Financing and representation in the International Monetary Fund

The global economic and financial crisis has given a new impetus to calls for a comprehensive reform of the International Monetary Fund (IMF); in April 2009 the G20 leaders spoke out in favour of not only a massive expansion of the IMF's financial resources but also quota and voice reform as well as improvements in the Fund's governance structure. The Bundesbank believes that any reform scenario needs to maintain the key features of the IMF as a cooperative and monetary institution which covers temporary foreign currency needs on the basis of its members' reserve assets. The quota-based character of the Fund should be restored by scaling back the volume of extraordinary financing provided through borrowing agreements. The Executive Board should be strengthened since, on behalf of shareholders, it oversees the use of the IMF's financial resources and its management. Consolidating and reducing the number of EU seats on the Executive Board would violate the principle of equal treatment and would not be appropriate, since neither Germany nor the EU member states as a whole are overrepresented. On the whole, the close link between financial obligations and representation should be maintained.

Quotas as the primary source of IMF resources

IMF loans financed from member countries' reserve assets

Under its Articles of Agreement, the IMF provides conditional financial assistance to member countries to help them bridge balance of payments difficulties. These lending programmes are designed to help them accomplish the necessary adjustment to their balance of payments in an orderly fashion. The temporary balance of payment loans are funded from the reserve assets of members with a strong reserve position (revolving character). These countries or their central banks co-fund the loans according to their capital subscription, known as their quota. The IMF therefore employs a cooperative approach when providing financial support to member countries. It uses its member countries' subscriptions to bridge temporary balance of payments problems experienced by individual countries.[1]

Quotas are decisive factor in voting power and access to IMF financing

In addition to their role in financing, quotas perform multiple other important functions in shaping the IMF as a "fund". They determine not only each member's subscription (the amount of financial resources that it is required to contribute to the Fund), but also member countries' voting power, access to IMF financing and individual allocations of special drawing rights (SDRs).[2] To adapt the IMF's available financial resources to global trends in growth and trade, as well as to reflect relative shifts in member countries' weight in the world economy, the quotas have been increased eight times in the Fund's history. The April 2008 quota reform, which is yet to be implemented because many countries – including key G20 nations – have not yet ratified it, will increase the total quota volume from its current level of SDR 217.4 billion (around US$334 billion) to SDR 238 billion (around US$365 billion).[3]

Industrial countries and emerging markets alike among ranks of under-represented and over-represented countries

The calculated quota of a member country is derived according to the formula ratified in April 2008 in which a country's gross domestic product (GDP) is given the largest weight (50%), followed by its "openness" (defined as the five-year average of the sum of current receipts and current payments) with a weight of 30%. The formula includes two types of GDP: measured at market exchange rates (30% share) and measured at purchasing power parities (PPP; 20% share). The variability of current receipts and net capital flows is given a weight of 15%, while holdings of official reserves have a weight of 5%.[4] However, the actual quota can differ from the calculated quota.[5] A comparison of actual quotas with calculated quotas as well as their key determinants – GDP at market exchange rates and openness – shows that underrepresented countries (ie the actual quota is less than the calculated quota) and overrepresented countries (the actual quota exceeds the calculated

1 One exception is "concessional lending" to developing countries with low per-capita income at particularly favourable rates. Since this lending has the character of development assistance and has a longer-term horizon, it is financed not through reserve assets but from various special funds which are drawn mainly from members' budgetary resources.
2 See Deutsche Bundesbank, Quotas and voting shares in the IMF, Monthly Report, September 2002, pp 63-77.
3 Germany ratified the quota reform in March 2009.
4 The underlying data of these variables are converted into SDRs and then expressed as shares in the cumulative total for all member countries.
5 This is the case, for instance, if adjustments to the actual quota do not keep pace with the relative change in a member country's weight in the global economy or if, for political reasons, certain countries are given quota increases that are not covered by economic developments.

