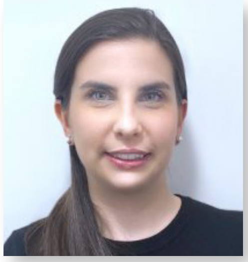
No Voice for the Vulnerable

CLIMATE CHANGE AND THE NEED FOR QUOTA REFORM AT THE IMF

LARA MERLING



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ABSTRACT

In 2021, the International Monetary Fund (IMF) committed to incorporate climate-related issues into its operations and is in the process of developing frameworks and policies towards this goal. At the IMF, a quota system based on the size of countries' economic contributions determines formal voting power and impacts decisions on how these frameworks are developed. By providing an overview of the IMF's quota-based structure, this working paper illuminates how decision-making power is distributed within the IMF, as well as the implications of the quota share on the IMF's lending practices, fee structures and distribution of newly allocated reserves. Findings highlight how formal decision-making power is concentrated with a handful of advanced economies, with the United States maintaining a dominant role and veto power of major reforms, while the low- and middle-income countries that are most likely to borrow from the IMF and be subject to its conditions have the least influence on the IMF's decisions. The lack of representation of climate vulnerable and developing countries in the IMF's formal decision-making process stresses the need to reform the current quota system if the IMF is to maintain both its legitimacy and relevance in the coming decades.

Keywords: International Monetary Fund, climate, climate change, voice, representation, developing countries, quotas, quota reform

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INTRODUCTION

In many parts of the world, the impacts of climate change are already being felt, with an increase in both the number and intensity of extreme weather events. The International Monetary Fund (IMF) is the multilateral institution tasked with acting as a lender of last resort to countries facing balance of payment crises, as well as monitoring economic developments and risks that are relevant to macroeconomic stability at both a global and country level. In 2021, the IMF officially recognized climate as a macro-critical issue that is relevant to its mandate and approved a roadmap on how to incorporate it into its operations (IMF 2021a).

The climate strategy document released by the IMF acknowledges not all countries have contributed equally to the emissions that are causing climate change, with a handful of advanced economies and industrialized countries bearing responsibility for a disproportionate share of emissions. Despite not being large emitters, many developing countries find themselves most vulnerable to climate-related risks due to their geographical position. The poorer countries that face the highest climate risks have the least resources to invest in adaptation and resilience. Furthermore, efforts to reduce emissions limited to those countries only would be futile, as they are not major sources of emissions (IMF 2021a).

A group of developing countries that are most vulnerable to climate risks have established a partnership to act together and amplify their voices in international fora. The Climate Vulnerable Forum (CVF) was established as a platform for cooperation and includes 55 countries, which are represented by their heads of state. The Vulnerable Group of Twenty (V20) comprises the finance ministers of the 55 members of the CVF working on economic responses and questions around climate finance (V20 2022).

However, members of the V20, which are predominantly small developing countries, have negligible formal decision-making power over how the IMF frames its policies around climate. When joining the IMF, each country is assigned a quota share, based on several factors that are meant to reflect its relative size within the global economy. The quota shares then determine the financial contribution of each member to the IMF as well as their voting power. In other words, economically smaller countries have relatively little voting power.

As the IMF continues to implement more detailed frameworks to operationalize the inclusion of climate issues in its operations, under its current governance structure, decisions will be made mostly by the historical large emitters. This point extends beyond climate issues: the countries that have the most decision-making power are wealthier, industrialized countries, which generally have the status of creditor which entails different priorities and interests than the countries that usually borrow from the IMF.

This (im)balance of power influences how the IMF operates, including how its mandate is interpreted. According to its Articles of Agreement, the purpose of the IMF is to "facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income" (IMF 2016b). The IMF is expected to make resources available to countries in need with "adequate safeguards" but "without resorting to measures destructive of national or international prosperity" (IMF 2016b). Many countries that have undergone IMF programs through the decades might question their alignment with those goals, particularly since the introduction of Structural Adjustment Programs (SAPs) that broadened conditionality in the 1980s, at the direction of the United States (Kentikelenis and Babb 2019).

