CONFIDENTIAL

Executive Board Minutes 21/97-1

September 29, 2021–9:30 p.m.

Progress on the Sixteenth General Review of Quotas—Draft Report of the Executive Board to the Board of Governors

Documents: SM/21/175

Staff: Krueger, Hatanpaeae, and Moore FIN; Steinki, LEG; Tovar Mora, SPR

Length: 57 minutes

ISSUED: August 23, 2022
APPROVAL: August 30, 2022 1

CEDA OGADA
Secretary

TABLE OF CONTENTS[1]

Executive Board Decision 3

Executive Board Attendance 4

Discussion Record 6

Annex 18

- Gray Statements
- Constituency Codes

[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

EXECUTIVE BOARD DECISION

The Executive Board took the following decision:

Progress on the Sixteenth General Review of Quotas—Report of the Executive Board to the Board of Governors

1. The Executive Board adopts the report ("Report") entitled "Report of the Executive Board to the Board of Governors on Progress on the Sixteenth General Review of Quotas" that is set forth in the Annex to SM/21/175.

2. The Executive Board authorizes and directs the Secretary of the Fund to send the Report to each member of the Fund.

3. The Secretary is authorized to take such action as he shall deem necessary or appropriate in order to carry out the purposes of this decision. (SM/21/175, 09/22/21)

Decision No. 17108-(21/97), adopted
September 29, 2021

EXECUTIVE BOARD ATTENDANCE [2]

K. Georgieva, Chair

Executive Directors	Alternate Executive Directors
I. Mannathoko (AE)	
	R. N'Sonde (AF)
S. Chodos (AG)	
C. Huh (AP)	
A. Bevilaqua (BR)	
Z. Jin (CC)	
P. Moreno (CE)	
	F. O'Brolchain (CO)
D. Palotai (EC)	
	C. Roman (FF)
	A. Rieck (GR)
	Y. Indraratna (IN)
D. Fanizza (IT)	
T. Tanaka (JA)	
	S. Ahmed (MD), Temporary
	M. Choueiri (MI), Temporary
P. Hilbers (NE)	
M. Poso (NO)	
A. Mozhin (RU)	
	B. Alhomaly (SA)
R. Lim (ST)	
P. Trabinski (SZ)	
S. Riach (UK)	
E. Shortino (US)	

C. Ogada, Acting Secretary
J. Morco, Summing Up Officer
R. Smith Yee / D. Al-Jarbou, Board Operations Officers
M. Eddy, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: W. Bauer Stampfli, K. Harada, F. QI. Communications Department: W. Amr. European Department: D. McGettigan. Fiscal Affairs Department: K. Katayama, J. Toro Rivera. Finance Department: C. Blandin de Soyres, H. Hatanpaeae,

[2] For countries in each constituency, please see the Constituency Codes in the annex.

