Will the IMF Survive to 100?*

O FMI sobreviverá até os 100?

PAULO NOGUEIRA BATISTA, JR.**
ROBERT H. WADE***

RESUMO: Após quase 80 anos de existência do FMI, a distribuição de influência nas suas principais decisões ainda é muito parecida com a da fundação da organização em 1945, durante a era do colonialismo ocidental, permanecendo ainda principalmente nas mãos de um pequeno conjunto de nações de alta renda. É como se a emergente "multipolaridade" da ordem mundial não tivesse ocorrido. Este ensaio expõe o desequilíbrio entre o "peso" relativo dos países (ou conjunto de países) na economia mundial e o seu peso relativo na governança do Fundo. Depois de explicar o sistema de cotas e outros determinantes de influência (incluindo a ocupação de cargos) e a história de tentativas fracassadas de mudar a distribuição de influência, o ensaio descreve várias medidas de reforma incremental que não desafiariam o controle dos EUA, Europa e Japão sobre a instituição, mas ainda melhorariam a forma como o Fundo funciona na prática, beneficiando sobretudo os países-membros menores e mais pobres. No entanto, sem mudanças mais radicais na distribuição de influência, a resposta à nossa pergunta do título é, provavelmente não.
PALAVRAS-CHAVE: Organismos internacionais; reforma da arquitetura financeira global; Fundo Monetário Internacional; países de alta renda; países de mercado emergente e em desenvolvimento.

ABSTRACT: After almost 80 years of the IMF's existence, the distribution of influence in key decisions is still much as it was at the organization's founding in 1945, during the era of Western colonialism – still mostly in the hands of a small set of high-income nation. It is as though the emerging "multipolarity" of the world order had not taken place. This essay sets out the imbalance between the relative "weight" of a country (or set of countries) in the world economy and the relative weight in Fund governance. After explaining the quota sys-

---

* This essay is based substantially on Paulo Nogueira Batista Jr., "A way out for IMF reform", June 2024, a paper prepared for the NGO called Bretton Woods Project. The content is complemented by Robert H. Wade and Jakob Vestergaard, "World Bank governance reform. 'Puppet on a string?'", Global Policy, September 2024. Based on information available in December 2024.

** Economist, he was professor and researcher at the Getulio Vargas Foundation in Rio de Janeiro and São Paulo, São Paulo/SP, Brazil. He was also executive director at the International Monetary Fund in Washington. E-mail: paulonbjr@hotmail.com. Orcid: https://orcid.org/0000-0001-7957-9112.

*** Professor of Global Political Economy, London School of Economics, London WC2A, United Kingdom. E-mail: R.Wade@lse.ac.uk.Orcid: https://orcid.org/0009-0005-8584-8258. Submitted: 22/July/2024; Approved: 5/August/2024.

tem and other determinants of influence (including occupancy of positions) and the history of failed attempts to change the distribution of influence, the essay outlines several measures of incremental reform which would not challenge the US, European, and Japanese grip on institution but still improve the way it works in practice and also benefit the smaller and poorer member countries in particular. However, without more radical shifts in the distribution of influence, the answer to our title question is, probably not.
KEYWORDS: International organizations; reform of the global financial architecture; International Monetary Fund; high income countries; emerging market and developing countries.
JEL Classification: F00; F02; F30; F33.

INTRODUCTION

After almost 80 years of the Fund's existence, decisions are still made as they were at the organization's founding during the era of Western colonialism – still mostly by nationals of a small set of Western states which comprise about 15% of the world's population, though virtually all sovereign states are formally represented in the Fund's governance structure.

Yet the world order has become much more "multipolar" in the past decade, and geopolitics affects economic policy to a much greater degree. China is emerging as challenger to the United States' long hegemony and building "infrastructure alliances" with many developing countries. In this second Cold War the US is going all out to slow down, to "contain" China's challenge while maintaining a high level of interdependence with the Chinese economy (unlike with the Soviet Union during the first Cold War).

