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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/5-3

3:37 p.m., January 16, 2020

3. Fifteenth and Sixteenth General Reviews of Quotas—Draft Report of the Executive Board to the Board of Governors

Documents: SM/19/270 and Rev. 1; and Supplement 1,

Staff: Weeks-Brown, LEG; Tweedie, FIN; Hatanpaeae, FIN

Length: 14 minutes

Executive Board Attendance

K. Georgieva, Chairman

Executive Directors Alternate Executive Directors

D. Mahlinza (AE)

M. Raghani (AF)

J. Di Tata (AG)

N. Ray (AP)

A. Bevilaqua (BR)

Z. Jin (CC)

L. Villar (CE)

L. Levonian (CO)

R. Kaya (EC)

A. Buisse (FF)

R. von Kleist (GR)

S. Bhalla (IN)

M. Psalidopoulos (IT)

T. Tanaka (JA)

J. Mojarrad (MD)

H. Beblawi (MI)

A. De Lannoy (NE)

T. Ostros (NO)

A. Tolstikov (RU), Temporary

M. Mouminah (SA)

K. Tan (ST)

P. Inderbinen (SZ)

S. Riach (UK)

M. Rosen (US)

J. Lin, Secretary

O. Vongthieres, Summing Up Officer

A. Bala / R. Smith Yee, Board Operations Officers

L. Nagy-Baker, Verbatim Reporting Officer

Also Present

Communications Department: A. Ranck, A. Thomson. European Central Bank: D. Rakitzis, R. Rueffer. European Department: C. Beaumont. Fiscal Affairs Department: C. Pizzinelli. Finance Department: H. Chociay, G. Everaert, J. Hallaert, H. Hatanpaeae, K. Kitano, T. Krueger, D. Moore, C. Mumssen, J. Okwuokei, A. Tweedie, O. Unteroberdoerster. Legal Department: I. Luca, H. Pham, A. Rosha, B. Steinki, J. Swanepoel, R. Weeks-Brown. Middle

East and Central Asia Department: C. Josz. Office of Executive Directors: A. Buisse (OEDFF at table). Office of Risk Management: Q. Chen. Strategy, Policy, and Review Department: K. Kostial, L. Medina, D. Ostojic, J. Trevino. Western Hemisphere Department: L. Cubeddu Merchan, J. Kozack. Senior Advisors to Executive Directors: L. Voinea (NE). Advisors to Executive Directors: O. Bayar (EC), P. Mooney (CO), S. Alavi (MD).

**3. FIFTEENTH AND SIXTEENTH GENERAL REVIEWS OF QUOTAS—
DRAFT REPORT OF THE EXECUTIVE BOARD TO THE BOARD OF
GOVERNORS**

Mr. Villar, Mr. Guerra and Mr. Moreno submitted the following statement:

Throughout the process of the Fifteenth General Review of Quotas (GRQ), this Chair has expressed its strong support to the guiding principle of a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the Global Financial Safety Net. At a minimum, the resource envelope should be preserved to provide full confidence that it can adequately support its membership. After the strong disappointment of not reaching agreement on a quota increase during the 15th GRQ, we fully endorse the principle that a delay in further quota and governance reforms should be only temporary.

Building on the IMFC endorsement, we support the proposed decision as a temporary bridge to reach agreement on a future quota increase that is consistent with our goal of preserving a quota-based IMF. We have fully endorsed the doubling of the New Arrangements to Borrow and look forward to discussions on a further temporary round of Bilateral Borrowing Agreements (BBAs) beyond 2020. In this regard, we believe discussions on a new round of BBAs will need to take place in early 2020, with a view to at least maintaining the Fund's current overall resource envelope and with broad creditor participation. The overarching objective should be to ensure that key elements of this package give confidence to the membership that the IMF will continue to be able to provide support, if needed.

Beyond the agreed package, we should communicate clearly our strong commitment to revisiting the adequacy of quotas and keep up the process of IMF governance reform under the 16th GRQ. To reach the objectives, we have to find the political will to ensure that any quota adjustment derives in increased quota shares of dynamic economies in line with their relative positions in the world economy, including exploring avenues for potential reform of the quota formula. This Chair will also give prominence to protecting the voice and representation of the poorest members.

