.

For IMF reform plans, China is the flashing point, given the United States' firmly held perception that it threatens the stability of the "international rules-based order". What this international order actually amounts to is never totally clear and has become ever opaquer due to the West's propensity to act strictly and narrowly in defense of its goals, in a manner that violates "rules" and creates new "rules" with no defensible logic or, more precisely, according to a pattern that directly reflects Western perception of where their interests and priorities lie in any given moment.

As previously mentioned, China is the most blatant case of underrepresentation in the IMF, even under the current flawed quota formula. The country´s actual quota is well below the calculated quota based on this formula. If one considers a revised formula that would take GDP as a benchmark, even in a blend dominated by market-exchange rate GDP, the underrepresentation of China would become even clearer. China would become the Fund's largest shareholder by a considerable margin, easily overtaking Japan and the United States. And of course, measures of China´s underrepresentation would reach a peak if GDP PPP is taken as the sole benchmark.

This creates a fundamental stumbling block, a conundrum that is probably fatal to reform plans in the short and even medium-term. The US and other advanced nations will want to keep China down. Any quota redistribution to China, even modest, even if approved in the IMF, would not be approved by US Congress, given the overwhelming bipartisan hostility to China. Similar resistance is present in Japan and European countries. In short, the geopolitical context is fundamentally hostile to IMF reform. China is the major reason for change and China is at the same time the major obstacle to change.

VI. Advanced countries' reluctance to cede space to China

US opposition is strongly reinforced by Europe's resistance to change in the IMF in general, and to a greater role for China in particular. This European resistance antedates concerns over China's uninterrupted rise. Overrepresentation in the IMF is in fact largely due Europe, as explained above. Europe would thus have to foot the bill. For reform to occur, advanced Europe must agree to give away greater quota shares, mostly to China and other middle income Asian countries. In the zero-sum game of quota reform, China, India, and others would gain, Europe would lose in terms of relative quotas and voting power.

Europeans can be expected to do their utmost, however, to retain their current positions in the IMF. And Japan, as indicated, will help block the way, resisting as much as it can to losing its current number 2 status to China, now number 3. Again, given China's extraordinary dynamism in the last four decades, any relatively fair quota redistribution based on the usual metrics would in all certainty make China overtake Japan. In short, therefore, major shareholders, Americans, Europeans and Japanese, always join hands in blocking any relevant changes in IMF governance. Foot dragging and stone walling will continue to be the norm.

Nothing more needs to be said in support of a skeptical assessment of prospects for IMF reform and the same holds, I note in passing, of World Bank reform. The need for reform is abundantly clear. But support for reform in the advanced countries is at best rather limited. To repeat, the essential difficulty lies in the following uncomfortable reality: the correction of the unequal and unfair distribution of voting power must be done through this unequal voting power itself.

Quota redistribution is by definition a zero-sum game. The advanced countries, in particular the Europeans, have never shown any inclination to accept the argument that they would gain from redistribution of quotas and votes in a qualitative manner, i.e., that they would have, so to speak, a smaller share of a better pie. This line of argumentation is totally unpersuasive to them.

Regrettably, as discussions evolve, we even see the return of old ideas that run counter to the desired *aggiornamento* of the IMF. For instance, the attempt to introduce financial contributions in the quota formula. Japan and other influential members favor this idea according to which countries would have a higher quota share depending on their financial contributions to the institution. This would amount to selling shares. The IMF would become, even more than it already is, a rich man's club, deepening the institution's legitimacy problems and democratic deficit. That this sort of idea resurfaces with some support is another indication of the poor prospects for reform.

VII. The 2008 and 2010 IMF reforms

Many of the obstacles to reform are as old as the institution itself. One only needs to point out that from the time of its creation in 1944 to the North Atlantic financial crisis in 2008, apart from the entry to the Fund of former Soviet bloc countries, nothing crucial happened in terms of IMF governance and decision-making– the remarkable stability or stagnation already referred to. The picture changed to some extent after the collapse of Lehman Brothers and the ensuing financial chaos on both sides of the North Atlantic. Developed nations reached out for political support to major emerging powers, especially the BRICS, and promises of IMF and World Bank reform would be included in the package of measures agreed to in the G20 as part of the response to the acute financial crisis.

