Improving the Voice of Developing Countries
in Governance of International Financial Institutions

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I. Introduction

The case for increasing the voice of developing countries in the governance of International Financial Institutions (IFIs) is a compelling one. Current arrangements where developing countries are increasingly under-represented is highly problematic for several reasons.

Firstly, inappropriate representation arrangements leads to a decline in the efficiency of these organizations, as decisions taken do not adequately reflect the needs and issues from the perspectives of the majority of the countries and peoples affected by them. This is particularly true for low-income countries.

Secondly, insufficient representation of developing countries is increasingly perceived as leading to a democratic deficit in those institutions. Given that democratic governance has rightly emerged as such an important value in the last decade, promoted at a country level not least by the IMF and World Bank themselves, it is crucial that these institutions also are characterized by democratic governance. This will be positive for those institutions themselves, as it will clearly strengthen their legitimacy, which has been challenged in recent years. Therefore more democratic financial institutions would emerge as more legitimate and stronger ones, which is very positive in a globalized world which increasingly needs international financial governance and institutions.

Thirdly, increasing the share of developing countries in IFI governance is necessary to help modernize the IFIs, so they reflect the increased importance of developing countries in the global economy, as well as the increased role of the IFI in these countries. Thus, IFI governance has to better reflect today's new realities, rather than those that existed 60 years ago.

II. Progress so far

It is encouraging that the international community has increasingly focussed on this important issue. In Monterrey all governments committed to increasing the voice of developing and transition countries in IFIs. It is very important that the Development Committee is now carefully examining the issues.

There have been some valuable steps taken on building capacity, such as the creation of the multi-donor analytical support fund for Africa at the IFIs. However, as a number of key governments and observers have pointed out, stopping at capacity building would be to fail a key Monterrey commitment. The voice issue needs to be tacked through an integrated and comprehensive approach.

It is encouraging that the Development Committee will consider a roadmap on procedures and next steps.

III. Criteria for future progress

There is widespread recognition in the literature that necessary changes would include:

1) An increase in the share of basic votes is desirable to allow meaningful representation for smaller economies, as was established at Bretton Woods. Once increased, the share of basic votes should be maintained in future quota increases, to prevent similar future erosion. With the nearly 37 fold increase in quotas over the past 60 years, the share of basic votes in the IMF fell from 11.3% to 2.1%, whilst IMF membership quadrupled. This has shifted the balance in favour of large quota countries. The need to increase the share of basic votes is clearly a proposal that has obtained increased support.

2) The quota formula needs amending to reflect appropriately rapid growth of some developing economies, as the current quota structure does not reflect properly the scale of countries' economies. As Table 1 and Buira (2003) point out, large countries like Brazil, China, Korea and Mexico have a share of quotas that are far below their share of Gross Domestic Product (GDP), whilst countries like Belgium and Switzerland have quotas for larger than their share of GDP.

Table 1

IMF quotas and gross domestic products for selected countries

Country	**Quota as of December 31, 2002**		**Share of world aggregate GDP in purchasing power parity, 2002**	**GDP, 2002** Billions of US dollars converted at market exchange rates
	Billions of Special Drawing Rights	As a proportion of total quotas		
Canada	6,369	2.99	2.01	728
China, People's Rep. of	6,369	2.99	12.67	1,237
Russian Federation	5,945	2.79	2.68	346
Netherlands	5,162	2.43	0.88	449
Belgium	4,607	2.16	0.59	247
Switzerland	3,458	1.63	0.45	268
Brazil	3,036	1.43	2.63	448
Mexico	2,586	1.22	1.90	642
Denmark	1,643	0.77	0.33	172
Korea, Republic of	1,634	0.77	1.78	462

Buira (2003:20), based on IMF World Economic Outlook Database

The case for the introduction of purchasing power parity GDP (PPP GDP) as the (or an important) basis for quota calculation –rather than market exchange rate-based GDP- is a strong one. Using only GDP based on market exchange rates, as the current quota formula does, substantially underestimates the GDP of developing countries, because it underestimates the value of the non-tradable sector that tends to be larger in developing countries.

3) There is a need in the IMF and World Bank Boards, to add at least one seat for African countries. This would reduce the enormous burden and growth of workload in the two African constituencies, that represent jointly 45 countries, and would allow African Executive Directors to play a more active and effective role in broader policy discussions. This change would imply a very marginal increase in the size of the two Boards or some very small reduction of European representation. Procedurally, it would be relatively easy to implement, as it does not require a change in the Articles of Agreement.

