

**IMMEDIATE
ATTENTION**

SM/02/355
Supplement 1

December 20, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Twelfth General Review of Quotas—Proposal by the Managing Director**

Attached for consideration by Executive Directors is a memorandum from the Managing Director containing a revised proposal for the completion of the Twelfth General Review of Quotas.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests (by email to SECAI) by **noon on Friday, January 3, 2003**. In the absence of such a request, the proposal by the Managing Director will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter. If an Executive Director requests that the matter be taken up at a Board meeting, the item will be placed on the agenda for **Monday, January 6, 2003**.

Questions may be referred to Mr. Trines (ext. 35639) and Mr. P. Ross (ext. 38973) in TRE.

Att: (1)

Other Distribution:
Department Heads



Office Memorandum

To: Executive Directors

December 20, 2002

From: The Managing Director

Subject: **Twelfth General Review of Quotas: Alternative Proposal**

On December 9, 2002, the Executive Board discussed a draft report to the Board of Governors on the Twelfth General Review of Quotas but did not achieve a large majority on the staff's proposal to extend the period for completion of the review.¹ However, in order to achieve a broader consensus, it was agreed to consider possible alternative compromise approaches, including a proposal by Mr. Mirakhor that would conclude the Twelfth General Review of Quotas by January 30, 2003, with no proposal for an increase in quotas on the understanding that a Committee of the Whole (COW) to consider the Thirteenth General Review of Quotas would be established upon the conclusion of the Twelfth Review.

Subsequently, Mr. Callaghan offered a proposal which would conclude the Twelfth Review with no quota increase and replace the establishment of the COW with a proposed work program by the Executive Board on quota distribution and governance issues, including a report to the IMFC by the 2003 Annual Meetings. Mr. Kiekens suggested a work program which included the quota formulas, ad hoc quota increases for members furthest out of line, and the IMF/World Bank paper for the Development Committee on developing and transition countries' participation in international decision making. Despite an extensive exchange of views, none of the three alternative proposals commanded sufficient support to form a basis for a broad consensus among the Executive Directors.

Management continues to believe that a compromise that commands wide support would be highly desirable based on elements of the three alternative proposals presently on the table. Therefore, Management proposes the following approach:

- The Executive Board would recommend that the Board of Governors adopt a resolution concluding the Twelfth General Review by January 30, 2003 with no proposal to increase quotas;
- The report of the Executive Board would note the intention of the Executive Board during the period of the Thirteenth General Review, which the Articles of Agreement provide commences upon completion of the present review, to monitor closely and

¹ *Twelfth General Review of Quotas—Draft Report of Executive Directors to the Board of Governors* (SM/02/355, 11/18/02).

assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund;

- The proposed resolution of the Board of Governors would also take note of the Executive Board's work program on quotas including its intention to consider quota distribution and governance; and
- The Executive Board would provide a status report on its discussions to the International Monetary and Financial Committee (IMFC) by the 2003 Annual Meetings and establish, as the discussion may warrant, a Committee of the Whole to make specific recommendations.

The attached revised decision, report of the Executive Board, and resolution of the Board of Governors are proposed for adoption by the Executive Board on a lapse-of-time basis by noon, January 3, 2003. In the event that a Director requests a discussion, the issue would be placed on the agenda for January 6, 2003. The resolution of the Board of Governors would be published upon approval.

Attachments

PROPOSED DECISION

It is proposed that the Executive Board adopt a decision submitting to the Board of Governors:

a report on the status of the Twelfth General Review of Quotas; and

a draft resolution whereby the Board of Governors would take note of the report of the Executive Board; resolve to conclude the Twelfth Review on January 30, 2003 with no proposal to increase quotas; notes the intention of the Executive Board during the period of the Thirteenth General Review, which the Articles of Agreement provide commences upon completion of the present review, to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund. It would note the intention of the Executive Board to provide a status report on its discussions to the International Monetary and Financial Committee by the 2003 Annual Meeting and establish, as the discussion may warrant, a Committee of the Whole to make specific recommendations.

Accordingly, the following draft decision is proposed for adoption by the Executive Board:

The Executive Board approves the report annexed hereto, entitled *Twelfth General Review of Quotas—Report of the Executive Board to the Board of Governors*, for transmission to the Board of Governors.

The Board of Governors is requested to vote without meeting, pursuant to Section 13 of the *By-Laws*, on the draft Resolution attached to that report.

The Secretary is directed to send each member of the Fund by rapid means of communication on or before January 6, 2003 the Report *Twelfth General Review of Quotas—Report of the Executive Board to the Board of Governors* set forth in the Annex and the draft Resolution attached to that Report.

To be valid, votes must be cast by Governors or Alternate Governors by rapid means of communication on or after January 6, 2003 and must be received at the seat of the Fund on or before January 28, 2003. Votes received after that date will not be counted.

The effective date of the Resolution of the Board of Governors shall be January 28, 2003, the last day allowed for voting.

All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

The Secretary is authorized to take such further action as he shall deem appropriate in order to carry out the purposes of this decision.

**Twelfth General Review of Quotas—
Report of the Executive Board to the Board of Governors**

Article III, Section 2(a) of the Articles of Agreement provides that “the Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of quotas of members.” The five-year period for the Twelfth Review will end on January 30, 2003. The Executive Board has established a Committee of the Whole in accordance with Rule D-3.

The Executive Board’s discussions for the Twelfth Review have taken place against a background of ongoing reform of the Fund, to take account of changes in the world economy, the globalization of financial markets, and the increased size and volatility of international capital flows. The Executive Board has discussed issues regarding the role and size of the Fund and the adequacy of its resource base. The Executive Board has also considered the distribution of Fund quotas to reflect changes in the world economy, including reforms of the formulas used to calculate quotas. Measures to strengthen the governance structure of the Fund have also been discussed, including a possible amendment to the Articles of Agreement to increase the number of basic votes. However, there is not the necessary broad support among Executive Directors for a recommendation to increase quotas or implement changes in the distribution of quotas or the governance of the institution. At this time, the Fund’s liquidity position appears adequate, barring unforeseen developments that could result in large new demands for Fund resources.

Therefore, the Executive Board recommends that the Board of Governors adopt a resolution concluding the Twelfth General Review by January 30, 2003 with no proposal to increase quotas. Furthermore, the resolution also notes the intention of the Executive Board during the period of the Thirteenth General Review, which the Articles of Agreement provide commences upon completion of the present review, to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund. The Executive Board will provide a status report on its discussions to the International Monetary and Financial Committee by the 2003 Annual Meeting and establish, as the discussion may warrant, a Committee of the Whole to make specific recommendations.

In view of the foregoing considerations, the Executive Board recommends that the Board of Governors adopt the resolution set out in the attachment to this report.

Proposed Resolution of the Board of Governors

RESOLVED

That the Board of Governors, having noted the report of the Executive Board entitled Twelfth General Review of Quotas—Report of the Executive Board to the Board of Governors, hereby resolves to conclude this review under Article III, Section 2(a) with no proposal to increase quotas. It notes the intention of the Executive Board during the period of the Thirteenth General Review, which the Articles of Agreement provide commences upon completion of the present review, to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund. It also notes the intention of the Executive Board to provide a status report on its discussions to the International Monetary and Financial Committee by the 2003 Annual Meeting and establish, as the discussion may warrant, a Committee of the Whole to make specific recommendations.