Reforming the International Monetary Fund

Designed to more adequately reflect the influence of emerging markets, International Monetary Fund reforms are struggling to get off the ground

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Three years after the G20 Seoul Summit, what was welcomed by the managing director of the International Monetary Fund (IMF) as "the most fundamental governance overhaul in the Fund's 65-year history and the biggest ever shift of influence in favour of emerging market and developing countries" has yet to materialise, almost a year after the deadline of October 2012.

What are the terms of this reform package, its relevance for IMF governance, its prospects for its ratification over the coming months and its implications for the G20 moving forward?

The reform package, once in effect, will double the IMF capital base (quotas) from 238.4 billion to 476.8 billion special drawing rights (SDRs) with a six per cent shift in voting power in favour of the under-represented and dynamic economies. The economies of Brazil, Russia, India and China (BRIC), in particular, will all make it into the top 10 shareholders of the institution, while the voting shares of the poorest members will be preserved.

The novelty of the agreed-upon package, however, is not just limited to the size of the voting power shift across the membership. It also includes, for the first time in recent history, an overhaul of the representation on the executive board, which is the main policy-making body of the organisation. Accordingly, the quota shift provides the scope for a realignment in the number of chairs that are available to emerging economies. It also entails a commitment to revisiting board representation every eight years in order to ensure a more dynamic composition.

As part of the agreement, advanced European countries will reduce their combined board representation by two chairs in order to strengthen the voices of the emerging members. Moreover, there will be scope for appointing second alternate executive directors in order to enhance the representation of multi-country constituencies – particularly those of African members.

For the proposed amendments to come into effect, they must be accepted by three-fifths of the IMF's 188 members (or 113 members) having 85 per cent of the IMF's total voting power. At 31 July 2013, 140 members having 75.69 per cent of total voting power had accepted the amendment. In other words, failure to date by the United States (which has about a 17 per cent voting share) to ratify the package has prevented it from becoming operational.

The United States vote

Obtaining the consent of the US Congress is likely to remain the major stumbling block. In March 2013 the Obama administration attempted unsuccessfully to attach the reform package to the legislation that averted the worst of the US 'fiscal cliff'. With the automatic sequestration cuts forming the backdrop of these negotiations, both chambers of Congress rejected the administration's request. If passed, the agreement would have seen a 1:1 rollback of US contributions to the IMF's contingent credit line of the New Arrangements to Borrow (NAB), so as to make the new US quota allotments 'budget neutral'.

At a hearing before the House Financial Services Subcommittee on Monetary Policy and Trade, a subcommittee of the House Committee on Financial Services, after the intervention by Lael Brainard, under secretary for international affairs at the US Treasury, many members expressed scepticism over supporting the reform package.

Despite Brainard's recurring statement that moving US resources from the NAB to general quotas represented simply a

reallocation of existing financing, a number of Congressional representatives repeatedly raised concerns over how such a change in the IMF's capital structure could increase the exposure of the US taxpayer to any potential losses by the IMF. The growing exposure of the IMF to relatively wealthy advanced European economies also featured heavily in the discussions.

With the US set to face another fiscal cliff on 1 October 2013 – the start of its 2014 fiscal year – any final decision is likely to have to be incorporated into a broader budget agreement. Depending on how the underlying negotiations evolve, it may become difficult for the administration to spend further substantial political capital on the IMF package should tensions with Congress escalate due to the lack of a comprehensive agreement on the overall budget.

The current standstill has two broad implications, one for the IMF and one for the

IMF managing director Christine Lagarde. The IMF's role in managing the world economy increased significantly during the financial crisis

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G20 itself, that leaders should be aware of and should seek to address in St Petersburg. As regards the IMF, any talks about possible new reforms are on hold, as this would inevitably further strain the chances of ratification of the 2010 package by the US Congress.

Ongoing challenges

The January 2013 deadline for a comprehensive review of the quota formula has already passed without agreement and the process has been incorporated into the schedule for the 15th general review of quotas. The new deadline for this review is January 2014, when a new agreement on quotas should also materialise. Again, the lack of US traction suggests that the chances of reaching a significant agreement look slim to none – at least at this juncture.

As for the broader implications for the G20 process, the current impasse reflects the mounting challenges that some key G20 members are facing, which might forcefully emerge in St Petersburg.

The engulfment of the IMF reform package in the US is a fair indication of an ongoing transformation in the nature of the domestic policy-making process that is redefining the relative weights of the executive branch and Congress in shaping public policies. Likewise, the G20 members from the eurozone face a similar challenge in redefining the relative importance of their own national and regional layers in their respective policy-making frameworks, and so they are unlikely to be active participants in any G20-led process.

These challenges touch national sovereignty at its very heart and do not lend themselves to effective appraisal or action in an international peer-review forum such as the G20. This raises the stakes for the Russian chair, which will have to leverage all of its political capital to make the St Petersburg Summit an opportunity for meaningful dialogue on the global economy.

But even then, concrete, significant results are unlikely, given the ongoing challenges faced by some key G20 members; equally unlikely in the coming months are any new initiatives on IMF reform. ■

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