To make such changes acceptable to industrial countries and to maintain credibility of the IFIs in international capital markets, it would seem that a compromise solution should be sought. This would attempt to achieve the above suggested three changes, in a way that would increase the overall voting share of developing countries fairly significantly, but that would guarantee that –for a significant period, e.g. the next 10 years– the voting share of developing countries in the IMF and World Bank Boards would remain at below 50%. Also, to make it politically feasible, it should maintain the veto power of the US and the EU. This would be a win-win situation for all parties, in that developing countries would see their share increased farily significantly, but creditors would maintain their majority. The AAA status of the World Bank would be clearly assured (indeed, the regional banks maintain AAA status even with 50% developing countries share of votes on their Boards).

Table 2

Present and Proposed Quota and Voting Power [1]

Country Category[2]	GDP-PPP 1997-99 Average	Present Quota Share	Proposed Quota Share on basis of GDP-PPP	Present Voting Share	Proposed Voting Share on basis of GDP-PPP (87.7%) and BV (11.3%)
	SDR billion	%	%	%	%[3]
Advanced Economies	16,303	62.763	55.492	61.768	50.950
Major Advanced Economies	13,375	46.030	45.523	45.146	40.811
Other Advanced Economies	2,929	16.732	9.969	16,622	10.139
USA	6,315	17.383	21.494	17.030	19.127
Japan	2,282	6.229	7.767	6.110	6.951
EU	5,900	30.106	20.083	29.647	18.740
Developing Countries	11,320	29.697	38.530	30.529	42.019
Africa	1,086	5.493	3.695	5.962	6.427
Of which Sub Saharan Africa	873	4.496	2.970	4.952	5.599
Asia	6,181	9.120	21.038	9.250	20.390
Western Hemisphere	2,504	7.456	8.523	7.666	9.536

[1] BV stands for Basic Votes; PPP refers to GDP valued at purchasing power parity
[2] Country Categories based upon IMF World Economic Outlook
[3] Does not add 100%, as transition economies not included.
Source: Kelkar et al.

It is important to note that Kelkar et al (2003) have made a proposal for quota and voting power of the Board that would precisely meet the above criteria. A similar proposal could be applied for the World Bank. In the Kelkar et al proposal, voting power would be determined by weighted averages for PPP-GDP (88.7%) and basic votes at the historic ratio (11.3%). As can be seen in Table 2, this would mean that the voting share of developing countries would go up in the IMF from 30.5% to 42%, thus clearly increasing their voice, whilst developed countries would reduce their voting share from 62% to 51%, but maintain their majority. Both the US and the EU would retain their veto power. Asian developing countries would also have veto power, if united.

Such a reform, or another variant, of voting power in the IMF and World Bank would have the virtue of creating far more “winners” than “losers” which should increase significantly its’ chance of approval. It would allow both developing and developed countries to feel that they have achieved their main aims, the former by seeing their voice enhanced and the latter, by maintaining as a group their majority. The ultimate gainers would be the Bretton Woods institutions that would emerge stronger, more efficient, more democratic and more legitimate, whilst maintaining credibility with the markets. Indirectly the world economy that need such improved institutions, would also greatly gain.

There are or course many other possible elements that could be included in such a package (such as the method of election of the Heads of these institutions, the possibility of different majorities for different issues, country composition of Fund and Bank staff, and others). However, it would seem best to present main criteria and a fairly simple formula that focussed on a few key changes.

This could hopefully become the basis for constructive negotiations in the Development Committee and other appropriate fora. It would be valuable if developing countries could unite in support of such a formula, and that developed countries sympathetic to genuinely increased voice for developing countries would also back it.

Though the Development Committee has a clear mandate for proposing changes that would enhance voice and representation of developing countries only in the Fund and the Bank, it seems important to note that there are other international financial institutions where developing countries either have no representation at all on the Board, even though they are members (the Bank for International Settlements –BIS-) or are not members at all (the Financial Stability Forum -FSF- and the Basle Banking Committee).

This is clearly negative in terms of efficiency, democracy and legitimacy of those important bodies. It is particularly problematic that developing countries have no participation in important standard setting bodies like the Basle Committee. The fact that, as presently proposed, the new Basel Capital Accord (Basel 2) may inappropriately increase the cost and reduce the level of international bank lending to developing countries, whilst ignoring the clear benefits of international diversification that such lending provides, again shows clearly how inappropriate (or in this case, no) representation of developing countries can lead to technically incorrect and economically damaging outcomes (see Griffith-Jones, 2003).

It therefore seems important that in the future the Development Committee –or other relevant bodies- also examine the issue of developing country participation in bodies such as the BIS, the FSF and the Basle Banking Committee.

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