B. Jajko, M. Kida, T. Krueger, B. Lauwers, D. Moore, Z. Murgasova, J. Okwuokei, O. Unteroberdoerster. Legal Department: Y. Liu, H. Pham, A. Rosha, B. Steinki, R. Weeks-Brown. Middle East and Central Asia Department: C. Geiregat. Office of Risk Management: B. Boultwood. Research Department: C. van Hombeeck. Strategy, Policy, and Review Department: H. Chociay, K. Kostial, N. Meads, C. Pazarbasioglu Dutz, C. Tovar Mora, J. Trevino, A. Tuladhar, D. Velculescu, Y. Wu, T. Zheng. Statistics Department: D. Marchettini. Executive Directors: A. Andrianarivelo (AF), A. BinZarah (SA), H. Hosseini (MD). Alternate Executive Directors: A. Alhosani (MI), H. Azal (EC), L. Dresse (NE), M. El Qorchi (MD), F. Fuentes (BR), A. Grant (AP), A. Guerra (CE), L. Herrera (AG), C. Just (EC), M. Kashima (JA), F. Mochtar (ST), W. Nakunyada (AE), L. Palei (RU), O. Parkyn (AP), M. Peter (SZ), J. Romero (CE), D. Ronicle (UK), B. Saraiva (BR), J. Sigurgeirsson (NO), F. Sylla (AF), Z. Zhang (CC). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), X. Bai (CC), E. Cartagena (CE), R. Cunningham (CO), A. Ekelund (NO), R. Gindrat (SZ), R. Goyal (IN), M. Ismail (AE), L. Johnson (AP), B. Lischinsky (AG), R. Mahabir (BR), M. Maidi (AE), S. Naka (JA), T. Nguema-Affane (AF), D. Ong (ST), C. Quaglierini (IT), J. Rojas (CE), K. Ruhlmann (NO), H. Saeed (SA), C. Sassanpour (MD), M. Scholer (NE), M. Sidi Bouna (AF), L. Smith (CO), F. Spadafora (IT), N. Thiruvenkadam (IN), A. Tolstikov (RU), M. Villeneuve (CO), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Bah, R. (AF), C. Becker (AP), S. Belhaj (MD), B. Boostani (MD), Campbell (UK), D. Cools (NE), J. Corvalan (AG), K. Dacharux (ST), R. Edwards (CO), C. Eijking (NE), D. Fadhel (MI), M. Ghalanos (NE), D. Hamzah (MI), V. Lankester Campos (CE), A. Maciá (BR), G. Meizer (EC), M. Merhi (MI), P. Mooney (CO), R. Moral Betere (CE), A. Nainda (AE), I. Ogihara (JA), B. Piasecki (SZ), B. Rankin (CO), A. Ribeiro Mateus (IT), B. Singh (IN), L. Sturm (US), J. Yoo (AP), F. Lopez (CE).

DISCUSSION RECORD [3]

The Chair:

Today, our objective is to finalize the report from the Executive Board to the Board of Governors, and on that basis, to complete our obligation and duty to the Governors, who have requested a report on progress twice a year.

We have a report that is drafted by heavily relying on the Chair's concluding remarks and summarizing discussions during the two meetings of the Committee of the Whole. We had a meeting on September 1 that I chaired. It covered the adequacy of the Fund's resources, including its quotas. And then we had a second meeting on September 10, focusing on the quota formula and realigning quota shares that Mr. Furusawa chaired.

The concluding remarks from these meetings have been circulated to Executive Directors, and I rely very much on the fact that, by subscribing to these summaries, we are building a good bridge towards the report we would send to the Governors. To be clear, paragraph 6 to 20 in the report comes verbatim from the two sets of concluding remarks. Since Directors had a chance to comment on these concluding remarks, and we have taken their comments very seriously, I am comforted to speak on behalf of staff that there is a balanced effort to reflect the Directors' views on issues that are of great significance to Board.

On the matter of publication, I would propose we follow the same approach we followed for staff papers in previous general quota reviews. The report will be published once discussions on the 16th Review have been concluded. I also want to recognize our colleague, Mr. Thomas Krueger. It is the last quota discussion Mr. Krueger will participate in as Fund staff. I want to express my sincere gratitude to him. And I am sure many Directors who have followed his work will join me. He has been a very important contributor to the work on quotas. His creativity, commitment, and hard work led to successfully completing the 14th General Review of Quotas and the related historic quota and governance reforms. So, on behalf of the management team in front of the Board, I want to express our gratitude for Mr. Krueger's very important contributions.

[3] Edited for clarity.

Mr. Bevilaqua:

The report is based on the final versions of the Chair's concluding remarks of the two meetings of the Committee of the Whole; hence, we agree with the draft and the proposal decision as presented with one single caveat regarding the paragraph on the next steps.

The draft report states that a number of Directors suggested entering goals or milestones to facilitate progress, although many Directors reiterated that all elements have to be agreed as an integrated package. We do not see these two ideas as opposing. Second, entering goals or milestones to facilitate progress could be considered as a way to achieve consensus on an integrated package by the guidelines. We would like to suggest that the report does not present those ideas as two antagonistic elements. While a package must be reached at the end of the process, having concrete deliverables for each of our semiannual reports will help guide our efforts and benchmark our progress. Indeed, requesting that the Board establish those goals or milestones should be an important element in the International Monetary and Financial Committee (IMFC) Communiqué.