While these promises were not really kept, some changes did actually occur in the IMF in the 2008 and the 2010 quota and governance reform rounds. I am proud to have been a participant of these rounds of negotiation, as a member of the Executive Board. Together with other Board members, mainly from the BRICS, we contributed to what can be seen as the most significant IMF governance reforms ever. Nothing like this happened before or since. But pride of co-authorship must be tempered, strongly I must say, by the realistic recognition that nothing much had happened before. And nothing since.

Taking the 2008 and 2010 rounds together, the main achievements were a substantial increase in overall quota size, a new quota formula – still problematic but considerably better than the previous incomprehensible combination of arcane criteria –, and a shift of voting power from advanced to EMDCs amounting to 5.3 percentage points. This shift was, however, insufficient to produce a truly meaningful modification of the overall distribution of voting power, given that advanced countries retained 55.3% of total voting power in the Fund, way above their 41 % share of world GDP at PPP.[3] The US share of votes fell slightly to 16.5% but remained above the critical 15% threshold that corresponds to veto power under the IMF's Articles of Agreement (AoA).

The substantial gains obtained by China and Brazil led the BRICS combined voting power to rise to 14.8%, very close to the 15% threshold that provides veto power. With little effort in terms of attracting other countries and their voting power, the BRICS can mobilize enough votes to veto, or threaten to veto, any proposals that involve amendments to the AoA, as well as any other changes that, under the Articles, require an 85% minimum of voting power for approval. Provided that the BRICS manage to coordinate their positions, as the Europeans do, the IMF would henceforth include in practice three major veto power holders: the United States, the European bloc, and the BRICS.

The smaller members, many of which are LICs, benefited from a tripling of basic votes in the 2008 reform, the first such increase since the Fund's creation in 1944. Since basic votes are distributed in equal absolute amounts to all members, the smaller countries benefit more in terms of percentage growth of voting power with each allocation. For Sub-Saharan Africa, an additional gain in the 2008 round was the creation of a second Alternate Executive Director position for chairs that include seven countries or more. This mitigates the burden placed on the two African chairs that have a much larger number of members than the other multicountry chairs in the Board and in the IMFC.

On top of this, some crucial forward-looking elements were included in the reform package approved in 2010: 1) the rollback of IMF borrowing into quotas so as to reestablish the institution's quota-based nature; 2) a review by January 2013 of the quota formula approved in 2008 in order to better reflect the weights of countries in the world economy; and 3) a completion of the 15th General Review of Quotas by January 2014 with a view to further increasing the voice and representation of EMDCs, including the poorest. None of these forward-looking elements came true, unfortunately. The IMF remains highly dependent on borrowing. The quota formula remains to this day the one approved in 2008 with all its shortcomings that tend to work against the developing world. The 15th General Review of Quotas was postponed and despite postponement failed to produce any changes. Even the entry in force of the quotas agreed to in 2010, only happened five years later, due to the reluctance of US Congress to ratify them. As a result, the IMF only managed to reach end 2015 the threshold of 85% of voting power required for the realization of what was negotiated in the 14th review.

Having said that, the 2008 and 2010 packages, taken together, were undoubtedly significant as far as IMF reforms go. This was possible not only because of the weakness of the North Atlantic powers in the wake of the already mentioned deep crisis of their financial systems, but also because a rift emerged within the ruling bloc, with the US in the early years of the Obama administration willing to depart from the traditional alliance with Europe and to challenge European conservatism in the Fund, thereby offering some support to the reformist ambitions of the BRICS and other emerging market countries. This was referred to in the US as the "pivot to Asia" and had a real impact on IMF negotiations.

This so-called pivot did not last long; it was soon to be abandoned, already in the Obama period and even more in the Trump and Biden administration, being replaced by a strong and aggressive policy aimed at containing China's rise. However, the window of opportunity associated to Obama's "pivot to Asia" lasted long enough for the BRICS and others to push through the above-mentioned reforms of IMF governance.

[3] The share of advanced countries is somewhat underestimated since, for purposes of quota and governance discussions, the IMF considers as "emerging market economies" some high-income countries, such as South Korea, Singapore, and the Czech Republic, that are usually classified as "advanced".

As one of those developing country officials involved in those negotiations, I can testify to the fact that the reforms of 2008 and 2020, albeit limited, would not have happened without the convergence of these two decisive factors: the deepest financial crisis in the West since the 1930s and the fissure between the US and its traditional European allies.