Finally, while we agree with the proposed text of the draft press release, we request that a mention of the discussions for a further temporary round of bilateral borrowing beyond 2020 be included in the NABs paragraph, consistent with the IMFC communique. This is an essential element of the financial package that will be instrumental to ensure that the IMF resource envelope is preserved.

Mr. Di Tata and Ms. Moreno submitted the following statement:

We thank staff for the proposed draft report of the Executive Board to the Board of Governors.

As noted in previous occasions, we regret that it has not been possible to secure the required support for a quota increase under the Fifteenth General Review of Quotas. At the same time, we would like to reiterate our view that the Fund should have enough resources to provide full confidence that it can adequately support its membership, particularly in a context characterized by a weakening global outlook, increased policy uncertainty, elevated financial vulnerabilities, and limited space for policy maneuver. We fully agree that further delays in quota and governance reforms should be only temporary and call for further rapid progress in these areas. At the same time, we welcome the approval of a doubling of the New Arrangements to Borrow (NAB) and look forward to a new round of Bilateral Borrowing Arrangements in early 2020, with the purpose of maintaining the Fund's current resource envelope.

Under these circumstances, we support the proposed Board of Governors resolution concluding the Fifteenth General Review with no increase in quotas, as well as the continuation of the Sixteenth General Review beyond December 15, 2020, with the view to concluding it no later than December 15, 2023. We agree that in the context of the Sixteenth Review the Executive Board should revisit the adequacy of quotas and continue the process of IMF governance reform, ensuring the primary role of quotas in IMF resources. Any adjustment in quota shares should reflect the increased role of dynamic economies and the higher share of emerging market and developing countries, while protecting the voice and representation of the poorest members.

We encourage members to provide promptly the required consents to make the doubling of the NABs effective January 1, 2021. We agree that the Executive Board should report to the Board of Governors on progress on the Sixteenth Review semi-annually, with a first report by the 2021 Annual Meetings. In our constituency, Chile (the only country in the NAB) has already expressed its intention to support the reform of the NAB decision. In addition, Chile and Peru, the two countries with outstanding bilateral agreements, have agreed to the one-year extension.

Ms. Mahasandana and Mr. Tan submitted the following statement:

We thank staff and the management for the draft report to the Board of Governors on the 15th and 16th General Reviews of Quotas (GRQ). The draft report captures the broad essence of the recent discussions, including on the agreed key elements of the package to be implemented. We therefore support the proposed decision to adopt and submit the report to the Board of Governors to facilitate the voting process going forward.

Looking ahead, we underscore the need to start early on the 16th GRQ to allow sufficient time to discuss with stakeholders and ensure that commitments under the 16th GRQ can be successfully delivered in order to restore the Fund's credibility as a quota-based institution. Given the experience with the disappointing outcome of the 15th GRQ, we urge the Fund to start by setting milestones and establishing a timeline with expected deliverables for the 16th GRQ, working in parallel to the ongoing efforts to expedite the implementation of the NAB/BBA resource package. To give confidence that the 16th GRQ will yield meaningful outcome and demonstrate credible progress that it can be completed ahead of the 2023 deadline, stronger commitment is required from both the Fund and its membership. Closer engagement with members will buttress such commitment, help build trust and facilitate more constructive discussions. The Fund needs to keep members informed of the latest developments through regular updates to the Board. This serves to provide better accountability and to avoid any late surprises or bunching of updates just before the semi-annual progress update which is counter-productive.

We would like staff to table to the Board the timeline, milestone and expected deliverables before the next Annual meeting. This is to set the commitment, accountability and assurance that we can achieve the intended outcome before the end of 2023.

Mr. Raghani and Mr. N'Sonde submitted the following statement:

We thank staff for the useful draft report to the Board of Governors on the Fifteenth and Sixteenth General Reviews of Quotas.

The draft report appropriately describes the steps of the process that led to this stage, including the disappointing lack of required majority for increasing quotas under the 15th Review as supported by most members. This includes notably the two principles retained by the Executive Board and endorsed by the IMFC that the Fund should have sufficient resources to

provide full confidence that it can adequately support its membership, and that the delay in future governance reforms should be only temporary.