Quotas and voting power in the IMF *

Percentage shares

Country/group of countries	Actual quotas	Voting power 1	Calculated quotas 2	Economic variables used to derive calculated quotas 3				
				GDP at market exchange rates 4	GDP at purchasing power parities 5	Openness 6	Variability 7	Reserves 8
Europe								
Germany	6.11	5.80	5.89	6.10	4.43	8.58	5.30	0.90
France	4.50	4.29	4.21	4.73	3.27	4.86	4.88	0.92
United Kingdom	4.50	4.29	4.58	5.08	3.40	6.52	3.38	0.82
Italy	3.31	3.15	3.10	3.88	2.84	3.73	1.58	0.60
Russia	2.49	2.39	2.43	2.05	3.14	1.69	2.10	7.09
Netherlands	2.17	2.08	1.90	1.41	1.01	3.37	1.43	0.21
Belgium	1.93	1.85	1.36	0.83	0.59	2.48	1.28	0.18
Spain	1.69	1.62	2.24	2.57	2.11	2.64	1.49	0.21
Turkey	0.61	0.61	1.17	1.13	1.36	0.78	1.38	1.26
Asia and Oceania								
Japan	6.56	6.22	6.99	9.01	6.79	4.72	6.87	16.64
China	4.00	3.80	7.47	6.04	10.66	6.83	4.45	24.38
Saudi Arabia	2.93	2.80	0.85	0.71	0.87	0.93	0.72	0.50
India	2.44	2.34	2.18	1.84	4.44	1.23	1.01	4.00
Korea	1.41	1.36	2.18	1.79	1.85	2.24	2.26	4.60
Australia	1.36	1.31	1.33	1.61	1.19	1.16	1.08	0.94
Indonesia	0.87	0.85	0.90	0.73	1.28	0.66	0.90	0.90
Americas								
United States	17.67	16.72	17.82	26.66	21.82	14.14	19.94	1.29
Canada	2.67	2.55	2.42	2.58	2.00	2.93	2.11	0.72
Brazil	1.78	1.71	1.97	2.23	2.83	0.88	2.03	2.58
Mexico	1.52	1.47	1.86	1.90	2.32	1.66	1.47	1.45
Venezuela	1.12	1.08	0.46	0.38	0.50	0.30	0.60	0.40
Argentina	0.89	0.87	0.59	0.45	0.78	0.32	0.81	0.73
Africa								
South Africa	0.78	0.77	0.59	0.53	0.72	0.49	0.44	0.48
Memo item								
Industrial countries	60.46	57.89	60.43	70.58	53.68	66.42	60.92	27.62
Emerging and developing countries	39.54	42.11	39.57	29.42	46.32	33.58	39.08	72.38
EU member states	31.87	30.91	32.09	30.61	23.12	43.30	30.27	8.81
Euro-area countries	23.12	22.32	23.19	22.41	16.55	31.65	22.47	3.84
G20 members	66.40	63.30	68.53	79.05	75.99	64.35	62.71	70.80

Sources: IMF and Deutsche Bundesbank. — ***** Assuming implementation of the April 2008 quota reform. — **1** Discrepancy between voting power and quotas is due to the fact that each member country has 750 basic votes plus one additional vote for each SDR 100,000 of quota. — **2** Calculated using the following formula: $Q = (0.5*(0.6*GDP + 0.4*GDP(PPP)) + 0.3*O + 0.15*V + 0.05*R)^{0.95}$, where Q = quota, GDP = GDP at market exchange rates, GDP(PPP) = GDP at purchasing power parities, O = openness, V = variability and R = reserves. — **3** Percentages of total for all member countries. — **4** GDP at market exchange rates; three-year average of 2005-07. — **5** GDP at purchasing power parities (PPP); three-year average of 2005-07. — **6** Five-year average (2003-07) of the sum of current payments and current receipts. — **7** Variability of current receipts and net capital flows, measured as a standard deviation from the centred three-year trend over a 13-year period (1995 to 2007). — **8** Twelve-month average over a year (2007) of official reserves.

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Substantially underrepresented/overrepresented countries in the IMF

Percentage points

Ten most underrepresented countries 1	
China	– 3.48
Korea	– 0.76
Singapore	– 0.65
Ireland	– 0.57
Spain	– 0.56
Turkey	– 0.55
Japan	– 0.43
Mexico	– 0.34
Luxembourg	– 0.31
United Arab Emirates	– 0.25

Ten most overrepresented countries 1	
Saudi Arabia	2.08
Venezuela	0.66
Belgium	0.57
Argentina	0.30
France	0.29
Iraq	0.29
Kuwait	0.29
Nigeria	0.28
Netherlands	0.27
India	0.26

Sources: IMF and Deutsche Bundesbank. — **1** Difference between actual and calculated quota shares based on data up to and including 2007 and assuming implementation of the April 2008 quota reform.

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quota) can be found among the ranks of the industrial countries and the developing and emerging market countries alike. Chief among the underrepresented countries are China, Korea, Singapore, Ireland, Spain and Turkey. The main overrepresented countries are Saudi Arabia, Venezuela, Belgium and Argentina. Germany is more or less adequately represented in the IMF in terms of its quota share and voting power. The 27 EU member states as a group are not overrepresented, either. Their combined share of just under 32% of actual quota is equal to their calculated quota, which is composed mainly of a share of just under 31% in global GDP at market exchange rates and a share of 43% in openness.