VIII. Consequences of a new failure for the IMF

Can the IMF handle or even survive another frustrated attempt at reform? Views vary considerably on this crucial question, ranging from complacency to forecasts of doom and demise. Would the IMF become a failed institution, following in the footsteps of the WTO? Or could it rely on its strongpoints to overcome the loss of credibility arising from one more unsuccessful attempt at governance reform?

Predictions, as usual, are colored by interests and preconceptions. Advanced countries representatives and spokespersons tend to minimize the damage to the institution. Officials and representatives from emerging market countries are more inclined to make pessimistic assessments of the Fund's future.

It is not at all easy to anticipate what effects a failure of the 16th General Quota Review would have on the Fund's standing. In this context, failure means that the review would be "concluded" with no results – no increase in quotas, no redistribution of quotas, no change in the current formula. Since no other reforms in governance are contemplated in this round of negotiation, the package would come out empty and the countries aspiring for a greater role and representation would leave the negotiating table empty-handed. The Executive Board would simply report to the Board of Governors that no support could be garnered to make the planned changes. The IMF would avoid using the word "failure", but lack of results would be seen as nothing else.

The IMF Administration and the major shareholders need to take a long and hard look at the consequences of this lack of results. They would need to ask themselves, to repeat, would another failure amount to a major crisis for the institution and a catastrophic loss of credibility? Or could it be seen as something that the institution would just take in its stride, continuing with business as usual?

In favor of the more complacent view, a few arguments can be arraigned. The IMF is to some extent irreplaceable, at least in the medium-term, in some of the roles it fulfills. For instance, countries find it difficult to obtain alternative balance-of-payments financing in times of crisis. Also, the IMF´s surveillance – multilateral, regional, and national –, is considered a useful source of information and analysis. Furthermore, the institution's technical assistance in matters of its expertise – monetary, financial, and fiscal – is definitely valued by the membership, particularly by less developed countries. Finally, applied economic research, linked to surveillance activities, often throws light on issues relevant to advanced and developing nations. More on this in the following section.

So maybe the institution can again avoid catastrophe and retain relevance. However, it is unrealistic to believe that the IMF and the controlling advanced countries would be able to take failure in their stride and go on with business as usual, as though nothing much had happened. There is more than one reason not to remain complacent. First, this failure would be the second in a row, given that the 15th review also failed to produce any results. These two failures would come on top of the non-implementation of the forward-looking elements of the 14th review, as part of the reform package agreed back in 2010, i.e, the already mentioned folding in of borrowing arrangements into quotas, the review of the quota formula by January 2013 and the conclusion of a quota review, based on the new formula, by January 2014. It should be stressed that the failure to abide by these forward-looking commitments, assumed by the all the major advanced countries at the highest possible level, namely at the leaders' level in the G20, was a major blow to trust. Any further frustration of reforms plans would be harmful to the standing of the Fund and the credibility of the countries that control the institution.

Moreover, to make things worse, some other, non-quota aspects of the 2010 reform were only implemented *pro forma* or even not at all. First, selection of the MD and the DMDs remains non-merit-based, despite commitments to the contrary. The MD continues to be a European and DMD positions continue mostly to follow long-standing rules based on nationality.[4] Second, under considerable pressure, from the US and emerging market countries, Europeans reluctantly accepted a modest commitment to reduce by two the number of chairs of Executive Board and IMFC held or led by advanced European countries. However, the way the commitment was cleverly formulated by European officials provided an escape clause. As drafted, the commitment was to give up two chairs to non-specified EMDCs by 2024. This formulation was a trap: it resulted essentially in a greater presence of emerging market *European* countries, i.e., no relevant change to the composition of the Board since emerging Europe tends to follow the lead of advanced Europe.[5] The changes in Board and IMFC composition were, in some respects, for the worse. For instance, Switzerland is traditionally more independent than Eastern European nations, say, Poland or the Czech Republic, and sometimes acts in a constructive manner in the IMF. But Switzerland was forced to rotate with Poland in commanding a chair of the Board and the IMFC as part of the results of the 2010 package of reform. What difference did this make? Only a reduction of the role of an independent voice in the Board and the IMFC, partly replaced by a European satellite.