I hope the IMFC can put some language in its Communiqué that could eventually help us move forward in the consensus-building exercise so that we can this time successfully complete the General Review of Quotas.

The Chair:

It is an issue we have to approach prudently and seriously. It is also important that we have sufficient clarity on the steps to be taken so we do not set up ourselves for a potential disappointment because we defined steps that are not as well prepared to be taken. I agree with Mr. Bevilaqua.

Mr. Roman:

I can be very brief. We support the report as it is. We think it is a fair reflection of our informal actions or views on the key issues of the 16th Review of Quotas and the concluding remarks in the two previous sessions. We, therefore, agree with this report and for it to be sent to the Board of Governors.

Reacting to Mr. Bevilaqua's comments, we reiterate the importance of moving forward on an integrated package. We look forward to further

discussions based on staff's proposals, bearing in mind the need to keep exploring all possible options on its competence to help reach an agreement.

Mr. Palotai:

We welcome this opportunity to discuss the first progress report on the 16th GRQ. We agree that the essence of the discussions is to develop the progress report and reflect on the concluding remarks of the Committee of the Whole meetings. We would like to suggest some refinement for consideration and reiterate our position on a few other points.

On the adequacy of quotas, regarding paragraph 8 in the report, we note that the number of Directors not only cautioned against overly pessimistic scenarios but also asked staff to present a narrower range of estimates to facilitate consensus building and reiterate that the model should also build on the catalytic role of the Fund.

In general, we would place more emphasis on maintaining the role of judgment on the assessment of the size of the Fund and the resource mix. Nevertheless, we take positive note that the discussion showed broad consensus on ensuring the primary role of quotas.

On the quota formula and realigning of quota shares in paragraph 14, we also consider it important that many Directors share the view that the current quota formula, which is based on a delicate compromise, works well, and reflects dynamic developments in the global economy. Any change to the variables will need to be subjected to careful assessment and the updated set of simulations will remain crucial to make more informed decisions. At this point, we also stress the importance of realigning quota shares to address increasing out-of-line shares.

Regarding the possible update of country groupings in paragraph 19 of the report, we continue to hold the view that, in addition to the need for preserving continuity of the dataset, any updates should be preceded by a review of the WEO classification. Given that the Executive Board is required to provide a semiannual report to the Board of Governors, we would like to hear more details on how the further GRQ-related work is planned for the next semester within the Fund, also considering that the membership may set further expectations during the Annual Meetings. I can confirm that our constituency remains committed to constructively engaging in further discussions.

Mr. Poso:

The report describes the discussion at our recent meetings on this topic in an accurate way and displays the broad range of views expressed. Therefore, like Mr. Roman, we support the report as it is. As reflected in the report, we recall that many Chairs said that the current formula is working well or that it could serve as a basis for consensus. I look forward to further engagement on this issue to ensure that we finalize the 16th Quota Review within the accurate timetable, considering all the issues under it as an integrated package.

Mr. N'Sonde:

The draft report captures well the essence of the discussions in the meetings of the Committee of the Whole. We would like to offer three comments to ensure that Directors' views are comprehensively reflected in the report. Those comments focus on the section on the quota formula and share alignment.

Our first comment is on voluntary financial contributions in paragraph 17. We would indicate in the first part of the sentence that voluntary financial contributions include among others bilateral borrowing arrangements.

Further, on the same paragraph 17, we believe that we should clearly mention why many Directors are opposed to the inclusion of voluntary financial contribution in the formula or its use for a quota increase. Without starting the debate again, reasons advanced by Directors include, one, potential conflict of interest that this inclusion will create, and two, the complexity that this variable will add to the formula, whereas we all agree on the need to keep the formula simple and transparent.