In this context of global economic weight shifting away from the West towards China and the East, the US and Europe are determined to hang on to their dominant role in powerful international organizations, notably the IMF and the World Bank. They intend to keep using these organizations, which they designed after World War II, as geopolitical instruments to reward countries which comply with their wishes (with the expected quid pro quo sometimes as far away as support in the UN system) and to withhold support for countries they see as hostile, even from a country willing and able to follow a strong adjustment program. For example, Ukraine received a very generous package of IMF funding for a reform program widely seen to be seriously deficient, after Russia's invasion of Crimea in 2014; and was the first ever country at war to receive an IMF loan, after the institution changed its rules to allow it. Argentina is another country which has benefited from IMF serial forbearance.

The longer-term consequence of these trends is that the IMF's unbalanced decision-making is increasingly inconsistent with the desire of the developed countries to proclaim its global standing as a universal or near-universal financial institution. It is inconsistent with preserving the legitimacy the organization has enjoyed or proclaimed over the past decades thanks to its near universal status.

All this raises the central issue: how to reduce the imbalance between the relative "weight" of a country (or set of countries) in the world economy and the relative weight of the country in Fund governance, so as to keep presently very under-represented countries engaged. China is by far the most under-represented – the biggest gap between its (large) share of world GDP and its (small) share of quota and votes. Its share of world GDP (using purchasing power parity, PPP exchange rates) is estimated at 19% (2022), its share of calculated quota under the quota formula is 14%, and its actual quota was raised to only 6.4% in the 14th Review of Quota finished in 2010, still behind Japan.

China is extreme, but the whole bloc of Emerging Markets and Developing Countries (EMDCs) is also underrepresented relative to GDP share. Correcting that imbalance would entail a big increase in the influence of China and EMDCs as a whole and a big fall in the influence of Europe in particular and the West more generally.

The big question is: how can the influence of China and other EMDCs be raised relative to that of high income countries, given that the US on its own has veto power and several European states acting together also wield veto power? And given, moreover, that the US and Europe view China as an existential threat to the "international rules-based order" which they see themselves as chief protectors of? The last thing they want is for this threatening state to be calling the shots in the international financial organization they have controlled for the past 80 years. The catch is that neither the US nor Europe spell out just what they mean by the "international rules-based order" that China is an existential threat to, and in practice claim that their policies and practices (in the international economy) are – almost by definition – consistent with the "international rules-based order" as they don't define it.

In short, China as existential threat to the "international rules-based order" gives glue to the ruling Western coalition, in the form of the "stop China" project. And that coalition in the IMF has enough quota and votes to veto any significant increase in the share of China or of the EMDCs more generally, which would necessarily diminish the West's power in the world economy. This is an instance of the point made by Giordano Bruno as he was to be burnt at the stake by the Catholic Church in Rome in 1600: "To ask power to reform itself, how naïve!"

DETERMINANTS OF COUNTRY INFLUENCE IN THE FUND'S DECISION MAKING

The single most important cause of a country's influence in IMF decision making is its share of quotas. The Fund is called a "quota-based organization", and quotas are "the building-blocks of the Fund". [1]

The country's quota determines (a) its obligations to contribute finance to the

[1] IMF (2022).

Fund's capital base, (b) the amount it can borrow from the Fund, and (c) its share of votes at the Executive Board. The Board's deliberations usually take place in the shadow of unequal voting. While votes are rarely taken, the chair's capture of the "sense of the meeting" (the chair is almost always the Managing Director or a Deputy Managing Director) is shaped by the skewed voting distribution among chairs. Those that do not speak or set out in writing their opposition to or abstention from a decision proposed by Management are counted as being in favor, under the so-called rule of silence. So it is not correct – as some commentators have said – that changing the vote distribution would make little difference to Board decisions. On the contrary, if a significant change occurs, Board decisions would be changed beyond recognition.

The Fund uses a formula for determining each country's "calculated quota". The calculated quota formula gives 50% weighting to country GDP (60% market exchange rates, 40% PPP exchange rates). Then 45% to "openness" and "variability". And 5% to international reserves. A compression factor is applied to benefit smaller countries.

The high percentage of openness and variability in the calculated quota formula skews the allocation of quota in favor of developed countries, and moves the resulting calculated quotas away from the distribution of economic weight in the world economy (measured by GDP). EMDCs on the Board have long pressed for a change in the quota formula to raise the weight of GDP (specifically, GDP at PPP) and remove or at least lower the weight of "openness" and "variability". To almost no effect.