Borrowing agreements with selected member countries as emergency financing

In keeping with its cooperative character, the IMF seeks to fund its balance of payments assistance generally from subscription payments. However, it can also borrow from its members if insufficient quota-based funds are available to finance its programmes. In the 1970s and 1980s, the Fund occasionally took out bilateral loans from some industrial and oil-exporting countries as well as from other countries with strong balance of payments and reserve positions. In addition, since 1962 a standing multilateral borrowing agreement with the G10 countries,[6] the General Arrangements to Borrow (GAB), has been available to the IMF. In response to the 1994-95 Mexican crisis, the GAB funds were augmented in 1998 and further countries with strong financial positions added to the fold to create the New Arrangements to Borrow (NAB). Under the NAB, the IMF has access to up to SDR 34 billion in financial resources provided by 26 member countries with strong reserve holdings. Access to the NAB, however, is possible only if the stability of the international monetary system is in jeopardy and quota-based funding is insufficient. The NAB have been activated only once, to provide an IMF loan to Brazil in 1998. (See below for more on the current reform of the NAB.)

Massive increase in special drawing rights and IMF borrowed resources

In response to the global financial crisis, in April 2009 the G20 decided to strengthen

6 This group includes the United States, Japan, Germany, France, the United Kingdom, Italy, Canada, the Netherlands, Belgium, Sweden and Switzerland, with Saudi Arabia as an associated member.

Massive increase in financial resources available to the IMF in wake of financial crisis

the IMF by significantly augmenting its financial resources and giving the Fund greater flexibility in their use. Specifically, the G20 decision calls for a tripling of the freely available Fund resources to more than US$750 billion[7] and a new allocation of SDRs of US$250 billion.

Large allocation of SDRs

In the meantime, the IMF has launched the new SDR allocation and also the special one-time allocation that was adopted in 1997 (but not yet implemented);[8] in August and September of 2009 it allocated its members SDRs equivalent to a total of around US$281 billion, increasing the cumulative allocation of SDRs from US$33 billion to US$314 billion. This is the creation of unconditional liquidity "at the stroke of a pen". Under the IMF's Articles of Agreement, the purpose of SDR allocations is to cover a long-term global need for additional reserve assets.

Bundesbank makes substantial contribution to crisis-related augmentation of IMF resources

Members with strong external positions have agreed to establish bilateral credit lines with the IMF for a total of around US$296 billion in order to augment the Fund's available resources over the short term.[9] The Bundesbank and the IMF reached a bilateral borrowing agreement for €15 billion (around US$21 billion). The agreement is for two years but may be extended to a maximum of four years. Thus far, a small portion of the available resources has been drawn upon in parallel with and in proportion to the IMF's quota resources for lending to crisis-stricken countries.

NAB significantly expanded and modified

The aim is to incorporate these bilateral loans into a modified version of the NAB with an expanded membership; the NAB members will soon make a contingency credit line of up to US$600 billion available to the Fund (compared with US$50 billion under the "old" NAB). The Bundesbank will contribute – including the bilateral borrowing arrangement – around US$41 billion (SDR 25.4 billion). This corresponds to around 7% of the entire volume of the NAB and is the fourth largest contribution following the United States, Japan and China. The credit lines granted by the EU countries account for a total of just under 32% of the NAB. The modified NAB contain new rules which significantly expand the Fund management's scope for action. In particular, the earlier individual activation rule that required the IMF Managing Director to identify the borrower, the amount of the planned loan and its lifetime has been rescinded. Instead, a general six-month activation period, during which the IMF management can draw on the funding if need be, has been introduced. However, the Managing Director can propose activation of the modified NAB only if the NAB are necessary in order to avert a severe impairment of the international monetary system and the foreseeable amount of IMF credit needed can no

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7 Since then, member countries have committed additional funding, increasing the volume of available financial resources by up to US$600 billion to US$934 billion. See table on p 56.
8 In September 1997 the IMF Board of Governors approved a special one-time allocation totalling SDR 21.4 billion for several countries in transition (which were later in joining the IMF) so that these countries could participate equitably in the SDR system. Since the USA did not ratify the necessary amendment to the IMF Articles of Agreement until summer 2009, this allocation could not be implemented beforehand.
9 China, Brazil and India have not provided bilateral credit lines to the IMF but have instead agreed on the purchase of IMF notes at comparable terms ("note purchase agreements"). These instruments may be held only by selected official agencies and are not tradable on any market.