We support the main directions of the proposed Report (Annex I) and Resolution (Appendix I). In particular, we are satisfied that they capture the key elements of a package on IMF resources and governance reforms endorsed by the IMFC in its October 2019 Communiqué. We would like to highlight notably : (i) the membership's commitment to revisiting the adequacy of quotas and pursuing IMF governance reforms under the 16th Review, including a new quota formula as a guide; (ii) the extension of the 16th Review to no later than December 15, 2023; (iii) reiterated commitment to ensuring the primary role of quotas in IMF resources; and (iv) renewed expectation that any adjustment in quota shares would result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members.

Along with the Report to the Board of Governors, we would like to see the proposed Press Release (Appendix II) reflecting the membership's commitment to a strong, quota-based and adequately resourced IMF to preserve its role at the center of the global financial safety net. While this draft Press Release, expected to be released following this Board meeting and the meeting on the modification of the New Arrangements to Borrow (NAB), also reflects the key elements above, it should reaffirm the membership's commitment to a quota-based institution. We view this as paramount in public communication.

Pending the Board's approval of the decisions to modify the NAB and extend the deadline for a review of Borrowing Guidelines, we go along with the call on NAB participants to offer promptly the necessary consents to ensure the doubling of NAB. This is consistent with the membership's concern to ensure that the Fund is adequately resourced to meet the needs of its members by at least maintaining its current resources envelop, especially considering fast-changing economic challenges and elevated policy uncertainties.

Finally, we see merit in the proposed semi-annual reports of the Executive Board to the Board of Governors under the Sixteenth Review, starting in the 2021 Annual Meetings. This will help the membership monitor progress towards agreed objectives prior to the conclusion of the review.

Mr. Mahlinza and Ms. Maidi submitted the following statement:

We thank staff for a concise report to the Board of Governors, which appropriately captures the discussions on the 15th GRQ and provides the timelines for the 16th GRQ. We therefore support adoption of the report and its submission to the Board of Governors.

We support the proposed package to double the NAB and look forward to a new round of bilateral borrowing arrangements (BBAs) in early 2020 with a view to maintaining the Fund's current resource envelope. Considering the global economic slowdown and emerging vulnerabilities, this package provides confidence that the Fund remains adequately resourced to provide the critical backstop to its membership. In this respect, we reiterate our endorsement for a quota-based IMF, to preserve its role at the center of the global financial safety net. Further, while we welcome the guidance and timetable for the governance reforms to be undertaken in the 16th GRQ, we urge NAB participants to expedite domestic processes required to give consent to the decisions of doubling the NAB.

Finally, we underscore the importance of continuing with the principles of protecting the voice and representation of the poorest members. In addition, we emphasize the importance of re-aligning quota shares of dynamic economies in line with their relative positions in the world economy. Further, we underscore the need for adherence to principles already committed to under the 15th GRQ to help build consensus among the members and make discussions of the 16th GRQ more productive.

Mr. Inderbinen, Mr. Trabinski and Mr. Heim submitted the following statement:

We support the adoption of the report on the Fifteenth and Sixteenth General Reviews of Quotas and the proposed next steps. The draft report and the draft resolution reflect the outcome of the recent discussions well.

Mr. Beblawi and Ms. Choueiri submitted the following statement:

We thank staff for the draft report of the Executive Board to the Board of Governors.

As stated in our discussions on Fund resources, we support a strong, quota-based, and adequately resourced IMF. This would preserve its role at the center of the Global Financial Safety Net and provide full confidence that it can adequately support its membership in an environment of sluggish global

growth and persistent downside risks. Given the lack of progress on a quota increase under the Fifteenth Review, we welcome the doubling of the New Arrangements to Borrow and the new round of Bilateral Borrowing Arrangements in early 2020, with the purpose of maintaining the Fund's current resource envelope.

We support the proposed Board of Governors' resolution concluding the Fifteenth General Review with no increase in quotas, and keeping the Sixteenth Review open beyond December 15, 2020, with the aim of concluding it no later than December 15, 2023. As endorsed by the IMFC, going forward, we remain committed to ensuring the primary role of quotas in IMF resources. In the context of the Sixteenth Review, any adjustment in quota shares should result in an increase in the quota shares of dynamic economies and in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members.