Actual quota can then be adjusted "ad hoc". This allows actual quotas to diverge from calculated quotas. There are no rules for this adjustment and they vary from quota review to quota review without following any fixed pattern. The 14th Review of Quotas, finalized in 2010, managed to make increases in the quota shares of some EMDCs, including raising China to 6.4% of the total quota. Also, the European states agreed to give up two of their seats on the 24 chair Executive Board.

But three points qualify these favorable achievements of the 2010 Review. First, China was left still dramatically underrepresented compared to its share of global PPP-GDP of about 19%. Second, the US Congress declined to ratify the change in quota for five years, till the end of 2015. Third, the Western European states managed to ensure that the two seats they gave up went to EMDCs of Eastern Europe, leaving Europe as a whole with the same representation as before.

Nevertheless, compared to other quota reviews over the past two decades, the 2010 Review, together with the 2008 quota and governance reform, was relatively successful in making some small but real changes in favor of under-represented countries.

The reasons why the 2010 Review was relatively successful show how the apparently technical business of quota allocation is dependent on global geopolitics. There were two main reasons. One, because the North Atlantic bloc was relatively weak in the aftermath of the severe North Atlantic financial crisis of 2007-2009, and hesitant to push back with its accustomed arrogance. Two, because the Obama government, which took office in 2009, produced in its first years a rift in the North Atlantic bloc as it prioritized its "pivot to Asia" over relations with the Europeans, including giving more support to the multilateral ambitions of the BRICS and other countries of the so-called Global South. Nothing like these two causes of relative success in the 14th Review, finalized in the first years of the Obama government, has been repeated.

The 15th Review of Quota, 2017, had as a major objective a change in the quota formula to give more weight to share of GDP; but failed to make any significant changes in the formula or other aspects of Fund governance.

The most recent quota review, the 16th Review, was concluded in December 2023. It had very similar governance reform goals as the 15th Review, but like the 15th it failed to agree on changes to the quota formula, the distribution of quotas or to other determinants of country influence in Fund decision making.

The Executive Directors did agree on a 50% "equiproportional" increase in overall quotas. Being equiproportional, it leaves the distribution of quota among states unchanged. Moreover, it goes with a corresponding reduction in borrowing from member states – leaving the Fund's total lending power (quotas plus borrowings) unchanged. [2]

The only change that directly benefited developing countries was the creation of a third Executive Director position on the Board for Subsaharan Africa, bringing the Board size to 25 seats. Till now, the 45 member states of Subsaharan Africa had been represented on the Board by two hopelessly overworked Executive Directors. Now those countries will be divided into three constituencies, each Executive Director representing fewer states. This follows the same move earlier on the Board of the World Bank. Those following the process were hoping that the World Bank path would *not* be followed in the Fund. In the Bank, three big countries of Subsaharan Africa grabbed the new seat, leaving the other two with almost the same number as before. In the event, this unfortunate outcome was avoided and the countries of the region were distributed in a roughly even manner in the three chairs.

WHY DO QUOTA AND VOTE SHARES INCREASINGLY DIVERGE FROM COUNTRY WEIGHTS IN THE WORLD ECONOMY?

As noted, with almost no change in the distribution of quotas in favor of EMDCs in the past two decades, the distribution has become increasingly detached from the distribution of economic "weight" as measured by countries' shares of world GDP. Europe's over-representation is captured in the fact that minnow Luxemburg has a much higher calculated quota share than Colombia, Philippines

[2] IMF (2023).

or Egypt; Ireland has a calculated quota share much higher than Argentina, South Africa or Nigeria; Netherlands, higher than Brazil or Indonesia.

The European bloc is overrepresented on all three of the basic dimensions of influence in decision making.