For all these reasons, complacency with respect to the implications of reform failure is hard to justify, even if a collapse of the IMF can be seen as unlikely. The most probable scenario, judging from experience, is not a full-blown crisis of the institution but the continuation of a slow decline, a gradual but persistent loss of influence.

IX. How should EMDCs respond to another failed attempt at reform?

Even if complacency is not advisable, the above-mentioned points should be kept in mind. First of all, the Fund, whatever governance insufficiencies it may have, always gains practical relevance in times of international crises, when a larger number of member countries need balance-of-payments support and are unable to obtain it elsewhere. As an international lender of last resort, the IMF fulfills a valuable function for countries facing scarcity of foreign exchange and a balance-of-payments crisis: it provides lending when market access does not exist or has disappeared, opening space to soften macroeconomic adjustment and spread it over time. LICs find in the IMF a source of conditional loans that will remain attractive in comparison with other rather limited sources of financing. Experienced officials from these countries do not ignore this.

Second, the IMF is not only about balance-of-payments support in times of national or international crises. Quite apart from emergency financing needs, small states and lower income countries, will retain an interest in the IMF and continue to engage as usual, given lack or scarcity of

[4] The First DMD is traditionally an American national. One of the other DMDs is always a Japanese national and another a national of an emerging market or developing country. In 2011, a fourth DMD position was created with the understanding that it will be occupied by a Chinese national.

[5] Even this modest concession looks unlikely to be fulfilled. After much higgling and haggling among Europeans, the changes in rotation arrangements in multicountry chairs are still not sufficient to ensure the agreed reduction of the weight of advanced European countries in the Board and the IMFC – yet another example of their reluctance to cede space in the IMF.

alternatives for other purposes. These countries care less about voting power and more about other Fund activities such as technical assistance and bilateral surveillance. As mentioned, they value the technical assistance that the IMF provides in public finance and central bank matters. Moreover, bilateral IMF surveillance is often the main or even sole source of more or less reliable macroeconomic information for smaller and less developed countries, serving as a potential basis for accessing international capital markets. Also, individual quotas are normally the main determinant of the amount of financing that a country can obtain from the IMF. Whatever interest low-income or low-middle income countries may attach to quotas, this is mostly less because of voting power and more because they resort with greater frequency to IMF lending. The higher their quotas, the higher the amount of resources they can obtain from the institution.

In contrast, most middle-income countries are past the stage of often resorting to the Fund for emergency financing. They attach greater value to their voting power and voice in the IMF. They do not depend as much as LICs on the IMF's technical assistance and bilateral surveillance. Thus, one might well ask: can indefinite postponement of reform lead middle-income countries to disengage from the institution? Probably, yes. They would certainly loose interest. No country is likely to leave the IMF anytime soon, except perhaps Russia for completely different reasons, but participation would become weaker. Countries may continue to go through the motions but would increasingly tend to refrain from active and interested participation in the IMF and listen less and less to its economic advice.

More importantly, these nations, especially the larger ones, would have more incentive to continue exploring alternative routes, i.e., national or new multilateral mechanisms to provide balance-of-payments financing in lieu of the Fund. Central bank bilateral swap lines between emerging market and developing are increasingly used to provide hard-currency support, with China assuming the role of main provider of resources. Regional monetary arrangements, such as the Chiang Mai Initiative (CMI) in East Asia and the Latin American Reserve Fund (Fondo Latino-Americano de Reservas - FLAR), or transregional mechanisms, such as the BRICS Contingent Reserve Arrangement (CRA) have emerged and some of them are being gradually expanded. Multilateral development banks established by BRICS countries, the BRICS New Development Bank (NDB) and the China-led Asian Infrastructure Investment Bank (AIIB), may also be called on to offer emergency support, provided their legal frameworks are flexible enough or can be adapted to allow this. As these alternative routes develop, increasingly attractive financing options will become available, leading to less dependence of lower-income and smaller countries on the IMF. If this trend should continue, the Fund's relevance would indeed suffer a major blow.

One warning note, however, perhaps excessively "idealistic". To make a difference, to offer alternatives that are truly attractive to developing nations in general, the larger emerging market countries, the BRICS and others, would need to achieve something that they have only partly achieved so far: the capacity at the national and multilateral level of operating in innovative and non-intrusive ways, i.e., in ways that are suited to the requirements of developing nations and, at the same time, respectful of their sovereignty and national plans. In other words, what is needed is nothing short of a new vision of social and economic development, essentially different from the neocolonial approach still taken, consciously or not, admittedly or not, by the IMF, the World Bank and other institutions controlled by advanced nations.

