The representation of low income countries in the IMF: A missed opportunity for change?

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Comments on the presentation by Masood Ahmed
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LIC representation in the IMF

- Comments to focus on the second half of the topic: the representation of low income countries in the IMF
- As outlined by Mr. Ahmed, the IMF has recently approved a series of reforms which have increased the representation of developing countries, and fast growing emerging market economies in particular
- Low income countries will also benefit
What is the ultimate impact?

• 135 countries, including low income countries, benefit from the reform as the result of a combination of quota and basic vote increases but...
  – “The reform will…lead to a net increase in the voting share of emerging market and developing economies as a whole of 2.7 percentage points” Report of the Executive Board March ’08 (emphasis added)
  – Basic votes increase from 2.1% to 5.5% of total (BWP)
• Additionally, African constituencies receive additional executive level representation
Is it a good deal?

• Not really… but it is probably as good a deal as could have been achieved given political and economic conditions
• Previous ODI analyses have focused on constraints to achieving more substantial reform including:
  – Structure of European representation;
  – US domestic political calendar;
  – Yearly change in leadership of G20;
  – Growth slowdown in developed countries
Is it a good deal? cont’d

- Nonetheless, elements which benefit developing countries such as GDP measured in PPP terms (40% weight), volatility and reserve ratios were included in the new quota formula.
- The inclusion of a measure of volatility (accounting for 15% of the formula) is particularly advantageous for low income countries, as is the tripling of basic votes.
Will the reform increase its credibility and legitimacy?

• With “public”
  – Widely perceived as a “bad” deal, thus marginal credibility gains (see Bryant, Birdsall et al response)

• With emerging market members
  – Potential small boost in the propensity of middle income countries to participate in governance of the Fund, including strategic direction
  – However, propensity to borrow not linked to governance changes, but to economic conditions, reserves, and evolution of regional alternatives

• With low income members
  – Minimal governance impact
  – As above, borrowing impact de-linked
What future for further reform?

• Representation of developing countries in the leadership
  – IMFC
  – Managing Director

• Progress towards consolidation of EU representation, allowing for greater scope of “chairs and shares” reform

• Continued evaluation of ways to increase voice of low income, and particularly African, countries