1. Share of quota and votes: European Union's 27 countries produce 15% of world GDP at PPP and have almost 30% of quotas and voting power. If the UK is added to EU, the European bloc at IMF has a little more than one third of total quota and votes.
2. Share of Executive Board positions: European countries hold between 7 and 9 positions in the 24-seat board, about one third.
3. Nationality of the Managing-Director and the First Deputy Managing Director: The two top positions in the Fund are de facto reserved for a European at the top and an American in the number two position, mirroring the agreement between Europe and US that an American citizen will hold the top position at the World Bank.[3]

Legally speaking the Managing Director and the Deputy Managing Directors are not country or regional representatives and owe their loyalty exclusively to the institution, like the rest of the staff. Politically speaking, nationality counts, however, especially in crises. The unwritten rule of nationality imparts a bias towards European preferences, given the crucial role of the Managing Director. No surprise that the European states resist and can be expected to continue resisting to the bitter end any attempt to eliminate their informal privilege of appointing the Managing Director, even as they claim that the appointment is based solely on "merit" – which just happens to always point to a European. The same holds for the US grip on the presidency of the World Bank.

CONSEQUENCES OF THE FUND'S GOVERNANCE HARDLY CHANGING

The failure of the 16th Review to effect a change in distribution of quotas so as to increase the share of EMDCs, despite a commitment to do this, mirrors the failure of the 15th Review.

The consequences of this lack of results depend on how the EMDCs react to the repeated failure to raise their collective influence in decision making, and specifically the failure to raise China's influence. How should EMDCs react? Should they continue to try to promote reforms in the Fund's governance? Or give their attention to alternative financing mechanisms in which they have more control? The latter is already happening, as in the New Development Bank and the Contingent Reserve Arrangement, both created by the BRICS coalition as by-pass organizations to the Bank and the Fund. The Asian Infrastructure Investment Bank,

[3] Batista Jr. (2021).

led by China, is another case in point. And the People's Bank of China might continue to substantially expand its swap lines.

Unless middle-income countries are brought more fully into their decision-making, we expect a slow decline in the Fund's and World Bank's influence in the world economy. On the other hand, if they are brought more fully in, with influence more aligned to their weight in the world economy, we expect they will contribute more to the Fund's and Bank's lending capacity. For instance, China may be encouraged to boost its capital contributions to the Bank's soft loan facility for low-income countries, the International Development Authority (IDA) facility.

THE SCOPE FOR INCREMENTAL REFORM

For all the difficulties of changing the distribution of influence within the Fund in favor of EMDCs, incremental reforms could be made which would (a) not challenge the US, European, and Japanese grip on influence, (b) improve the way the Fund works in practice, and (c) benefit the smaller and poorer countries in particular. The IMF's management and Executive Board might take these steps seriously, if only to compensate partially for the failure to achieve the broader quota-related goals of the 15th and 16th Reviews. The Fund's shareholder governments, its management, and everyone who values multilateral economic cooperation should bear in mind the fate of the WTO. Even though the reasons for the WTO's loss of effectiveness are different to those that would apply to the Fund, it shows us a multilateral fate to be avoided.

An incremental reform agenda, which would hardly threaten the US, European and Japanese hold on power, might include elements like the following.[4]

• Reform conditionality: Make the Fund's macroeconomic adjustment programs for countries in need of emergency lending more flexible, more precisely tailored to their circumstances and more even-handed. This would mean avoiding the biases that are evident in the Fund's current lending practices and the application of conditionality.

One of the Fund's biases is to favor sharply restrictive fiscal and monetary policies even in circumstances that would call for a more gradual approach, and to discount the possibility that it leads to a collapse of economic activity, social hardship, and political resistance, in a vicious circle.

Another bias to austerity comes from a moral judgement that countries guilty of overspending need to pay a price (the German government is especially prone to this thinking). Finally, the West's political hostility towards countries seen as not sufficiently allied to the West tips the Fund towards austerity conditions on its loans for those countries.

---

[4] For a more thorough discussion of these partial reforms see Batista Jr. (2024)

The Fund should revise the economic doctrines underlying its adjustment policies, bringing in innovative economists familiar with the weaknesses of standard macroeconomics; and adjust its conditionality programs accordingly.