The IMF's financial resources and its member countries' special drawing rights *

US$bn

Item	All countries	EU countries	Germany
Member countries' current quotas	334	108	20
New Arrangements to Borrow (NAB)			
According to decision of 24 November 2009	600	[1] 192	[1] 41
Of which			
Bilateral financing [2] to be incorporated into the NAB	[3] 296	[4] 101	21
Cumulative financial resources	934	300	61
Memo item			
Member countries' special drawing rights (SDRs)			
Existing cumulative allocations	33	11	2
New allocations in 2009			
General SDR allocation (August 2009)	248	80	15
Special one-time allocation of SDRs of 1997 (effective September 2009)	33	11	2
New cumulative allocation	314	102	19

* Figures for quotas and SDR allocations converted into US dollars at the rate of SDR 1 = US$1.5372 (12 March 2010), for the NAB at the rate of SDR 1 = US$1.6016 (24 November 2009) and for bilateral borrowing agreements with the EU countries at €1 = US$1.3765 (12 March 2010). — **1** Total including contributions to date. — **2** The IMF does not have any borrowing agreements with China, Brazil and India. Instead, these countries have agreed to purchase notes at comparable terms ("note purchase agreements"). These notes may be held only by selected official agencies and cannot be traded on markets. In May 2009, Russia declared its intent to purchase notes issued by the IMF. — **3** Of which (US$bn): Japan 100, EU countries 101, China 50, Canada 10, Switzerland 10, Brazil 10, India 10, Russia 10, Norway 5. — **4** Of which (US$bn): Germany 21, France 15, United Kingdom 15, Italy 11, Netherlands 7, Belgium 6, Spain 6.

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longer be covered using the available quota resources. In addition, approval by a broad majority of NAB participants – representing at least 85% of the votes weighted according to the shares in total credit arrangements – is necessary to activate the NAB. The modified NAB will enter into force once 85% of the old members and 70% of the new members have given their approval.

Further reforms must restore IMF's quota-based character

IMF "exit strategy" necessary for incentive-related reasons

The augmentation of the resources committed to the IMF means that they will be nearly double the volume of quota-based funding, thereby reversing the ratio of quota-based resources to lending resources. This impairs the central role of quotas in the overall functioning of the IMF. It would therefore be appropriate if, now that the global financial crisis is ebbing and individual nations are scaling back their support measures, the IMF were also to give thought to developing a proper "exit strategy" from its own crisis-related policies and the exceptional financing volume. One such measure would be to reduce the borrowed resources and to keep the remainder purely for emergencies in order to restore the quota-based character of the IMF. The other would be for the Fund, in due course, to examine the possibility of cancelling the allocated SDRs in line with the Articles of Agreement.

IMFC confirms central role of quotas

The International Monetary and Financial Committee (IMFC) of the IMF therefore, in its communiqué of October 2009, suggested a

review of the Fund's borrowed resources following completion of the next general quota review. The IMFC, moreover, reaffirmed the Fund's quota-based character and outlined a preliminary decision in view of the G20's avowed objective of strengthening the voice and representation of emerging market and developing countries. According to the communiqué, the quota and voice structure shall be adjusted by January 2011 in order to achieve a shift in quota share to dynamic emerging market and developing countries of at least five percent from overrepresented countries to underrepresented countries using the current quota formula as the basis to work from.

Higher quota shares appropriate not only for under-represented emerging market and developing countries ...

This preliminary decision by the IMFC has far-reaching consequences that need to be taken into account in the forthcoming reform. First of all, the focus is on the dynamic emerging market and developing countries, which should, in particular, benefit from a further quota adjustment. Even though they will already be given a considerably greater voice upon implementation of the April 2008 quota reform, they remain significantly underrepresented owing to their prolonged dynamic growth and steadily increasing share in cross-border goods and financial transactions. In addition, it must be noted that the international financial crisis had a less severe impact on growth and trade in many emerging market and developing countries than on that of some industrial countries. The inclusion of recent growth and trade data in the quota calculation is therefore likely to additionally boost the quota shares of the dynamic emerging market and developing countries. An increase in the quotas and voice of underrepresented, dynamic emerging market and developing countries is therefore appropriate, as it will contribute to a quota distribution that is geared to member countries' relative weight in the world economy, thereby enhancing the Fund's legitimacy and acceptance by its member countries.

... but also for under-represented industrial countries

However, the quotas and voting shares of underrepresented industrial countries must likewise be increased. The G20's focus on "dynamic" emerging market and developing countries does not imply an improvement in the status of all emerging market and developing countries. Indeed, a division of IMF member countries into regional groups or functional groups of nations classified by level of development has been deliberately avoided. The G20's reference to overrepresented countries, too, makes it clear that the burden of redistribution is not to be borne solely by the industrial countries – irrespective of whether they are underrepresented or overrepresented – but by all overrepresented countries, including overrepresented emerging market and developing countries. This is appropriate because there are overrepresented countries in the industrial world and in the emerging and developing world alike. Such an approach, moreover, would be consistent with fundamental IMF principles, especially the principle of equal treatment of members.