On paragraph 18 of the report, regarding the protection of poorest members, quite an important number of Directors expressed support for the broader definition, that is Poverty Reduction and Growth Trust (PRGT) eligible members, plus small-developing states. In particular, we feel that it is essential to indicate in the report why several Directors called for protecting vulnerable middle-income countries. Those countries have quota shares similar to or in some cases even lower than those of low-income countries eligible for protection. As a matter of equality of treatment and for preserving relative economic positions in the world economy, the views expressed by those several Directors on the protection of those small middle-income developing countries should also be considered.

Mr. Tanaka:

We attached the greatest importance to GRQ as the Fund is a quota-based institution, and we expect that it will continue to preserve its role at the center of the Global Financial Safety Net.

For the most part, the summary and the language in the draft report reflects the core of discussions we had so far and seems well balanced. Therefore, we are ready to support the draft report as it is presented. We expect staff to continue carefully considering Directors' positions from gray statements and interventions with clear communication with us in the Summing Up process.

As we can see in the statement, views among the Directors differ in many aspects and areas and achieving agreement will be challenging ahead of us. Again, we would like to emphasize the importance of, first, adequate estimate of total amount of resources without too much emphasis on the enlarging financing gap; second, best mix of resources composition, including borrowed resources; third, incorporation of voluntary financial contributions to the formula; fourth, concerns on data issues affected by COVID-19 as such. For a successful conclusion, these individual issues need to be carefully discussed and then agreed upon as an integrated package. We look forward to further discussion on these issues going forward.

Ms. Rieck:

We think the report adequately summarizes the state of play at this stage. This will continue to be a very difficult discussion, and we should not duplicate the discussions we had in the Committee of the Whole. We will have plenty of opportunity to discuss that going forward, so I want to echo Mr. Roman, Mr. Poso, Mr. Tanaka, and others, we endorse the proposed decision to forward the report as it is and should not have the same discussion we had two weeks ago here.

Ms. Riach:

We agree with others that the report is an accurate reflection of the discussions we have had so far. So, like Mr. Roman and Mr. Poso and Ms. Rieck, we support it as it is currently drafted.

As Mr. Poso said, we believe that the current draft well reflects the range of views expressed by Directors. Like others, we are clear on the importance of this workstream, and we support the IMFC and the G-20 commitments to a strong quota-based and adequately resourced IMF. We are committed to completing this review by December 2023, and we look forward to reaching consensus on a range of issues as a single package. As we said previously, we believe that the political nature of these discussions means that it will not be possible to agree to parts of the package until the whole package is agreed. So, on the issue of setting interim benchmarks, although I appreciate that it would have benefits of setting momentum, it risks setting benchmarks that we then do not achieve and that damage the credibility of the process.

Mr. Chodos:

To be short, we wanted to share most of the thrust of the gray statement issued by Ms. Mannathoko. We think that that should be kept in the report, and we consequently would definitely support the report, so we think that it is very specific and very well written, to the point, great.

Also, in reviewing the quota, I think we have to remind ourselves that not only the IMF is a quota-based institution but that it can only be a quota-based institution and it cannot be anything else. So, in doing so, we have to remember what the main elements are of being a quota-based institution, and those are that there are adequate resources, and that the institution is legitimate.

The only way to advance and maintain those elements in situations where there is a big gap with the quota structure and the economic reality is to grant either this very gradual but some shift from advanced economies to emerging markets and developing economies (EMDEs), and also to make sure that the review of the formula gives at least greater weight to PPP GDP within the GDP framework. Of course, we understand that the discussion on the formula and the review are going to be gathered as the one fullest and with the figures what Ms. Riach was just pointing right now. So, whatever we do on that front, I think we should stick to the four principles of 2008 and maintain that line.

The Chair:

Indeed, these are all questions that we will be working on over the course of the next year, so that is what I hear uniformly from everybody on this Board.

Mr. Trabinski:

We support the proposed decisions. We are of the view that the draft report is well balanced and reflects appropriately the views expressed in the first meetings of the Committee of the Whole. Without going into the details of our positions as expressed in the first meetings, let me just reiterate our full support for a strong quota-based and adequately resourced IMF at the center of the Global Financial Safety Net. Let me also recall the IMFC's commitment and the Board of Governor's guidance on the primary role of quotas.