This broad goal is perhaps more difficult to achieve than one can imagine. It must be seen not only as a matter for grand proclamations in strategy documents and in speeches and public statements but an actual, practical commitment, on a day-to-day basis, of acting differently, in an open-minded and non-egoistic manner, proving by concrete actions that these emerging countries understand and share the concerns of smaller and poorer nations. One thing that may help us in this regard is the fact that BRICS and other middle-income countries have only in the recent past emerged from poverty and external financial dependence. We have ourselves been, not so long ago, victims of the injustices and distortions of the existing international financial arrangements. We know from practical and recent experience the downsides of depending too much on the IMF and other institutions run by the West. A Brazilian or Indonesian official may thus be better placed than, say, a Canadian or French official to understand the predicament of low- or low-middle income countries in their search for external financial support.

A second warning note of a practical nature: the experience of EMDCs in the last decades in setting up new multilateral institutions shows, one must recognize, that the task is tougher than we perhaps imagined at the outset. The CMI, launched in 2000, and seen at least initially as a potential Asian Monetary Fund, was considerably expanded in terms of its potential firepower but has not carried out any operations so far. In 2015, the BRICS established two already mentioned financing mechanisms: a multilateral development bank, the NDB, and a monetary fund, the CRA. Up to now, results have been disappointing, especially if compared to our initial expectations. The CRA has remained largely frozen. The NDB has struggled to become a successful financial alternative. These problems are too complex and too varied to be addressed in this paper and I will leave them to one side. I discussed the first five years of the CRA and NDB, as well as the negotiations that led to their creation, in a book that came out in 2021, *The BRICS and the financing mechanisms they created*, published by Anthem Press.

Be as it may, whatever relevance one may attribute to these warning notes and whatever emphasis one may place on setting up or expanding alternative financing mechanisms, the question remains: how should the larger emerging market countries, BRICS and others, respond to a continuing stagnation of IMF quota and governance reform.

The inclination to basically give up on the Fund, is understandable, but would perhaps not be advisable, given all the above considerations about the institution's varied and valuable roles. By simply turning away from the IMF, emerging market countries would be dissociating themselves from poorer and smaller developing countries that, as explained, still attach value to the institution. In other words, governance and the distribution of power, is only a part, however important, of the issues related to the IMF's present and future.

A purely negative attitude and disengagement might not be strategically useful. Would it not be preferable for the emerging market countries to take in turn a long and hard outlook at the IMF's possible ways forward and, without giving up on the traditional and more ambitious goals, decide to work together on supporting a realistic, even if incomplete, reform agenda? The following and final section of this paper will offer some suggestions on how this agenda might look like.

X. A minimalist short-term reform agenda for the IMF

Given bleak prospects for IMF reform in the 16th review this year and in the foreseeable future, as well as the many reasons for still attaching importance to the institution, one possible way forward would be to separate reform in two stages: 1) a more ambitious reform agenda that could be expected to become feasible only in the medium or long term, if at all, from what could be called 2) a minimalist or gradualist agenda that may be expected to happen in the next few years. Long-term and especially shorter-term proposals would need to be down to earth and fit what is conceived to be feasible.

Let us focus on the shorter-term agenda. The overall features of more ambitious agenda have been discussed above and correspond basically to the stated goals of the 16th review coupled with some non-quota governance reforms.

The horizon for the minimalist agenda could be, say, the next two or three years. It would include changes that might be considered a partial success for the Fund and its membership, improving the institution's capacity to respond to the needs of developing countries, in particular the poorest, smaller and climate vulnerable countries. A revamped IMF would be better placed to make a contribution, even if limited, to the alleviation of poverty and the redistribution of income among countries.

The items of this more modest agenda would need to be tailored to the political and practical constraints under which IMF reform is occurring. The more ambitious agenda, as indicated above, would seek to make more fundamental changes in governance without departing entirely from the approaches that have been attempted or partially applied in the IMF, including those set out in the plans for the 16th review. In one sentence, given the many barriers to an ambitious agenda of fundamental reforms, the institution and its membership could seek ways to make some progress within the immediately following years – without giving up plans for more ambitious results down the road.