Quota formula is transparent basis for quota adjustment

A further quota adjustment should be based on the existing quota formula, which was agreed by IMF member countries as part of the April 2008 quota reform and required compromises of all members. The current for-

mula is based on IMF-related criteria, is simple and transparent, and constitutes significant progress on the previous system, which consisted of five complex formulas. Given the broad approval with which it was adopted, the continuing use of the formula should facilitate the current negotiations and help to achieve tangible reform by January 2011.

Options for reforming the IMF's governance structure

Far-reaching proposals for governance reform

Along with the envisaged quota and voice reform, the G20 and the IMFC have called for a review of the mandate, tasks and governance of the IMF, taking into account the changes in the world economy and the new challenges posed by globalisation. Several expert panels have provided input to the discussion; their reports examine the pros and cons of the current governance structure and present various options for reform.[10]

Critics call for greater involvement of finance ministers and central bank governors, ...

A criticism voiced in these studies and other places is that high-level political engagement in strategic decision-making and IMF oversight is insufficient because the IMFC is formally only an advisory group with no power to take binding decisions. Consequently, so it is held, many key IMF-related issues have been discussed and (preliminarily) decided by informal groups outside the Fund, such as the G7 and G20. These critics therefore suggest reforming the system by activating a ministerial-level Council – which is envisaged in the Articles of Agreement but not yet in place – in order to involve finance ministers and central bank heads more heavily in the Fund's strategic decision-making.

... reduction in number of EU seats on the Executive Board, ...

Another criticism is that the Executive Board is too mired in day-to-day business and too large (with 24 Executive Directors) to function effectively and also that European countries are overrepresented. Critics therefore want the Executive Board to be downsized from 24 to 20 seats, with the reduction in seats coming at the expense of Executive Directors from the EU. Another proposal is for EU countries to be merged into EU-only constituencies, which presupposes the removal of non-EU countries from these groups in order to give Europe a "single" voice and thus more weight. More radical proposals envisage cutting the number of EU seats on the Executive Board to a mere two, including demands for the euro-area to consolidate to a single seat with a voting share reduced to the level of the United States. It has also been suggested that the existing system of appointed (for the five largest shareholders) and elected (for the other shareholders) Executive Directors could be abolished. Yet another idea under consideration is the transfer of powers from the Executive Board to the IMF management based on the notion that this could enhance the effectiveness of IMF surveillance and make the Fund less subject to the influence

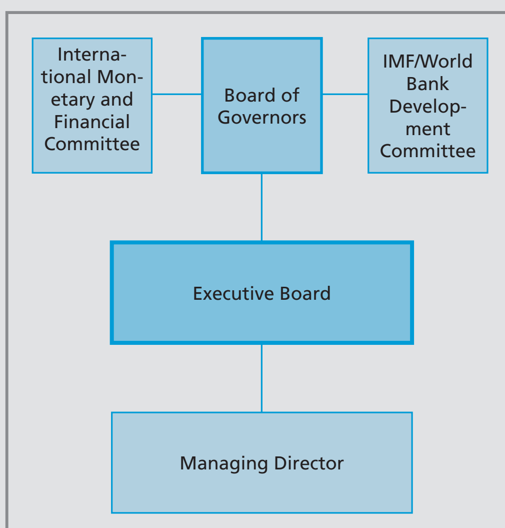
10 See: Independent Evaluation Office of the IMF, Governance of the IMF: An Evaluation, May 2008, and Committee on IMF Governance Reform, Final Report, March 2009 ("Manuel report"). Governance reform proposals were also made by the Group of Thirty, Reform of the International Monetary Fund, Washington, October 2009 and the European Commission, EMU@10: success and challenges after 10 years of Economic and Monetary Union, European Economy No 2, June 2008.

The International Monetary Fund's governance structure

The tasks and responsibilities of the decision-making bodies at the IMF, their relationship to one another and the influence of the 186 member countries in these bodies are laid down in the IMF's Articles of Agreement. The IMF's central decision-making entities are the Board of Governors, the Executive Board, the International Monetary and Financial Committee (IMFC) and the Managing Director.

The Fund's highest decision-making body is the Board of Governors, to which each member country delegates one governor – generally the finance minister or the head of the central bank. The governors meet once a year and take decisions, frequently using the written procedure, on fundamental issues such as the admittance of new members, quota changes or the allocation of special drawing rights (SDRs).