Mr. Bhalla, Mr. Natarajan and Ms. Dhillon submitted the following statement:

We thank the staff for the Fifteenth and Sixteenth General Reviews of Quotas—Draft Report of the Executive Board to the Board of Governors. Periodic general review of quota is an important mechanism for strengthening resources of IMF and piloting governance reforms. Considering this, we broadly agree with the proposal for concluding fifteenth review and providing guidance for sixteenth review.

As a founder member of the Fund, our authorities have a deep and longstanding commitment to the development of IMF as a strong and reliable pillar for financial stability in the global economy. When the Board of Governors resolved to undertake fifteenth GRQ to review issues relating to adequacy of Fund resources, the quota formula and realigning quota shares, there was an expectation of achieving meaningful positive outcomes. However, the inability to get required support for revision under fifteenth review is disappointing and the conclusion of fifteenth review without any increase in quota will have a serious impact on the resource capacity of the Fund.

Our authorities have consistently expressed their commitment to a strong, quota-based and adequately funded IMF to preserve its role at the center of global financial safety net. Continued dependence sources like New Arrangements to Borrow (NAB) and Bilateral Borrowing Arrangements (BBA) can at best be a temporary short-term arrangement. In the absence of quota revision, the Fund exposes itself to the risk of dependence on temporary

sources like NAB and BBA. Significantly, this stalls the addressing of the long-pending issue of under-representation of the EMDEs and dynamic economies in IMF's quota shareholding and governance. We would like to reiterate that the share of member countries in the IMF should be aligned with their standing in the world economy and should keep pace with changing economic realities. The temporary mechanism neither provides full confidence on the sufficiency of resources nor meaningful governance reforms for the Fund to play an effective role as the center of the Global Financial Safety Net.

We agree that maintaining the current resources envelop of the IMF, to provide adequate safety net is necessary. Our authorities reiterate their commitment for maintaining the current resource envelope of the Fund which includes doubling of NAB and allied proposals. However, we would like to reiterate that the consent for the doubling of NAB will be accorded after the completion of the domestic processes. In this context a) Can the staff provide the current status of formal and informal commitments from different NAB members and the extent of participation? B) Could the staff elaborate on the detailed time frame for the completion of the exercise and receiving the consent post completion of domestic processes? C) Given that the doubling of the NAB is contingent to the consent of the United States, is the staff confident of attaining the consent (including Congress approvals) within the time limits proposed? Are any alternate mechanisms envisaged for the increase of resources if the consent does not materialize before the NAB timeline?

The report affirms that reforms will continue under the 16th GRQ through a realignment of quota shares and developing a realistic timetable for completing the review. In our view, the press release presently conveys a confusing picture by stating that there is an implementation of package on resources and governance reforms. While the proposed package on NAB and BBA enhances resources of the Fund, it very likely does not constitute any structural governance reform. Quota revision and governance reform would be an outcome of next review which is a future variable. A clarity on this with the nuances of domestic approvals is required to be included in the press release in the present draft. We invite staff comments.

Beyond this, we strongly support and are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th GRQ, including a new quota formula as a guide. Given the delays in completing the fourteenth review and concluding the fifteenth review, our authorities agree with the proposal to complete sixteenth review

with a tight time-frame and not later than 15th December 2023. Given the commitment to complete the review strictly within this time frame, can the staff provide the details of preparatory activities already undertaken and the time frame by when these activities will be performed?

Mr. Mozhin submitted the following statement:

We support the adoption of the report on the Fifteenth and Sixteenth General Reviews of Quotas and the next steps outlined in the proposed decision.

Mr. Bevilaqua, Mr. Fachada and Mr. Saraiva submitted the following statement:

We support the adoption of the Report of the Executive Board to the Board of Governors, proposing a resolution that concludes the 15th General Review of Quotas (GRQ) and extends the deadline for the 16th GRQ to no later than December 15, 2023. We thank staff and management for their commitment throughout this long and demanding process. A profusion of studies has been produced over the past decade on the different technical aspects surrounding quota size, formula and distribution and should constitute the basis for a successful 16th GRQ.