As we look forward to continuing our discussions on the 16th Review in a constructive way, we are convinced that, to succeed, any outcome must be balanced, acceptable to a large majority of the membership, and consistent with the multiple roles of quotas. Here, considering the different elements of the 16th Review as an integrated package will help build the needed broad consensus.

Mr. Fanizza:

Let me start by saying that I fully agree with what Mr. Bevilaqua was saying on commending staff for an excellent job done in balancing views in this report. I do not think it was a real easy job. It is hard to do. The results are remarkable, I must say. In fact, I do not think we should engage in a drafting session here. We have already discussed it two times. We cannot reopen things all the time. I think if we do any change, everything will move away, so we need to be a bit realistic on what we have. This is my main message. And let me agree with the staff, Mr. Krueger, Mr. Poso, and Ms. Riach.

The Chair:

Just to recognize that we are at the early stages of this process. There is a lot of work we will be doing in the months ahead. It is good to recognize what is the work that needs to be done, what are the issues to address. In that sense, all contributions are valuable, yet we need to have a report going to the

Governors, and I think this is the main objective to conclude on this report today.

Ms. Mannathoko:

I just really wanted to express our authorities' thanks for what were two excellent meetings that we had with heads last week and this week.

This week the meeting dealt with especially difficult circumstances, but I think it went very well as well.

Our gray discussed the rules regarding Summing Up and how inputs are incorporated when the concluding remarks are done, so that was the spirit in which it was being made. Our impression was that silence implies agreeing with the original wording by staff. When a proposal is made by one Director, not commenting on it does not imply agreeing with the change but with the original formulation. For example, the original paragraph 4 in the concluding statement, which then translated to paragraph 14 in the report, the addition to that paragraph, we just thought the original formulation was a closer reflection. And though there was a suggestion on an addition, not everyone came in and agreed. So, it was just maybe a question of how we do it, but it is a separate topic, I understand that. But I think in the spirit of compromise, though, we, of course, share the concerns that Mr. Chodos raised, but we do not want to stand in the way of the report going forward.

We look forward to further discussions and, of course, we all will have to compromise to ensure a successful conclusion, so we look forward to this, and really want to express our commitment to trying to ensure the conclusion of the 16th GRQ by December 2023.

I also just wanted to briefly support Mr. N'Sonde and others on protecting the overall mix.

Ms. Lim:

The draft report reflects discussions at the Board and we are fine for it to be transmitted as is. What the report clearly documents, however, is the discussions have yielded widely divergent views in many important areas, and this unfortunately reflects our current reality. We need to do better for the next report, ensure extra signs of progress, including clearer indications that consensus is gradually built across a variety of issues. We need compromises for everyone to avoid a repeat of the impasse in the 15th Review. In this

regard, we encourage staff to consult more proactively in an effort to build consensus among the membership. We also call for clear announcements and interim goals to be set to facilitate progress. This will help to keep us on track and also put some pressure on us to avoid a lack of progress at every semiannual report.

Mr. Moreno:

We also support the report as is. We are at the initial stages of this process that has a deadline in 2023, hopefully sooner so that this Board can actually make the decision instead of the next one. So far, we are in informal discussions, and I think this is especially useful that all views are reflected. For instance, we have a particular concern with the use of the 2020 data in the formula because really this is an outlier in the history of the IMF because of the pandemic. So, the report is adequate because it reflects good summaries and all views, which is the process that we are at, at this stage.

Mr. Ahmed:

I will be very brief as well. Like other Directors, we also support the proposed decision and adoption of the first semiannual report of the Executive Board to the Board of Governors on the progress on the 16th General Review of Quotas. The report may be shared with the membership as proposed.

The progress report appropriately reflects the essence of the discussions held thus far by the Board on the adequacy of Fund resources, quota for review, and realignment of quota shares. Here, we reiterate our commitment to constructively engage in revisiting the adequacy of quotas and continue the process of Fund governance reforms under the 16th GRQ to be completed by December 15, 2023.

