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GRAY/21/2504

CONFIDENTIAL

September 6, 2021

**Statement by Mr. Bevilaqua, Mr. Saraiva, Mr. Velloso, and Mr. Barroso 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 informative report on this important matter. We continue to see quota reform as fundamental to enhance the legitimacy and efficacy of the Fund in an evolving landscape.

Underrepresentation of many countries—particularly of emerging market and developing countries (EMDCs)—is clear using a broad set of plausible quota formulas. The staff report makes it clear that quota shares are out-of-line according not only to the current quota formula but also to a broad range of formulas. This shows the urgent need to address quota misalignment to enhance the Fund's legitimacy and credibility. The main goal is to correct the long overdue under-representation of EMDCs at the Fund, which got a push in the right direction with the 2010 Quota and Voice Reform. This effort, however, has stalled since then. Out-of-lineness with respect to economic weight cannot be ignored by the membership and must be addressed in the 16th General Review of Quotas (GRQ). This blemish to the Fund's legitimacy and credibility can be tackled by a selective quota increase, following the introduction of a new formula, perhaps complemented by ad-hoc adjustments to avoid distortions and build consensus.

There is strong historical consensus that GDP is the most important variable for quota distribution. In our view, economic weight seems to offer the best compromise between the multiple roles of quotas and should continue to be emphasized in quota distributions—as was the case in the 14th GRQ. Indeed, the best and more transparent way to proceed would be to substantially increase the weight of GDP relative to other variables in the current formula, instead of simply correcting the quota misalignment with a large ad-hoc distribution. There is also a sensible case for increasing the relative weight of purchasing power parity (PPP) GDP in the overall formula. Relative to market GDP, the distribution of PPP GDP provides a

better basis for international comparability. Furthermore, by giving the proper weight to those countries that have been historically under-represented at the Fund, it could help over time correct under-representation.

Variability and openness have many methodological shortfalls and are highly correlated, making a very difficult case for keeping one or even both variables in the quota formula. The 2013 Quota Formula Review made a strong case for dropping variability, and the staff report confirms and enhances the previous points. As for openness, we understand the difficulty of overcoming its evident shortcomings and, short of dropping this variable altogether, strong consideration should be given to a substantial reduction of its weight in the quota formula, minimizing its potential to distort quota distribution from relative economic weight. A stricter cap, as properly shown by staff, could do the job of transitioning to a simpler formula, as consensus is built in that direction.

We encourage staff to explore simpler ways to limit outliers than what has currently been envisioned. The current proposal is to interact a compression factor, a soft-GDP anchor, and variable-specific caps. However, calibrating thresholds in the soft-GDP anchor may lead to the perception by the public at large of casuistic adjustments, while the current formula would carry over existing distortions in relative quota distribution. A similar problem would emerge for caps. *Therefore, we suggest exploring alternative approaches that are simpler, transparent and rules based. Staff may consider, for example, a correction factor for each variable targeting a standard skewness measure, perhaps with the PPP GDP level as a reference to impose a common discipline to the adjustment. Staff comments are welcome.*

We favor a broad protection of the group of all PRGT-eligible and small developing countries. On top of what could be achieved through a higher weight for PPP GDP in the quota formula, it is reasonable to protect our poorer and smallest members from reductions in their quota shares. The related costs in terms of foregone shares by other members is small compared to the welfare gains of impeding 84 vulnerable member countries from having their quota shares reduced.

We strongly support updating country classifications in line with the WEO and adopt this as best practice going forward. If the purpose of keeping the classification constant between periods is to focus on how relative shares of the country groupings evolve, one can fix the current WEO classification to the same effect. If the purpose is to remind the membership of the figures that were on the table during past discussions, one could very well include them as memo items or report them in detailed appendixes. In any case, these concerns should not overshadow the need to report country groupings accurately and meaningfully, including development level, geographic region, or other relevant features.

Voluntary contributions are highly appreciated and should be encouraged but should not be featured in the quota formula. While they have been instrumental for key Fund activities, we do not see voluntary contributions, such as grants, as relevant guides to quota distributions. Similarly, to protect the Fund's status as a quota-based institution, borrowing

arrangements cannot be the basis for quota distributions. While voluntary contributions reveal the strong engagement of many members with the Fund, bringing it to the quota distribution would clearly create a bias against poorer members. At the end of the day, any “pay-to-play” scheme would be detrimental to the Fund’s legitimacy and credibility and add to the distortions that we are striving to correct.

In the interest of moving expeditiously towards a consensus, we are prepared to have interim goals and deliverables. Discussing everything following a “package approach” can be fully consistent with intermediate deliverables. For instance, establishing an ex-ante goal of quota redistribution from advanced economies to EMDCs could prove an effective way of unlocking impasses. At the very least, the relevant tradeoffs can be made explicit in interim negotiation stages, so that the membership can assess how best to reach a feasible compromise. We therefore reiterate our proposal to establish concrete deliverables for each of our semi-annual reports to the Board of Governors and remain open to hear attentively to the concerns of all members.