Few countries have successfully moved up the income ladder since the era of SAPs, and those who have generally followed a different model than the one proposed by the IMF (Cherif and Hasanov

2019). Furthermore, beyond the questionable performance in terms of growth, austerity measures imposed by the IMF are linked to an increase in poverty and worsening of income inequality in program countries (Stubbs et al. 2021, Forster et al. 2019). The IMF's own metrics and evaluations concede its programs have a pattern of underestimating the negative impact of austerity measures, while overestimating the positive impact of their proposed structural reforms, making overly optimistic assumptions that fail to materialize, with a low rate of success (IMF 2019). Despite these shortcomings, and a series of high-profile failures of IMF programs, borrowing countries have little recourse on holding the IMF accountable.

The IMF's governance structure and reliance on quota shares to determine formal voting power play a decisive role in shaping these outcomes. In the current structure, the United States alone has a quota that enables it to veto major reforms, including any changes in quotas or voting power. Over the last decades, the sizes of quotas have not kept pace with financing needs, and the distribution of quotas in place has impacted the IMF crisis response. Quotas are directly linked to policies around borrowing limits from emergency facilities, the cost of loans and serve as the basis for the IMF distributing its reserve assets to supplement liquidity.

As the world faces overlapping crises, with an uncertain outlook and growing risks of widespread debt distress, the IMF has an important role to play within the multilateral system. Quotas are reviewed periodically by the IMF, with the 16th review currently ongoing (IMF 2021b). This process provides a timely opportunity for countries such as the United States, or other members of the Group of Seven (G7) who have stated their commitment to multilateralism, to act and prove that they can deliver on such a system that is both accountable to and meets the needs of all its members.

This working paper illustrates how the needs of climate vulnerable countries and developing countries more broadly are not prioritized within the IMF's current governance framework and quota distribution, with the IMF concentrating formal decision-making power in the hands of a handful of wealthy countries.

The working paper is structured as follows: the first section provides a more detailed overview of the IMF's governance, its quota structure and how countries are represented within decision-making processes. The second section provides concrete examples on how IMF quotas impact outcomes beyond voting power, illustrating the link between IMF quota size and the IMF's policies on lending limits and charging some borrowers extra fees. The third section discusses how quota shares determined the distribution of the historic allocation of $650 billion worth of Special Drawing Rights (SDRs) and why most of it was allocated to advanced economies. The fourth section takes a closer look at the relationship between climate vulnerable countries and the IMF and their underrepresentation in decisions that will most impact them.

THE IMF'S GOVERNANCE STRUCTURE: HOW COUNTRIES ARE REPRESENTED

The IMF is accountable to its shareholders, which are the governments of the 190 countries that are members of the IMF. The Board of Governors, where each country is represented, is the top decision-making structure and generally meets twice a year. Countries are represented on a permanent basis in Washington, D.C. at the Executive Board, which meets regularly.

According to the formal structure set forth in the Articles of Agreement, the IMF Managing Director is elected for five-year terms with a simple majority (IMF 2022a). In practice, a post-World War II "gentlemen's agreement" between Western European countries and the United States, still honored to this day, states that a United States citizen holds the position of World Bank president, and a

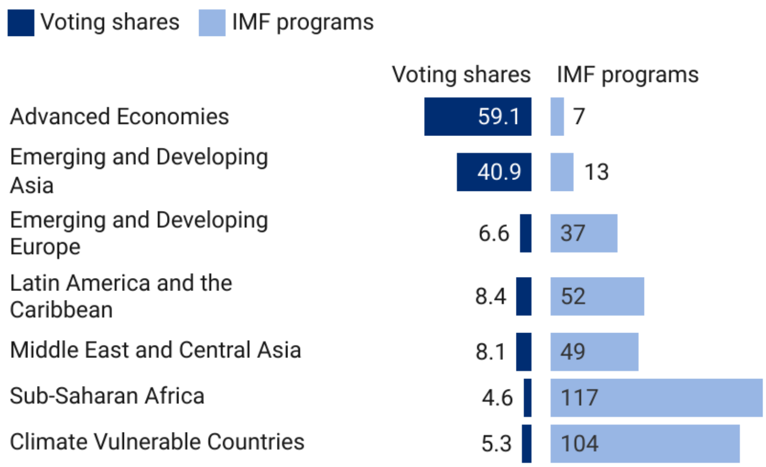
European the IMF MD position, with a representative of the United States as second in command (Barder 2016).

Most operational decisions require a simple majority of voting shares but certain changes, such as amendments to the articles of agreement, quota increases, distribution of voting shares and new allocations of SDRs require an 85 percent majority (IMF 2016b). The United States alone controls over 15 percent of votes since the IMF was established, which gives it de facto veto over important issues and reforms (IMF 2022b).

