

EBS/10/105

June 1, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Progress Report on IMF Quota and Governance Reform**

Attached for the **information** of Executive Directors is a progress report on the Fund's quota and governance reform, which was prepared by the staff for the G-20 Meeting, to be held in Busan, Korea. This report has been sent to the G-20 ahead of the meeting.

It is not intended that this paper will be published on the Fund's external website.

Questions may be referred to Ms. Mateos y Lago, SPR (ext. 37219).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads



Progress Report on IMF Quota and Governance Reform

May 28, 2010

Progress to date

Based on discussions of a series of reports by IMF staff and a working group of Executive Directors on Fund management selection, the Fund's Executive Board has produced two reports to the IMFC (in October 2009 and April 2010 respectively, attached) exploring different aspects of the range of governance reforms—quotas, ministerial engagement, Executive Board composition and decision-making, Fund management selection process, and staff diversity. In most of these areas, much remains to be done to build a core set of reforms commanding broad support. The Board noted that while the elements of quota and governance reform may be discussed sequentially, reforms would ultimately need to be decided on as a package—and hopefully within the January 2011 deadline for quota reform set by the membership. Thus deliberations on the underlying issues will need to accelerate in the months ahead.

Quotas

In March 2010, the Committee of the Whole discussed *Fourteenth General Review of Quotas—Realigning Quota Shares—Initial Considerations*, which presented simulations to illustrate some of the trade-offs in realigning quota shares. It also presented a derived 2008 data set to provide Executive Directors with an early sense of the likely impact of the forthcoming data update (in early June). In April 2010, the Committee of the Whole discussed *Fourteenth General Review of Quotas—The Size of the Fund—Initial Considerations*, which considered the adequacy and composition of the Fund's resources. Most Directors saw a strong case for a substantial increase in the Fund's quota resources.

Governance

In July 2009, the Board discussed the gamut of Fund governance in *IMF Governance—Summary of Issues and Reform Options*, including proposals aiming to increase political engagement and oversight through a ministerial Council; enhance Executive Board effectiveness and representation; modify voting rules; better delineate responsibilities between the Board, Council and management; open up management selection; and tackle problems with mandate and institutional culture (including staff diversity) that limit the issues and approaches taken. In March 2010, the Executive Board discussed *IMF Governance Reform—Selected Issues*, which focused on just a few issues, notably IMFC procedures and the scope for an all-elected Executive Board (with an additional alternate Executive Director for multi-country constituencies). Executive

Directors have also discussed—but not yet reached a decision on—the selection process for the Managing Director.

2008 Quota and Voice reform

The number of members that have accepted the 2008 reforms still falls well short of what is needed for effectiveness—75 out of 112, representing 73.4 percent of the voting power (against 85 percent needed). Several G-20 members have yet to ratify the amendments (Argentina, Indonesia, the Russian Federation, Saudi Arabia, South Africa, and Turkey). Their ratification would lift voting power of those who have accepted to 82.5 percent.

Next steps

Timeline. At its April, 2010 meeting, G20 Finance Ministers and Central Bank Governors urged the IMF to deliver the quota and governance reforms by the November Seoul Summit, a goal echoed by the IMFC when it pledged to complete the quota review before January 2011 in line with the parameters agreed in Istanbul and in parallel deliver on other governance reforms. The IMFC also called for an acceleration of the substantial work still needed on the full range of quota and other governance reforms, including management selection, ministerial engagement, Board composition and size, voting majorities, and staff diversity.

Agenda. The fast approaching year-end deadline for reforms should concentrate minds on the key issues: (i) how to achieve the desired rebalancing of voting shares; (ii) how large should the Fund's lending capacity be; and (iii) how to modernize the Fund's governance structure—ministerial engagement, Board composition and size, voting majorities, management selection, staff diversity and Board and management accountability—to maximize the Fund's effectiveness? To address these issues, the *14th General Review of Quotas—Further Considerations*—is tentatively scheduled for Board discussion in early July, following the provision, in early June, of the final dataset for the quota review. This will lay the groundwork for follow-up work, including on the size of Fund, starting with a meeting in late August. In parallel, a Board paper on *Governance Reform* will identify possible avenues to advance reforms across the range of topics highlighted by the IMFC, for Board discussion in July. Depending on progress, a follow-up paper narrowing the elements of a reform package could also be discussed by the Board. It goes without saying that continuous engagement with members and numerous informal meetings will be needed to make progress. The Managing Director will issue a *Report to the IMFC on Governance and Quota Reform* ahead of the Annual Meetings on the state of play.