Towards this end, like Mr. Bevilaqua and Ms. Lim, we also support setting interim goals with timelines to facilitate progress. We look forward to continued Board discussions on quota-related issues with a view to concluding the 16th GRQ on time.

Mr. Hilbers:

Given that the draft report contains the agreed conclusions of our previous meetings, we can only agree on it. Let me take this opportunity to thank staff for taking into careful consideration the qualifiers and other

suggestions received by Executive Directors on the prepared conclusions of both earlier meetings.

Finally, in our view, the report captures very well our state of discussions so far, in this place, and the broad range of views expressed. We therefore see no need to comment on it at this stage. Like Mr. Roman, Mr. Poso, Ms. Riach, and Mr. Fanizza, we support leaving the report as it is.

Mr. Alhomaly:

We support the report as it is. We find it to be balanced and reflects the views expressed in previous meetings. For that reason, we endorse the proposed decision to adopt the report and send it to each member of the Fund.

I would like to reiterate that all elements have to be agreed as an integrated package, and here we very much look forward to continued discussion with the view to conclude the 16th Review on schedule.

Ms. Choueiri:

The report is extremely well done, and it captures the spirit of the two last Committee of the Whole discussions that we had. We therefore support the report as it is and support the comments made by Mr. Poso this morning. We remain committed in our Chair to concluding the 16th General Review of Quotas no later than December 15, 2023, as agreed.

Mr. Mozhin:

I have absolutely nothing to say on the substance matter, and I am happy with the report as it is.

Mr. Jin:

The report is well drafted and has captured the main themes of the Board discussion. I would like to make a few comments.

First, we do not expect a dramatic and revolutionary change in quota structure and quota formula, but we support an objective, balanced, and pragmatic approach. We agree with staff and many Directors that there is need for a quota increase in the medium-term to ensure the Fund has sufficient resources while remaining a quota-based institution.

Second, we believe the most obvious quota misalignments should be corrected. Debate on the new quota formula should not become an obstacle for most-needed quota increase and realignments. Before we reach consensus on a new formula, the existing formula should continue to serve as the guidance of quota realignment.

We look forward to the timely and constructive conclusion of the 16th General Review of Quotas.

Mr. O'Brolchain:

I would like to support those who have said that the report should be published as it is for the same reasons.

Mr. Huh:

Like many other Directors, we believe that this report summarizes very well the discussion of the last two Committee of the Whole meetings, and, therefore, we support the adoption and submission to the Board of Governors. We are looking forward to a very productive engagement to finalize the 16th General Quota Review as scheduled.

The Deputy Director of the Finance Department (Mr. Krueger):

I will start with a few questions. There were just a few questions raised, but just for context, one was on the way forward. The current work plan is to get this report done. Assuming the report gets approved, it will be sent to the Board of Governors. The next step is for the membership to reflect in the IMFC Communiqué how we want to report on the 16th Review progress. And then looking ahead at the Spring Meetings, the Board will have a second progress report on the 16th Review, so the current staff plan is very much to have another Committee of the Whole meeting before that, probably in the early part of the year, and most likely it will merge the discussion on the size of the Fund with a quota formula, the realignment of shares. Of course, staff will be flexible, and it is easy for me to commit staff. If there are other developments that warrant more meetings, I am sure we will respond.

I also had several comments. I just want to flag that we hear Directors on the protection, what is the parameter for potentially protecting members. I would say that maybe it is not too much for adjusting this report, but it is really a future discussion, what is the proper parameter that the membership would support for protecting quota shares.

On milestones, staff will reflect more with management also on what is the best way forward and at what point, if at any point, it is helpful to set the milestones in order to facilitate the timely completion of the review. I also heard Ms. Riach's point on when setting those milestones, what would be really counterproductive if we were to miss them in the future. So, considering how divergent views are still at this point, it is probably a bit early to set those milestones, but, again, whether and when to set those and what they could be, I think I would expect that to be a part of future discussions.