Voting power is directly linked to the size of countries' quotas, which means that low- and middle-income countries that are most likely to borrow from the IMF and be subject to its conditions have limited influence on the IMF's decisions. With the exception of emergency loans, IMF lending comes in the forms of programs that attach conditionality and require borrowers to align with policies proposed by the IMF.

Advanced economies with the majority of voting power determine the type of frameworks the IMF adopts for policy advice and what type of conditions are attached to IMF lending. The lopsided voting structure means that those designing and evaluating these programs and their results are not accountable to borrowing countries, or for that matter, the governments or people in those countries (Kentikelenis and Babb 2019).

Figure 1: Voting Shares at IMF and Number of Completed Programs



Source: Author's calculation, IMF 2022c.

Figure 1 illustrates the contrast between voting power and the number of completed IMF lending programs since 2002 for advanced economies and emerging and developing economies by region, as well as for the members of the V20.[1] In the last two decades, there have been only seven IMF programs in advanced economies out of a total of 275 IMF programs completed by countries since 2002 (IMF 2022c). Most programs are concentrated outside of advanced economies, with 117 in Sub-Saharan Africa.

[1] Of the 55 members of the V20, 54 are members countries of the IMF.

As shown in Figure 1, this imbalance further extends into how countries most at-risk from climate change, and least responsible for historical emissions, have formally almost no say in how the IMF is incorporating climate issues into its operations.

Member countries contribute to the resources of the IMF based on their assigned quota share, which is derived from a formula meant to reflect their relative size in the global economy. This also determines their voting power within the IMF. Each country is assigned an equal number of basic votes, with additional voting power based on the size of quotas.

The largest shareholder is the United States, with 17.4 percent of all quota shares, followed by Japan with 6.5 percent, while a majority of member countries have individual quotas of less that 0.1 percent (IMF 2022b). Quotas undergo regular reviews, at the end of which members decide on whether to make any changes in their size or distribution.

The last increase in quotas and changes in distribution, formula and voting shares was adopted during the 14th review in 2010. This increased the voting shares of some developing and emerging countries, but overall advanced economies kept their majority (Weisbrot and Johnston 2016).

The 15th review of quotas concluded in December 2020 without any changes adopted and instructed the Executive Board to revisit the adequacy of quotas and its guiding formula in the upcoming review. The 16th general review of both the size and distribution of quotas is currently underway and is scheduled to be finalized by December 2023 (IMF 2021b).

As part of the agreement reached to make changes to the quotas in 2010, the formula for voting shares was modified to increase the number of the "basic votes" which are evenly distributed to all members. The number of basic votes was tripled but still only amounts to 5.5 percent of all votes, with the rest determined by each country's quota. Nonetheless, this change shifted some additional voting power to developing countries; notably, China became the Fund's third-largest shareholder (IMF 2021b).

The current formula for calculating quotas considers several factors: the size of an economy, its openness, economic variability and holdings of international reserves. Each variable is assigned a different weight, and the gross domestic product (GDP) variable blends both market exchange values and purchasing parity rates (IMF 2022b). Given its effective veto power, any changes to the quota formula must be approved by the United States. If quotas were redistributed based on the formula approved during the last increase, the United States would lose its veto, and China would double its current quota (Mohan 2021).

The current distribution of quota and voting shares, in contrast to relative size of the economy and population share of countries, is illustrated in Table 1. Following the increase in basic votes, emerging and developing countries have 41 percent of votes and 38.6 percent of quota shares. The quota formula results in a distribution of 61.4 percent of shares to advanced economies, despite only accounting for 40.5 percent of global GDP when adjusted for purchasing power parity.

As shown in Table 1, despite only having 13.7 percent of the world's population, advanced economies have 59.1 percent of the votes at the IMF. By contrast, Sub-Saharan Africa, with a slightly larger population, holds 4.6 percent of the voting power. Emerging and developing Asia is the most underrepresented region, both in terms of its share in the global economy, as well as the share of population living there. Climate vulnerable countries have almost 17 percent of the world's population but 5.3 percent of votes at the IMF.

