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**Statement by Mr. Moreno, Mr. Guerra, Mr. Romero Tarazona, Ms. Arevalo Arroyo, and
Mr. Lopez on Committee of the Whole: Sixteenth General Review of Quotas—Initial
Considerations on Quota Formula and Realignment Shares and Quota Data Update
(Preliminary)
Committee
September 10, 2021**

We thank staff for the insightful set of papers on the quota formula and the realignment of quota shares, and for the useful information on the quota update based on 2019 data. We also commend staff for the extensive and well-focused set of simulations presented in the report, which reflect different sensitivities and more prominent ways to reach consensus at the Board. We reiterate our support to the IMFC commitment to a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net, along with our engagement to discuss the adequacy of quotas, including a new quota formula, in the context of the 16th General Review of Quotas.

We underscore the difficulty to commit on quota formula and quota share realignment within the current context of high uncertainty around the current and future economic developments due to the COVID-19 crisis. Any discussion based on data available during the 16th Quota Review period should account for this circumstance to avoid any deviation from the steady state, which is the benchmark that should guide any robust quota realignment. Specifically, we strongly encourage staff to provide the Board with plausible alternatives to mitigate the distortion introduced by the COVID-19 crisis in the computation of calculated quota shares in the future. Given the specific nature of the pandemic, the year 2020 is an unprecedented outlier when used for the calculation of the quota formula. We encourage staff to present proposals to avoid distorted results.

Pragmatism is needed to advance the 16th Review. We must work on the progress already made and find a compromise to ensure that any quota share adjustment reflects the members' relative positions in the world economy. The current consensus on the quota formula is the result of a difficult commitment. Notwithstanding the package approach on the 16th GRC, further refinements in quota formula should not block reaching an agreement going forward

on the adequacy of quota resources and the realignment of quotas. These two issues are much more prominent in our discussion given their practical implications on the Fund's size and role at the center of the global financial safety net. Solutions that focus on the primary goal of ensuring that allocations are based on the relative position of members in the world economy, could be the best way to advance towards a new consensus. The reduction of out-of-lineness (OOL) by giving a more prominent role to ad-hoc allocations could be the most efficient way to advance the discussion. In this regard, we appreciate staff's analysis to present a robust set of under-represented members based on an extensive list of quota formulas and simulations. This approach should be further explored.

At the same time, we should protect the voice and representation of poor and small developing members. We are concerned about the implications of any quota realignment on the representation of many low-income developing countries that are not categorized as the poorest members, so we should consider a list that encompasses the broadest definition. We should be flexible and work on a classification that protects those countries from falling in a type of "forgotten country" situation when discussing quota share realignments. **Regarding the country groupings,** it is useful to keep the traditional classification to facilitate the comparison of results and a continuity with the past Quota Reviews.

On the specifics of the current formula, we continue supporting the guiding principles of simplicity, transparency, consistency, feasibility, and broad acceptance by the membership. In this spirit, we reject any proposal that introduces excessive complexity and fails to reflect the past consensus of the Board.

The main variables of the quota formula should continue to be the GDP-blend and openness, while limiting the overall boost countries can obtain from this last component, with reserves playing a minor role. We note that the current definition of openness overstates the role of small open economies and global financial centers, with a no clear relation to their weight on the global economy, introducing a bias in quota results. In addition, the real role of openness would be better captured through trade flows measured in value added terms, but we are aware of data limitations. We note that staff's simulations using Set 3, which includes different openness measures, produce the best average results in terms of lower OOL and lower number of underrepresented members, including, for instance, a selective increase using a formula with a shares cap on openness, which would realign quota shares in a more equitable way. In addition, this reduction would be distributed between "major AEs" and "other AEs" in line with their respective weight on the actual quota share of AEs. We also support exploring ways to drop variability from the formula, which weight should be allocated to both GDP blend and openness. Moreover, exploring adjustments to the compression factor could be an additional avenue going forward to limit distorting effects on the quota formula.

Until the actual flaws in the formula are solved, we continue to prefer an equiproportional allocation that preserves current quota shares versus a selective one. If corrective factors that limit excessive distortions in the quota shares are introduced in the

quota formula, we would be open to consider a selective increase in quotas. If OOL is robustly calculated, we are also in favor of discussing well-calibrated and well-focused ad-hoc allocations to correct significant underrepresentation of members, for which their actual quota shares do not reflect their actual weight in the global economy, independently of the formula that is being considered.

We welcome exploring options to build consensus as the soft GDP anchor and dilution limits. Nevertheless, we note that they can also produce unclear results and complicate future agreements among members. Therefore, these options deserve more analysis from staff and more discussion at the Board.

As long as the borrowed resources represent a large share of the Fund's lending capacity, voluntary financial contributions could play a role in future allocations. We welcome the methodology presented by staff in the paper. We tend to prefer measures of voluntary financial contributions that account for the magnitude and nature of the different forms of voluntary contributions. The perimeter of these, should be flexible enough to include any potential ones envisaged in the future regarding new trust funds, or similar instruments, to support member countries while maintaining the higher weight on NAB and BBA resources.

Finally, we welcome the inclusion of an "enterprise risk" (notwithstanding our preference for the term "institutional risk") section in the report. We strongly agree with staff on the main strategic implications and risk considerations on the Fund's reputation and legitimacy of the ongoing discussions on the realignment of quotas.