The Executive Board takes care of the Fund's daily business ("The Executive Board shall be responsible for conducting the business of the Fund," Article XII, Section 3 (a) of the Articles of Agreement). It currently consists of 24 members. The five countries with the highest quotas (at present the United States, Japan, Germany, the United Kingdom and France) appoint one Executive Director each. The other directors are elected by countries that have previously formed voluntary constituencies for this purpose. Owing to political considerations and/or their large financial engagement, China, Russia and Saudi Arabia also "elect" their own Executive Directors. There is complete freedom in the choice of the Executive Directors, as there are no regional or functional requirements. As a consequence, in some cases, countries from various regions that are prepared to reconcile diverging interests have formed constituencies.



The IMFC is a special Board of Governors committee tasked with monitoring the proper functioning and development of the international monetary system. The IMFC is made up of 24 members drawn from the ministers of finance or central bank governors of the same countries or groups of countries represented on the Executive Board. Although the IMFC is advisory in function and therefore has no formal decision-making powers, its political weight gives it, in practice, the role of a governing body on strategic Fund issues. The Development Committee is a joint committee advising the Boards of Governors of the IMF and the World Bank. It has 24 members – generally ministers of finance or development – and usually meets twice a year. The Committee discusses important economic development issues and may also take policy decisions.

The Managing Director chairs the Executive Board and also heads the staff. He is assisted by three Deputy Managing Directors.

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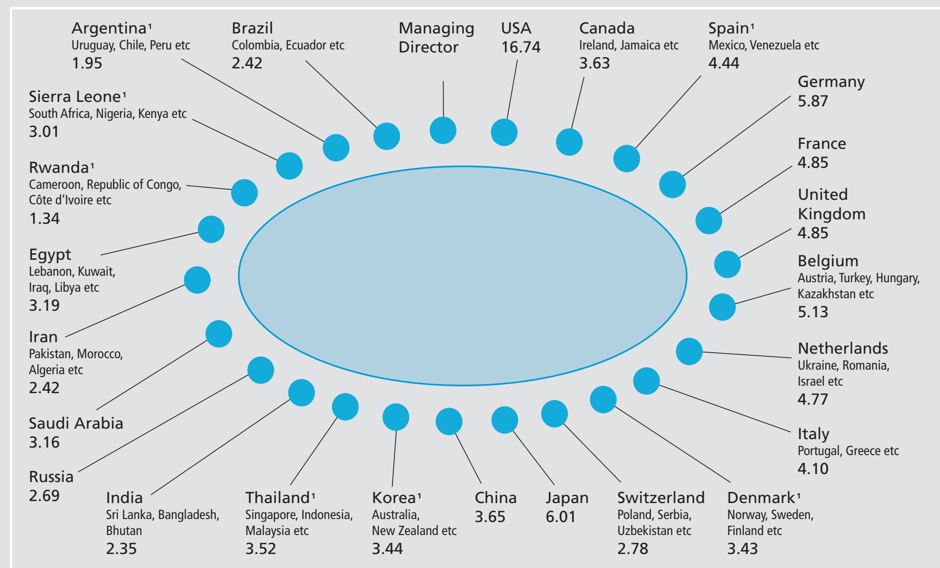
Executive Board of the IMF*



* Composition and voting power expressed as a country's or constituency's percentage of total voting power. Not including the votes of Kosovo, Mauritania, Somalia and Zimbabwe, which did not participate in the 2008 Regular Election of Executive Directors. For a complete list of constituencies and their membership, see International Monetary Fund, Annual Report 2009, pp 74–75. — **1** Constitutency whose chair rotates among members.

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of its member countries – akin to central bank independence.

... and adjustments to existing voting rules

Another branch of the debate on reform addresses the existing voting rules in the Fund. Some commentators want more use to be made of the principle of double majority voting (ie a majority of voting power and of the number of countries). They also want the threshold for certain key majority votes to be lowered from its current level of 85% in order to eliminate the veto power of large shareholders. Lastly, given that all IMF Managing Directors have been Europeans and all World Bank Presidents US citizens, there have been calls to abolish the implicit reservation of top management positions in the IMF and the World Bank for certain nationalities.