• Reduce surcharges: Surcharges are the extra fees the Fund levies on countries that exceed certain thresholds in terms of the amount and length of their borrowings from the Fund. With the Fund's base rate having been raised from around 1% to 5%, some countries in distress have been charged a total interest rate of almost 8%. That is how a group of 22 financially distressed countries, including Ukraine and Pakistan, has been the Fund's biggest source of net revenue in recent years. War-devasted Ukraine has been paying the Fund hundreds of millions of dollars a year in surcharges, on top of its normal debt repayments.

The Fund's main justification for high surcharges is the additional risk it takes in lending large amounts for longer maturities to a country in crisis. But this ignores the fundamental point that the Fund's risk of lending to any one country is spread among a large number of creditor countries, and in any case the Fund holds large liquid reserves that can be quickly mobilized. [5]

Here, at least, there is progress, although more could be done. On October 2024, the Fund's Managing Director, Kristalina Georgieva, announced that the Executive Board had reached consensus on a reform of IMF charges and surcharges, lowering borrowing costs by 36 percent, while preserving the IMF's financial capacity.

• Increase concessional finance for low-income countries: If Western states cannot be persuaded to increase their financial contributions to the Fund's facility for low-income countries (Poverty Reduction and Growth Trust, PRGT), middle-income countries like China, Indonesia, Brazil, Mexico may be persuaded to do so – particularly in return for a higher share of votes.

• Raise the Fund's overall lending resources: Any proposal to raise the Fund's lending resources runs into opposition from the US authorities (Treasury and especially Congress). One reason is the long-established US suspicion of public international bureaucracies, which might take decisions the US does not approve of. A second reason is that the US central bank wants to sustain its powerful role as a lender to friendly client countries when they need quick liquidity, such as South Korea during the East Asian financial crisis in 1997.

The 16th Review of Quota (finished in December 2023) established, as noted earlier, that the 50% proportional increase in quota contributions had to be matched by a corresponding reduction in the amount the Fund could borrow – leaving its total lending resources unchanged. If this roll-back of borrowing was removed or at least reduced, the result could be a significant increase in the Fund's lending resources.

[5] Stiglitz & Gallagher (2022).

• Raise the proportion of basic votes in total votes: Basic votes are allocated in the same number to each member country and have the function of reducing the bias in favor of larger countries and favoring smaller countries. It would seem to be an obvious way to integrate small and poor countries a little more into the Fund. But there are at least two constraints. One is that an increase would require a change in the Articles of Agreement of the Fund. The second is that the increase in basic votes could not be on a scale which would bring the US share of votes below or even close to the veto threshold of 15%. Meeting the second constraint would still leave room for a significant increase of basic votes.

• Create a fifth Deputy Managing Director position: As noted above. the Managing Director has always been European; the First Deputy Managing Director always American. Next in line are the Deputy Managing Directors (DMDs): one Japanese, one Chinese, and one from another EMDC. The latter position is currently held by an African national. The proposal here is to divide the DMD reserved for a national from an EMDC in two positions. One to be held by a national from a low-income country; the other by a national from a middle-income country. This is another incremental proposal that might not provoke resistance from the Western states. Indeed, it has actually been proposed by the US Treasury.

These proposals are not revolutionary and could well be adopted, assuming that the dominant Western countries come to realize that some compensation for the stagnation of fundamental governance reform is needed. Our conclusion is that if these countries continue to resist changes that would favor EMDCs, comprising 85% of the world's population, the organization is fated to enter gentle desuetude.

REFERÊNCAS BIBLIOGRÁFICAS

Batista Jr., Paulo Nogueira (2021) *O Brasil Não Cabe no Quintal de Ninguém*, São Paulo: Leya, Second Edition., 2021, p. 72, 73.

Batista Jr., Paulo Nogueira (2024) "A way out for IMF reform". *Bretton Woods Project*, 19-26.

International Monetary Fund (2021) IMF Board of Governors Approves Quota Increase Under 16th General Review of Quotas", December edition., 2021, p. 72, 73.

International Monetary Fund (2022) IMF Quotas, fact sheet, October. 2023.

Stiglitz , Joseph E. & Kevin P. Gallagher, (2022) "Understanding the Consequences of IMF Surcharges: The Need for Reform", *Review of Keynesian Economics*, Vol. 10, No. 3. Autumn 2022.