The minimalist agenda might include some of the points briefly discussed below, all of which would bring about welcome modifications in the governance or in the functioning of the IMF without requiring a major overhaul of the institution. Some inroads into this modest agenda might be important and perceived to be so by IMF management and major quota holders. It would allow the institution to avoid some of the fall-out from a failure of the 16th review, in the wake of the lack of outcomes of the 15th and the non-implementation of the forward-looking elements of the 14th review. At the very least, the 16th review could be concluded, if not with approval of some of the items below, with the recommendation that the IMF implement the minimalist agenda, say, by end 2025 or end 2026.

Would this be a realistic goal? Possibly, yes. It should be noted again that those interested in the continuing relevance of the Fund can hardly ignore that the mere repetition of what happened in the 15th review, i.e., conclusion without changes, risks entailing a major strain in the IMF's already weakened credibility, perhaps even a crisis for the institution, as discussed above. Could the IMF take the route of the WTO, one might ask, even if reasons for institutional failure would be very different from those that discredited the international trade body? While the Fund still performs the valuable functions previously referred to, one cannot really rule out a scenario where it gradually becomes a failed institution.

XI. A few modest proposals

Let us look briefly at a few possible points of a minimalist agenda. They will be set out in no particular order of importance or practical feasibility. However different they are or may look like, it should be kept in mind that they share at least two characteristics: a) they benefit mostly or exclusively smaller and poorer countries; and b) they do not run up against the resistance of major shareholders to changes in the balance of power in the Fund. It would of course remain to be seen whether this sort of approach, modest as it may look, has any real chance of success. In its favor one could point out that the IMF´s administration, always influential in these matters, might well realize that movement, even if only partial or gradual, will to some extent compensate for the failure to achieve the broader quota-related goals of the 16th Review. The major shareholders, the US, Europeans, and Japan, may support changes that improve the institution they control, while not challenging their positions of power. These proposals, none of which are new and that have not been successful so far, could stand a chance of being approved in the special context of this minimalist agenda designed to salvage the IMF's credibility.

Possibilities of approval would depend on a meeting of minds between the advanced world and the major emerging countries. The latter would have to still attach relevance and value the IMF despite the bleak prospects of an ambitious reform. The advanced countries would have to recognize that another failure of reform attempts, without compensating movements, would do considerable harm to the institution they control.

The practical feasibility of the items that will be briefly explained below can only be thoroughly assessed by the IMF's Administration and Executive Board, i.e., by those persons that are currently responsible for the institution on a day-to-day basis. Having said this, let us set out a few possible components of a minimalist agenda for the Fund.

XI.1. Increase in basic votes

Basic votes were introduced in the IMF to compensate for size, amounting to a recognition that quotas by themselves would bias voting power in favor of larger countries. The weight of quotas in the determination of votes is corrected, at least in part, by allocating the same absolute number of votes to all member countries, thus leading to a larger percentage increase in voting power for the smaller members. The smaller the member the more it benefits percentage wise from basic votes. After being tripled in the 2008 reform, basic votes currently represent 5.5% of total votes. No legal obstacle exists to changing basic votes independently of a change in quotas, even if these changes normally happen together.

A further large increase in the proportion of basic votes, say, doubling them to 11% of total votes could be considered, subject to detailed numerical consideration of the impact of these increases in the voting power of members. Any increase that would represent a challenge to the hold of the US and other advanced countries on the institution would be a non-starter for the reasons explained above.

The proposal to increase basic votes would favor all small countries. Admittedly, the gaining group includes small high-income countries, such as Singapore, Switzerland, and Luxemburg. Most small countries, however, are developing nations and many are among the poorest. Moreover, this part of the membership includes countries that are particularly vulnerable to climate change, such as island states in the Caribbean and Pacific. The proposal seems therefore highly defensible. All small countries are members of multicountry chairs in the Executive Board and the IMFC. An increase of their voting power would increase the voting power of the Board chairs of which they are members and would increase their share of voting power and influence within these chairs.