Governance structure must reflect monetary and cooperative character of the Fund

Maintain Fund's monetary character

Many of the issues raised in the debate on IMF governance reform are of a genuinely political nature and should therefore be pondered over and decided on by politicians. However, some of these governance issues are directly linked to central elements of IMF financing and are therefore of immediate relevance to the financial obligations to be borne by Germany or the Bundesbank. A decisive factor is the design of the Fund as a "monetary fund", which defines its unique character as a cooperative and monetary institution and sets it apart from other global institutions, such as the World Bank. Its member countries' commitment to provide each

other with financial assistance to resolve temporary balance of payments problems underscores the cooperative character of the Fund. This special means of raising capital and the attendant limits to its financing function define the Fund as a monetary institution. The fact that its capital is composed largely of the reserve assets of its member countries and their central banks also has consequences for the Fund's scope for lending. In line with its mandate, it may use the provided foreign reserves only to help overcome short-term balance of payments difficulties and thus cover a temporary need for foreign currency. By contrast, any financial contribution by the Fund to solve structural problems that do not imply a need for foreign currency – such as the direct financing of budget deficits or financing of a bank recapitalisation – would be incompatible with its monetary mandate.

GDP and openness indispensable for distribution of votes and representation

The Fund's design as a monetary and cooperative institution is also reflected in the distribution of members' votes and in their representation in the decision-making bodies. Voting power and the distribution of seats are not given in proportion to certain regional criteria but are derived largely from their calculated quotas. These quotas reflect each country's economic size and integration in the world economy and thus its ability to contribute to the financing of the IMF. Countries that have a considerable influence on the world economy should also have a correspondingly large voice in the IMF.

EU countries not overrepresented on Executive Board

The emerging markets and developing countries currently elect 11 of the 24 Executive Directors;[11] in light of their combined 42% of voting power, this means that they are adequately represented. The EU as a whole is not overrepresented on the Executive Board according to the criteria listed earlier. Six of the 24 seats are always held by Directors from EU countries: one each from Germany, France and the United Kingdom, and three from "mixed" constituencies with EU and non-EU members. In addition, there are two seats held by the mixed Scandinavian and Central American constituencies, which are occupied alternately by EU and non-EU countries. However, there is one important caveat to bear in mind when assessing the role of Directors representing mixed constituencies: even if these Directors are always, or alternately, EU nationals, they inevitably also represent the interests of the non-EU members of these constituencies. This is particularly true of the Central American constituency, in which Spain, an EU country, does not have a relative majority of votes. With this distribution of voice and seats in the Fund in mind, calls for a unilateral reduction in the voice and representation of the EU countries are not convincing when held against the accepted IMF standards.

Reducing number of EU seats incompatible with principle of equal treatment

In addition, it should be remembered that reducing the voice and seats largely or fully at the expense of the EU countries would run counter to the principle of equal treatment. Since some emerging-market Executive Directors currently represent far fewer votes than the constituencies headed by EU coun-

11 If the Executive Director for Central America, whose nationality alternates between Mexico, Venezuela and Spain, is counted as a developing country or emerging market chair, this figure increases to 12 Executive Directors.

tries, consolidation pressure should tend to be on the Directors with smaller voting power. By contrast, a unilateral consolidation of EU seats would be tantamount to a "special sacrifice" by Europe without any material justification.

Heterogeneous constituencies promote consensus-building

Consolidating constituencies on purely geographical or functional criteria is not envisaged in the IMF Articles of Agreement and would fundamentally alter the evolved structure of voting constituencies. The current composition is the outcome of the voluntary choices and negotiations by member countries. The abrogation of this freedom of choice by introducing a binding requirement that members form regional constituencies would entail both advantages and disadvantages for the EU countries. Although consolidation to form EU-only constituencies would undoubtedly enhance the stature of EU countries as a cohesive unit, mixed constituencies contribute in considerable measure to the formation of consensus on the Executive Board and counteract the formation of blocs. Moreover, requiring non-EU countries to leave EU constituencies and enter into constituencies with other non-EU member states against their preferences would also impair their freedom of choice.

Weakening the Executive Board not appropriate

Given the proven ability of the Executive Board to tackle and implement reforms[12] and to react quickly and flexibly in times of crisis, there is no convincing rationale for changes in the governance structures that would weaken the powers of the Executive Board and make the management more independent in its surveillance and lending functions. Fundamental differences between IMF and central bank methods of funding, moreover, mean that a comparison between the Fund and independent central banks would be misguided and the creation of an IMF independent of its shareholders inappropriate. The Executive Board – acting on behalf of its shareholders – is best placed to oversee both the use of the Fund's resources and the management and, if necessary, to call the management to account. By contrast, giving the management greater independence would loosen the necessary close link between financial obligations and the power to decide on the use of financial resources.

A single seat for the euro area?

Single euro-area representation would require legal and institutional adjustments, ...