On quotas, as the Chair also has said, this is obviously an issue at the core of the Fund. It is in many ways what makes the Fund unique for the resources but also in terms of representing the membership. So, having a successful conclusion of the 16th Review will be a really top priority, and I would certainly watch how we progress on this.

I also want to just flag, I think we have a really great team in the Finance Department (FIN), Strategy, Policy, and Review Department (SPR), Legal Department (LEG), Secretary's Department (SEC), Statistics Department (STA), that works across the departments, so I think you will get every support that you need to make this work, but ultimately the Board has a clearly important role to play in making this review a success.

The Chair:

I want to recognize that there have been important issues flagged as issues we need to work on, and Mr. Krueger reflected on those, protection of members, milestones. We are taking all these inputs, of course, into account for the work we will take after the Annual Meetings. And at this point, there is broad support to publish the report as it has been presented. It is based on Directors' discussions and agreements.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Constituency Codes

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.

GRAY/21/2773

September 27, 2021

Statement by Ms. Mannathoko, Mr. Ismail, Ms. Maidi, and Ms. Nainda on Progress on the Sixteenth General Review of Quotas--Draft Report of the Executive Board to the Board of Governors
(Preliminary)
Executive Board Meeting 21/97
September 29, 2021

We thank staff for the draft report capturing progress on discussions held by the Committee of the Whole on the 16th General Review of Quotas (GRQ). We are broadly supportive of much of the framing but ask SEC to recheck qualifiers in various paragraphs as laid out below. We would be willing to support the adoption of the report and its transmittal once we have assurance that our comments below have been taken into consideration. We also highlight once again, a few points as we prepare to proceed from the initial considerations towards more substantive proposals.

Clarifications Sought

On adequacy of resources, we find the framing in paragraph 11 presents a somewhat weaker stance than was reflected in Directors' statements and ask staff to re-check. We ask that staff instead use the wording in the last paragraph of the main themes (page 1) which was a more accurate representation of positions.

- The last paragraph reads: "Grays agree on the need to ensure the primary role of quotas in the Fund's financing structure, supplemented with borrowed resources to cover tail risks. Views differ, however, on the appropriate size and composition of Fund resources."

Similarly, in paragraph 9, we prefer the wording in main themes where the second last paragraph on the first page reads:

- "Generally, grays emphasize the importance of considering the implications of risks, vulnerabilities, and global trends, including from climate, digital transformation, and other factors that could have systemic implications. Grays note that factors such as increased interconnectedness, uncertainty and underlying global trends could raise the demand for Fund resources."

We propose both these paragraphs be used to replace the corresponding text in the report.

On the quota formula, regarding paragraph 14, last sentence, we ask staff to reframe this as the qualifier "many" and reference to only one view could create the impression this was the dominant view. The numbers in the main themes (and discussion on the floor) show that more Directors called for changing the formula, while fewer called for keeping it. Could staff explore adjusting the last sentence of #14 to read: "While *most* Directors preferred to work on a new formula, there were *some* who supported the current formula, …….", (with appropriate qualifiers).

On protection of the poorest, we note regarding paragraph 18, that some Directors, including during the discussion on the floor, noted that the simulations in fact reduced the share of poorer regions like SSA, and called for even enhancing the quota and voice of the poorest – noting that enhancing the miniscule regional share would not take much away from others. We hope some aspect of this can be reflected in the report. Apart from the above, we have two additional points:

Adequacy and Fund Resources

We continue to advocate for a strong, quota-based and adequately resourced IMF to preserve its role at the center of the GFSN, noting that this has become even more compelling in the context of the ongoing crisis and amplified financing needs and risks facing EMDEs. As formal discussions on the 16th GRQ progress, careful consideration should be given to the potential implications of risks and vulnerabilities from global trends and emerging issues such as climate change, digital transformation, divergence and other factors that could have systemic consequences for members and a direct impact on future demand for Fund resources. As such, we reiterate our call for a substantial increase in quotas to secure the Fund's permanent capacity to meet increasing demand for Fund resources.