XI.2. Third chair for Sub-Saharan Africa

As explained above, one of the distortions of IMF governance is the unfair distribution of the 24 chairs in the Executive Board and in the IMFC. Europe is excessively represented; EMDCs, especially Sub-Saharan countries, are underrepresented. Europe leads 7 to 9 chairs.[6] Non-European EMDCs command 12 chairs. This issue pertains not to voting power *per se* but to voice and representation, another important and sometimes neglected aspect of governance. The two Sub-Saharan African chairs include mostly low- or lower-income countries, precisely those that the minimalist agenda would be designed to benefit.

The problem of underrepresentation in the Board and the IMF is acute for Sub-Saharan African countries because the two existing chairs include an exceptionally high number of members, as many as 22 and 23 countries. The voice of each individual member of these chairs is severely diluted. The capacity of the Directors to effectively represent such large constituencies is open to doubt, to say the least. African officials have often complained about this unfairness and repeatedly called for a third Sub-Saharan chair.

[6] The exact number of chairs led by Europeans fluctuates in this range due to rotation arrangements in a few constituencies, as mentioned before. For example, in one of the three Latin American chairs in the Executive Board and the IMFC, for example, Spain leads for part of the time, rotating with Mexico every two years in the Board, and with Mexico and Colombia in the IMFC. In this sense, the IMF is one of few places, if not the only one, where Spain has not yet been expelled from Latin America…

They were successful in the World Bank, where a 25th chair was created for Sub-Saharan African countries. However, implementation clearly fell short of expectations. The new chair included, as it happened, a small number of larger countries, leaving the other two Sub-Saharan chairs still overburdened by an excessive number of members. The exercise largely defeated its purpose. Note that the little that was gained occurred at the expense of increasing the size of an arguably too large Executive Board, something that hinders its effectiveness, as has been pointed out by US representatives and others. And this is an undeniable down-side to introducing a third chair for Sub-Saharan Africa.

To avoid a repetition in the IMF of the frustrating experience in the World Bank, Sub-Saharan African countries would have to commit, as part of the deal, to a roughly balanced distribution of countries among the three chairs.

XI.3. Reduction in IMF surcharges

Surcharges are the increases in IMF interest rates that are applied to lending in larger amounts. Countries that borrow beyond certain limits, defined in terms of their individual quotas, are penalized by higher interest rates. From the point of view of the Fund, this compensates for the higher risk associated to large loans.

Reduction in surcharges would benefit all countries resorting to exceptionally high borrowing from the IMF. The rationale for this reduction is well-known. Why charge exceptionally high rates to countries most in need? This runs counter to the alleviation that resort to the Fund is supposed to bring to countries going through severe macroeconomic difficulties.

Granted that there is indeed a higher risk associated to lending in large amounts to a member, the nature of the IMF, in particular its privileged creditor status, makes for a moderate credit risk. Why is this so? First, the IMF is the largest existing reserve pooling arrangement. This spreads the burden of indirect credit risk among a large number of creditor countries that lend to other countries through the IMF. The institution holds in any case large liquid reserves that can quickly be mobilized to cover any losses. Moreover, these losses are few and far between, given that the Fund holds a privileged creditor status, recognized by all countries. Thus, borrowers very rarely default on the institution, and when a risk of default appears this is mostly handled by providing new IMF loans to cover the debt service of previous lending. Creditors in turn recognize that the Fund has a first claim in cases of payment crises, defaults and reschedulings in countries indebted to the institution.

This practical reality could be appropriately reflected in a scaling down of surcharges. Rates would still increase with the level of borrowing but much more moderately than under current rules. The Fund would cease to profit excessively from lending to countries in dire straits, most of which happen to be low-middle-income and low-income members. Resort to the IMF would become less onerous and more attractive.

XI.4. Equiproportional quota increase with roll-back of borrowing arrangements

Equiproportional increase in quotas of course would amount by definition to status quo in terms of the distribution of quotas and voting power. Total quotas would rise by a certain agreed overall amount with each individual country acquiring the right to the same percentage increase in its quota. Relative quotas would remain the same for all countries.