Establishing a single seat to represent the euro area in the IMF would have far-reaching consequences for the EU member states and the Fund alike. In principle, there are two different ways to create a single euro-area seat. One conceivable option would be for all euro-area countries to consolidate into a single constituency, which would require an amendment to the IMF Articles of Agreement. Another possibility might be for the euro area to become an independent member of the IMF and thus appoint its own Executive Director; the euro-area countries would then give up their IMF membership. This would likewise require an amendment to the Articles of Agreement, which currently only allow the membership of countries and

12 This was demonstrated, for instance, in the quota and voice reform of April 2008 and the development of a new and sustainable IMF income model in May 2008.

not supranational entities such as the European Union or the euro area. Germany's IMF legislation would likewise have to be amended.

... could weaken Europe's influence ...

Irrespective of whether a euro-area constituency or an independent euro-area membership were to be created, a single seat for the euro area would have far-reaching implications. Coordination on IMF-related issues would have to be carried out exclusively among the euro-area countries. For this to happen, it would first be necessary to establish the relevant institutional structures and voting procedures. Creating a single euro-area seat, moreover, would provide no guarantee that the EU would speak in unison, especially on issues where the positions of the euro area and the rest of the EU diverge. This could give outsiders the impression of a divided Europe. In addition, the formal necessity of formulating single euro-area positions could weaken its influence in the IMF owing to the danger that differing interests among the euro-area countries would necessitate consensus at the smallest possible denominator.

... and lead to a reduction in voice

Furthermore, it is questionable how willing the rest of the IMF's membership would be to accept a combined euro-area share of 22% in the IMF's total votes. This would be likely to lead to calls for a reduction in the cumulative euro-area voting share to the level of the US share in total votes of just under 17%. Such a step would lead to a considerable underrepresentation of the euro area and would be incompatible with the principle of equal treatment.

Euro-area membership of the IMF would require transfer of national powers ...

Independent euro-area membership of the Fund would require the reassignment of powers and competences between the Community level and the euro-area member states; as things stand, only euro-area monetary policy is under the sole responsibility of the Community, whereas general economic policy issues remain the responsibility of individual member states. The issues addressed in the IMF, however, always go beyond monetary issues and regularly also cover fiscal and financial policy as well as wage and structural policy.

... and clarification of financial responsibilities

The issue of who would assume the current financial obligations of the IMF's euro-area members (eg subscription payments, lending to the IMF, allocations of SDRs) is key. Requiring member states to continue to uphold these financial obligations despite the absence of individual representation would sever the existing close connection between financial obligations and IMF representation and thus eliminate the principle of equivalence between the provision of funding and control over its use. This could impair the IMF's functional legitimacy. To that extent, it would hardly be acceptable to have euro-area member states continue to bear individual responsibility for the financial risks from IMF lending to crisis-stricken countries yet deny them a direct influence on IMF Executive Board decisions.

Conditions for single seat will not exist in foreseeable future

For all the aforementioned reasons, the political, legal and institutional preconditions for establishing a single euro-area seat do not exist, and this will remain the case for the foreseeable future. The EU Treaty does not

provide for an "official" external representation of the euro area. Such euro-area external representation could not be merely "informal" but would need to be enshrined in legislation in order to have actual power to take action and make decisions. The loss of national sovereignty in key economic and fiscal policy issues that this would entail for the euro-area member states, however, makes such a move seem rather unlikely at present.

Conclusion

Governance structures must correspond to member countries' financial obligations

The IMF reacted quickly and flexibly to the considerable challenges presented by the international financial crisis. It supported the adjustment process in those member states which were affected by or threatened with balance of payments problems by providing extensive financial assistance. The IMF's governance structure has largely stood the test of time. The Executive Board, in particular, has proved its ability to take action in the past few years by tackling and completing various reforms. There is therefore no visible need for a comprehensive reform of the IMF's governance structure. All the same, steps should be taken to further enhance the Fund's legitimacy. In particular, the quota reform initiated by the G20 and the IMFC should be completed on schedule and brought to a generally accepted and fair conclusion. Whatever the efforts made at reform, however, the key elements of the IMF as a cooperative and monetary institution should be maintained. This means, in particular, scaling back the IMF's borrowing from its member countries in the medium term in order to restore the central role of quotas in the Fund's functioning and legitimacy. Its function of providing financial assistance should be in keeping with its monetary and quota-based character. Any financial contribution by the IMF to solve problems that do not imply a need for foreign currency – such as the direct financing of budget deficits – would be incompatible with its monetary mandate. Moreover, the voice and representation of its member countries should be commensurate with their financial obligations. Decoupling member countries' voting shares and representation from their financial obligations would call into question the legitimacy of the IMF and its unique character as a "monetary fund". Weakening the position of the Executive Board, and thus also the member countries' control mechanisms, would ultimately undermine the Fund's role in maintaining international stability. In the long run, this could impact negatively on member countries' willingness to provide the IMF with the financial resources it needs.