Quota Formula and Realigning Shares

The initial considerations on the quota formula and realignment of shares, as well as the update of the quota database have been helpful. However, the persistent increase in out-of-lineness underscores the importance of continuing the process of IMF governance reforms and ensuring that quota shares are better aligned with the evolution of members' economies. In this regard, GDP remains a key variable deserving higher weight, especially in PPP GDP which better captures the real growth in poorer economies, while limiting the impact of high volatility in market exchange rates and commodity prices on the GDP blend variable. We continue to underscore the need for broader protection of the voice and representation of the poorest members to back their efforts to recover from the pandemic, overcome divergence and weather multiple exogenous shocks.

Going forward, we wish to underscore the importance of introducing midpoints to ease consensus building as important compromises will be needed to move beyond the common ground reached during discussions under the 14th GRQ.

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GRAY/21/2775

September 27, 2021

Statement by Ms. Shortino, Mr. Commaroto-Roverini, and Mr. Sturm on Progress on the Sixteenth General Review of Quotas--Draft Report of the Executive Board to the Board of Governors
(Preliminary)
Executive Board Meeting 21/97
September 29, 2021

We thank staff for this progress report on the Sixteenth General Review of Quotas and the summary of the last two Committee of the Whole (CoW) discussions. **We issued two comprehensive grays for the CoW discussions in which we conveyed that the Fund is adequately resourced and that we believe the quota formula should be significantly streamlined for the Sixteenth GRQ.**

On adequacy of resources, we are not convinced on the need for more GRA resources in the medium term. In particular, the Fund's current resources have been more than adequate to respond to a once-in-a-century crisis and appear poised to remain so as the global recovery from the COVID-19 pandemic strengthens. On the composition of resources, we agree that the Fund should continue to be a quota-based institution.

On quota formula, we look forward to continuing discussions on reforms that will achieve the goals of a simpler, more transparent formula that more accurately reflects members' positions in the global economy.

We look forward to concluding the Sixteenth General Review of Quotas no later than December 15, 2023.

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GRAY/21/2780

September 28, 2021

Statement by Mr. Bhalla and Mr. Goyal on Progress on the Sixteenth General Review of Quotas--Draft Report of the Executive Board to the Board of Governors (Preliminary)
Executive Board Meeting 21/97
September 29, 2021

1. We thank Staff and the Managing Director for the draft report to the Board of Governors on the "Progress on the Sixteenth General Review of Quotas". The report is comprehensive and has captured the essence of the Board discussions. We note that Staff has adequately apprised the Board regarding progress made during the 15th GRQ and has updated simulations using the new data. The staff has yet to present their own views or bring new configurations to facilitate a consensus on quota revisions. We believe that the Managing Director would direct the debate and help the Board reach a common ground going forward. Though we have made our observations during the previous discussions, we would nevertheless reiterate a few points for emphasis.

2. It is important that Fund remain adequately resourced. Therefore, the 16th GRQ should revisit the adequacy of quotas. Continued dependence on sources like New Agreements to Borrow (NAB) and Bilateral Borrowing Arrangements (BBA) can at best be a temporary short-term arrangement. In the absence of quota revision, the Fund exposes itself to the risk of continued dependence on temporary resources.

3. The key issue that needs to be addressed is out-of-line-ness which is increasing over time as the relative weight of the emerging market economies is rising in the global economy. We do not agree that the current quota formula is robust and valid for delivering the required shift in Calculated Quota Share (CQS) and only requires minor modification. The major structural shift in the global economy towards the EMDCs would warrant a much larger shift in CQS.

4. While most of the underrepresented countries benefit from an increase in the weight of PPP GDP within the GDP blend variable, inclusion of Voluntary Financial Contributions (VFCs) would only add to underrepresentation and out-of-line-ness.

5. Finally, there is a need to give more prominence to a formula based selective and *ad-hoc* methods as done during the 14th General Review of Quotas. This will address out-of-line-ness, but it will also be possible to protect the voice of the poorest members in the affairs of the Fund.

Constituency Codes

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States