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**Statement by Mr. Tanaka, Ms. Kashima, Mr. Naka, and Ms. Ogihara on Committee of the Whole: Sixteenth General Review of Quotas—Initial Considerations on Quota Formula and Realigning Shares and Quota Data Update
(Preliminary)
Committee
September 10, 2021**

We thank staff for the comprehensive analysis, which provides informative background for discussions on the quota formula and realigning quota shares, as well as possible reforms of the formula. We also would like to express gratitude for staff's effort to provide additional simulations for quota share realignments, especially those which incorporate Voluntary Financial Contributions (VFCs). As we aim for an efficient and constructive Board meeting, we set out in writing our positions on the following issues:

Discussion Modality

The role of individual variables should be carefully discussed in light of the current economic and social situation. As indicated in the Board paper for adequate resource size, there is a great deal of uncertainty regarding financial needs in crisis, and the Board members still have significantly different views. For a successful conclusion, various issues such as quota size, formula, and their distribution need to be carefully discussed individually and then agreed upon as a package. At this stage, in the simulations of formulas, we should not make assumptions that would indicate the direction of the resource size increase. Instead, we should first discuss in detail the role and significance of individual variables, taking into account the recent changes in the economic and social environment.

VFC

In the midst of high uncertainty, it is essential to provide an incentive mechanism for member countries' VFCs in order for the Fund to secure financial resources. The recovery from COVID-19 is divergent and asymmetric within the global economy, and various tail-risks and financial needs to support LICs in particular remain substantial. To address these tail-risks and financial needs, the Fund should ensure sufficient resources on a sustainable basis, including borrowed resources, and thereby continue to effectively play a catalytic role at the center of the global financial safety net (GFSN). Thus, we believe that it

is necessary to institutionalize an incentive mechanism for contributions by incorporating them into the formula, rather than through an ad hoc increase. In this regard, we should bear in mind that the IDA contribution is included in the formula for IBRD shares and it has played an important role in IDA's successive resource increases. In addition, given that the IDA contribution's share in the IBRD's formula is 20%, the Fund's quota formula should incorporate VFCs with reasonable share consistent with its sister institution. We note that staff presents various simulations which exclude variability. However, in doing so, it would be more appropriate to show a simulation that incorporates VFCs as an alternative to variability.

Moreover, incorporating VFCs into the quota formula means that VFCs will form part of the voting power of member countries in an institutionally clear manner. This is quite important for VFC-participating countries to fulfill their accountability to their taxpayers, and to gain continuous domestic understanding in providing VFCs to the Fund.

Openness

We also believe that the weight and role of openness needs to be well-reviewed. The need to address the cons of openness was pointed out in the 2013 review of the formula, and we note that adjustments such as adding a cap have been indicated in the staff paper. On the other hand, in order to incorporate the relative positions of member countries in the global economy, it requires more fundamental considerations, such as calculating on a i) value-added basis or ii) excluding factors of monetary unions. As the 2020 update presented estimates reflecting the latter issue, we encourage staff to provide estimates incorporating i) and ii) effects for further discussions.

Data issues

The COVID-19 crisis has made it difficult to handle data on which the discussion is based. Data since 2020 has been highly affected by the COVID-19 crisis and should be considered outliers. In the recent External Sector Report, for example, temporary COVID-19-related adjustments were applied in tourism and medical goods as pandemic-specific factors. We are also concerned that after 2022, when 2020 data become available, the indicators to be referenced may change significantly with each data update. We should discuss how to handle these data in order to well-capture each country's economic environment and avoid drawing immature conclusions.