



Developing Country Representation and Governance of the International Monetary Fund

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Summary. — This article examines the representation of developing countries in the IMF's quota regime. We first describe how the Fund determines quotas according to countries' relative positions in the world economy. Current quotas of member states are then compared to different measures of relative weight in the world economy. We also compare four different methods of computing quotas: current quotas, calculated quotas, quotas calculated using formulas proposed by the IMF's external Quota Formula Review Group, and those proposed by former IMF Executive Director Vijay Kelkar. We find that developing countries are over-rather than under-represented if the focus is restricted to variables similar to those used by the IMF; introduction of other variables, for example, population or PPP-based versions of GDP, produces quite different results. The paper concludes with brief consideration of possible changes that would enhance developing country participation in Fund decision making.

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1. INTRODUCTION

During the International Monetary Fund's 1997 review of its liquidity position, the Executive Board proposed a complete review of how IMF quotas are determined. Quotas, which are intended to reflect a member country's ability to contribute to the Fund's operations, also directly determine its voting weight and its representation in the Fund. An assessment of the formulas used to calculate member countries' quotas was initiated in 1999 with the creation of the Quota Formula Review Group (QFRG). The discussion of quota formulas is fundamental to the issue of Fund governance because of the impact of quotas on the voice and formal representation of member countries. The QFRG was limited in its mandate, yet its review of quota formulas stimulated a wider debate about the apportionment of influence within the Fund. Ultimately, the findings and

recommendations of the QFRG were deemed unacceptable by the IMF's Executive Board because the simplified formulas advanced by the QFRG would have transferred quotas and, hence votes away from developing countries. Other proposals made on the heels of the QFRG report suggested adding population to the mix of variables currently used and/or substituting purchasing power parity (PPP) measures of GDP for the existing exchange rate-based version.

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Developing countries are major stakeholders in the international financial institutions and, as such, their participation “requires that affected parties have access to decision making and power so that they acquire a meaningful stake in the work of the institution” (Woods, 1999, p. 44). Although in principle all IMF members may access Fund resources, because of their access to expanded private capital markets, no developed country has done so since 1978. In consequence, a kind of role polarization—between debtor developing countries and creditor developed countries—has crystallized. Developing countries are the “users” of the IMF, while their developed counterparts, who dominate rule making, “do not use the institutions and do not, therefore, have to live with the consequences and failures of their policies” (Caliari & Schroeder, 2003, p. 2). But this is not to say that the developed countries provide all of the Fund’s resources, as the developing members’ debt service is a major source of the IMF’s operational funds. As one (unnamed) Executive Director from a developing country observed: “The industrial countries provide the capital, but the Fund does not spend the capital, it loans it. The developing countries are paying the interest that keeps the institution running” (quoted in Bichsel, 1994, p. 148).¹

This paper examines the claims that developing countries are under-represented in the IMF. If developing countries are under-represented, we expect to find that they have a lower share of the Fund’s quotas than their share of world product and other economic measures. The next section provides some necessary context by describing IMF’s decision rules, including the methods by which the Fund determines quotas according to countries’ relative positions in the world economy. We find that the IMF’s quota determination and voting regime is a rather complex “can of worms” that, once opened, leads to consideration of more and more issues. In the following section, we present data that divide IMF members into income-based categories used by the World Bank and, for each category, compare current quotas to different measures of relative weight in the world economy. We then compare four quota values: current quotas, calculated quotas, quotas calculated using formulas proposed by the QFRG, and two proposed by former IMF Executive Director Vijay Kelkar. The three alternative proposals represent quite different visions of how voting weight should be

distributed: the former would increase the extent to which voting weights are determined in direct proportion to economic size and power, while the latter two seek a more egalitarian distribution that gives greater importance to the sovereign equality of states and/or to population.

Overall, we find that developing countries are over- rather than under-represented *if we restrict our focus to variables similar to those used by the IMF*, though the quotas and voting shares of the vast majority remain diminutive by any standard. This situation has resulted from well-meaning, but ultimately ineffective, efforts by the IMF over the decades to bend its procedures in order to provide a more meaningful and effective voice to developing countries. We conclude that these problems are not likely to be fixed by either reallocating quotas within the existing IMF system or by tinkering with the quota-determination formulas.

2. THE ROLE OF QUOTAS

At the 1944 Bretton Woods meeting, it was recognized that because the IMF was to marshal and dispense large amounts of scarce financial resources, “it was inconceivable that national legislatures appropriating funds for such transactions would not insist upon having in their disposition a voting power closely related to the size of their contributions” (Lister, 1984, p. 37). Decision methods giving more emphasis to sovereign equality, in the extreme a one-country, one-vote rule, would not be acceptable to the major powers contributing to the bulk of the IMF’s resources. Accordingly, a scheme was devised by which each national member of the IMF has a quota (now expressed in Special Drawing Rights, or SDRs) that equates almost directly to its financial subscription to the organization. Each member has 250 “basic votes,” plus one additional vote for every 100,000 SDR of its quota. In recent decades, basic votes amounted to an all-time low of 2.1% of the total votes, down from over 11.3%, agreed on in 1944 at Bretton Woods, and from the historic high in 1958 of 15.6%. This trend, away from recognition of the sovereign equality of states, has diminished developing country influence in the Fund.

The relative size of the quotas is derived from, but not strictly determined by, a complex system of five weighted formulas (down from a high of 10) based on GDP, the values and vari-

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