We are disappointed with the failure of the 15th GRQ to deliver on the commitments reiterated by the membership since the 2010 Quota and Governance Reform. Continuous progress in the resource and governance agenda is crucial for the IMF to retain its effectiveness, credibility, and legitimacy as the centerpiece of the international financial architecture.

We commend management for articulating a package based on borrowed resources that – upon implementation – will maintain the Fund's current lending capacity until after the deadline established for the next review of quotas. That said, we emphasize that the Fund is a quota-based institution: quotas are the most reliable funding source for the IMF and quota shares should reflect the weight of members in the global economy, while protecting the shares of the poorest members and small states. We therefore remain fully committed to employ all our efforts to ensure the success of the 16th GRQ and call on Board members and management to work constructively to deliver on our commitments this time. In particular, we highlight the importance of setting intermediate milestones to enhance the credibility and the likelihood of a successful and timely completion of the 16th GRQ no later than December 15, 2023 as agreed.

Mr. Jin and Ms. Zhao submitted the following statement:

We thank staff for the draft report of the Executive Board to the Board of Governors.

We are deeply disappointed with the failure to increase quotas in the 15th GRQ. To offset this negative impact, it will be essential for the Fund and its members to make a sturdy and sound commitment to governance reform. The Fund is a quota-based institution, which means the majority of the Fund resources should be based on quota. The current financing structure of the Fund must be reformed, rather than be preserved. In this vein, we urge members to aim at restoring the primary role of quotas in IMF resources to guarantee the quota-based nature of this institution.

In the 16th GRQ, we must reaffirm our commitment to adjusting members' quotas to better reflect members' relative positions in the world economy. For the realignment of quota shares, we should allow for more flexibility. We will welcome a new quota formula if consensus can be made. But a new quota formula should not be used as a pre-condition for any quota reform, since there is still room for quota realignment even under the existing quota formula. If the new quota formula serves as a pre-condition, the realignment of quota would likely be effectively hijacked by the discussion of the quota formula.

The Chair made the following statement:

We will now proceed with the next agenda item, which is the 15th and 16th General Review of Quotas, Draft Report of the Executive Board to the Board of Governors. We have as in the previous meeting a representative from the ECB. I want to thank 11 Directors who have issued grays.

We are all well aware that it was not possible to secure the required support for a quota increase under the 15th General Review of Quotas (GRQ). We are formally required to define a new deadline for the 16th GRQ. We are proposing a new deadline of December 15, 2023. We would like to focus our collective efforts on seriously working toward meeting the deadline for the 16th GRQ, and I want to reinforce the view expressed by Ms. Levonian to make sure that we have a disciplined process.

We will need to revisit the adequacy of quotas and continue the process of governance reform, including a new quota formula as a guide, to ensure the primary role of quotas in IMF resources.

It is going to be tremendously important for us to come together as we work on the 16th GRQ. I have no doubt that it will be a difficult exercise, and there will be a very broad variety of views, but I am also confident that we can muster the will for compromise and consensus to bring it to a successful outcome that is within the parameters I just outlined; that is to modernize the governance of the Fund to ensure it evolves with time and remains highly respected as an institution.

Mr. Psalidopoulos made the following statement:

Our Chair supports the adoption of the report of the 15th and 16th GRQ, as well as the proposed next steps. In particular, we support the proposed Board of Governors' Resolution concluding the 15th GRQ with no increase in quotas, as well as the continuation of the 16th GRQ beyond December 15, 2020 with a view to concluding it no later than December 15, 2023 in accordance with the October 2019 IMFC communiqué.

Mr. von Kleist made the following statement:

We support the draft report of the Executive Board to the Board of Governors and the proposed decision, as well as the draft press release.

Mr. Rozan made the following statement:

We support the draft report to the Board of Governors. We are still disappointed by the fact that we were not able to deliver an adequate increase as part of the 15th GRQ. Our guiding principle should remain the one dictated by the IMFC and the G20 communiques in terms of having an IMF that is strong, quota-based, and adequately resourced to preserve its role at the center of the global financial safety net (GFSN) in particular confronted with growing risks and uncertainties.