It is doubtful whether this would be of interest to EMDCs. As indicated above, one needs again to distinguish between the poorer developing countries and the middle-income emerging market countries. The LICs would probably view the approach more favorably, being as they are more interested in borrowing in times of crises than in increasing their votes. The second group, and within in it the underrepresented, mostly Asian countries, would probably be opposed or indifferent, being as they are more interested in voting power than in borrowing from the Fund. Several of them, as well as emerging market countries from other regions have indeed become *lenders* to the Fund in the last 15 years or so, bilaterally and/or as participants of the New Arrangements to Borrow (NAB).[7]

The interest of potential borrowers would depend, partly, on whether the equiproportional increase in quotas would entail an increase in the IMF's overall resources. For that to happen the roll-back of borrowing arrangements, bilateral operations or the NAB, would need to be smaller than the quota increase. In this case, the Fund's fire power would increase, and the quota-based nature of the institution would be reinforced, with quota resources tending to become once again dominant. For developing countries, especially low-income, this would be seen as positive, given that many of them, as noted, still rely on the IMF's liquidity support in times strain. For middle income countries, no longer takers of IMF resources, this would be of less relevance, as explained. Their approval of this proposal would only make sense as a gesture of solidarity with the poorer countries and of support for the institution. Sacrifice of national interests would be of course greater for heavily underrepresented countries, such as China, India, and other Asian nations.

However, if the rollback were to occur on a one-to-one basis, this proposal becomes somewhat less attractive, the sole gains being a reinforcement of the quota-based character of the IMF and higher quotas for the potential borrowers. The composition would change, with borrowing replaced by quotas, but the overall amount of resources available to the institution would remain constant.

Thus, the inclusion of an equiproportional increase should preferably be accompanied by the indication that the roll-back of borrowing arrangements, mainly the bilateral ones, would be consistent in size with a considerable increase in the Fund's total envelope, i.e., quotas would increase more than borrowing would diminish, leading to an augmentation of the IMF's lending capacity. The numerical specification could initially be left open, with an indication, however, that calculations should endeavor to restore the IMF's size relative to international economic and financial flows, reversing at least partly the long-term down-ward trend of the appropriate relative indicators. Note in passing that if the rollback is focused primarily on the bilateral borrowing arrangements, this would probably make the proposal more acceptable to advanced and middle-income countries that are large bilateral creditors to the IMF.

Although the proposal does not challenge the distribution of decision-making power, it might still face resistance on the part of the US and other major shareholders. The historical behavior of US authorities indicates that their support for a large increase in the IMF´s size may not be easy to obtain. They value the Fund but, except in times of crisis as in 2008-2009, are not enthusiastic about big increases in its role and lending capacity. This reflects, on the one hand, traditional US hostility to public international bureaucracies and, on the other, the desire to maintain a central role for national institutions, notably the Federal Reserve, in providing international liquidity to selected trusted credit-worthy countries and central banks when liquidity problems arise.

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In conclusion, what can be said of this minimalist approach when one looks at these possible modest proposals and the package of reforms they could be part of? At the risk of belaboring the point and tiring the reader with skeptical considerations, the sad truth is said that even modest proposals such as the ones sketched out here are likely to encounter resistance from major shareholders, as they have in the past.

[7] The NAB is a multilateral borrowing arrangement for the IMF in which participating countries stand ready to provide loans under common agreed rules.

Will they realize, however, that this resistance is going too far, that some breaking point for the Fund will be reached, perhaps sooner than they expect? Or can they be expected to stick to their habitual inertia and attachment to status quo, counting on the perception that even an unreformed IMF would remain a relevant and valuable financial institution?

Whatever might seem more likely going forward, I believe the attempt should be made to persuade the major shareholders, basically the US and the larger European countries, and the IMF administration, the MD and his/her DMDs, that piecemeal change is preferable to status quo. Simply condoning a complete failure of the 16th Review, and full stop, will in the end be more costly than accepting some forward movement in matters dear to at least part of the developing world and that do not threaten the balance of power in Fund. The four modest proposals fit this bill. Other ideas in the same vein could perhaps be identified and proposed in the run up to the 16th Review.

Acronyms

AoA – Articles of Agreement of the IMF.

BRICS – Brazil, Russian, India, China, and South Africa.

CQS – Calculated quota shares.

CMI – Chiang Mai Initiative.

CRA – BRICS Contingent Arrangement.

DMDs – Deputy Managing Directors.

EMDCs – Emerging market and developing countries.

EU27 – Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden.

FLAR – Fondo Latino-Americano de Reservas.

LICs – Low-income countries.

IMFC – International Monetary and Financial Committee.

NAB – New Arrangements to Borrow.

NDB – New Development Bank.

MD – Managing Director.

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