We are looking forward to the 16th GRQ. We are committed to an ambitious and realistic timetable to preserve this institution and its credibility in the future.

Mr. Jin made the following statement:

We are again deeply disappointed with the failure to increase and realign quotas in the 15th GRQ. As a remedy to this, it will be essential for the Fund and its members to make a clear and firm commitment to governance

reform. The Fund is a quota-based institution, which means the majority of the Fund resources should be based on quota.

The current financing structure of the Fund should be reformed rather than preserved. We urge members to aim at restoring the primary role of quotas in IMF resources. In the 16th GRQ, we must reaffirm our commitment to adjusting members' quotas to better reflect members' relative positions in the world economy. We welcome a new quota formula if consensus can be made, but a new formula should not be used as a precondition for any quota reform since there is still room for quota realignment even under the existing quota formula.

Mr. Kaya made the following statement:

Turning back to the decision, our chair's position has been very clear throughout the 15th GRQ, strongly supporting a quota-based and adequately resourced Fund at the center of the global financial safety net. While many have shared this stance, unfortunately we could not succeed in garnering sufficient support for a quota increase and the concomitant realignment; therefore, we had to scale our ambitions back to aspiring to preserving the Fund's resource base until the membership will be able to reach a comprise on a more durable decision to increase quotas. In this regard, we support the commitment to ensuring the primary role of quotas in IMF resources in the context of the 16th GRQ.

On that note, the agreement to double the NAB envelope is a welcome step to keep the Fund's resource base to cover potential demands from the membership. In the spirit of the IMFC communiqué, we can support the proposed decision. It is essential that we do not lose sight of the governance elements of the 15th GRQ, which are particularly important for emerging market and developing countries. Since the 2010 reform, the relative share of these economies within the world economy has risen substantially, whereas the evolution in the Fund's governance structure has significantly lagged. In this regard, it is crucial that the 16th GRQ is completed no later than 2023 and delivers on the previous commitment, as mentioned in the previous meeting; and we would appreciate staff further elaboration on the calendar for the preparatory steps on implementing the 16th GRQ.

Beyond the technical preparations, we should also collectively endeavor to put forward a clear political guidance towards the goals of the upcoming quota review, in particular to deliver a meaningful realignment of quotas to dynamic economies in line with their positions in the global economy. Assurances about the protection of the voice and representation of the poorest members of the Fund should also be given.

Mr. Mojarrad made the following statement:

We support adoption of the proposed resolution and offer the following remarks. We express our regret for the lack of progress under the 15th GRQ to increase the size of the quotas, revise the quota formula, and revisit quota share distribution. We endorse the two principles of ensuring sufficient Fund resources and avoiding undue delay in further quota and governance reforms. The 2010 governance reforms should therefore be fully implemented at an early date.

Constructive engagement by the Board and the management is needed to ensure that quotas are realigned with members' relative position in the world economy while protecting the voice and representation of the poorest members. We see merit in setting intermediate milestones. I agree with semi-annual progress reports to the Board of Governors and look forward to increasing permanent resources by successful and timely completion of the 16th GRQ before end-2023.

The Chair made the following statement:

This has been a very deeply debated topic over quite a long period of time. We are now bringing a decision to our Governors. It is set out in the staff paper on page 3, Revision 1. I want to be sure that there are no amendments or corrections proposed to this decision. I do not see any. Therefore, the decision is approved. The Secretary will send the report to each member of the Fund, and subsequently the report will be made public.

Following our meeting today, the decision will be in the hands of our Governors. The Board of Governors' vote will extend through February 7, and the Resolution would be adopted by a majority of votes cast by that time. As always, I count on you to work the phones and make sure we collect the votes in a timely manner. In the spirit of transparency, we will publish the documents related to the work on the 15th GRQ.

In a remarkably expeditious manner, we have taken decisions that are really important for the financial position of the Fund and for governance reform. Thank you very much for an excellent discussion. I also want to recognize staff for their tireless work on behalf of the membership. Thank you.

APPROVAL: March 21, 2023

CEDA OGADA
Secretary