Table 1: IMF Quotas and Voting Shares Compared to Share of Population and Global Economy

	Quotas	Votes	Population	GDP (PPP adjusted)
Advanced Economies	61.4%	59.1%	13.7%	40.5%
Emerging and Developing Economies	38.6%	40.9%	86.3%	57.7%
Emerging and Developing Asia	13.0%	13.1%	48.5%	33.0%
Emerging and Developing Europe	6.6%	6.7%	5.0%	7.0%
Latin America and the Caribbean	7.9%	8.4%	8.0%	7.2%
Middle East and Central Asia	7.6%	8.1%	11.0%	7.3%
Sub-Saharan Africa	3.5%	4.6%	13.8%	3.1%
Climate Vulnerable Countries	4.0%	5.3%	16.7%	5.3%

Source: Author's calculation, IMF 2022d, IMF 2021b.

Note: Population and share of world GDP are based on 2020 values, GDP data based on rounded values and missing data for Afghanistan, Lebanon, Syria, Ukraine. Database.

The Group of 20 (G20) is an important venue for discussion and decisions related to changes in IMF policies, with its members holding a majority of IMF shares. In the past year, geopolitical tensions have impacted the ability of the G20 to make decisions. At the G20 Finance Minister meeting in April 2022, members of the G7 walked out of the meeting in protest of Russia's war in Ukraine (Horsley 2022). The voting shares and populations living in G20 and G7 member countries are shown in Figure 2.

G20 Finance Ministers and Central Bank Governors have about 78 percent of voting shares together and are home to most of the world population. While the G20 format still excludes many countries, it is more representative than the G7. Members of the G7 have 41 percent of voting power but only 10 percent of the world population.

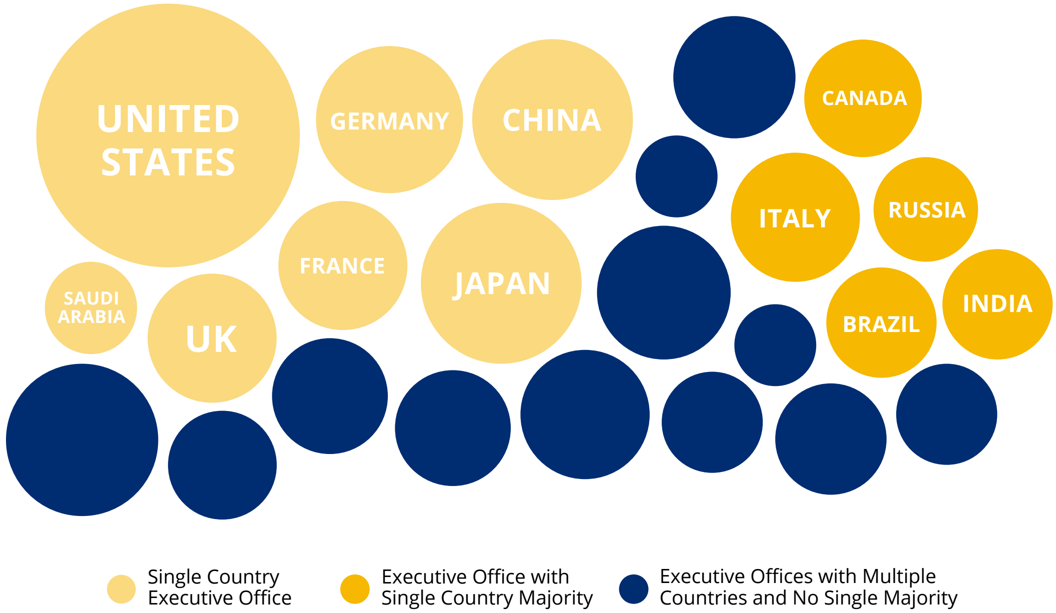
Figure 2: G20 and G7 Share of Votes and Population

Source: Author's calculation, IMF 2022d, IMF 2021b, US Treasury 2022.
Note: G20 figures include all members of the European Union.

The link between voting power and quota subscriptions is based on the idea that those who contribute more resources should decide how they are used. This means that, effectively, the IMF operates in the interest of its largest shareholders rather than for the global good, which raises doubt on the legitimacy and credibility of the IMF (Mohan 2021). The IMF legal status as a preferred creditor already protects it from non-repayment and safeguards the contributions of members without the need to give some countries all the decision-making power (Stiglitz and Gallagher 2022).

Each member country is represented on the IMF Board of Governors, which meets twice a year under normal circumstances, and through Washington-based representatives on the Executive Board, which oversees most operations, including the approval of loans and policy frameworks. At the Executive Board, the 190 member countries are divided into 24 Executive Director offices.[2]

Figure 3: IMF Executive Board Offices



Source: Author's calculation, IMF 2022g.

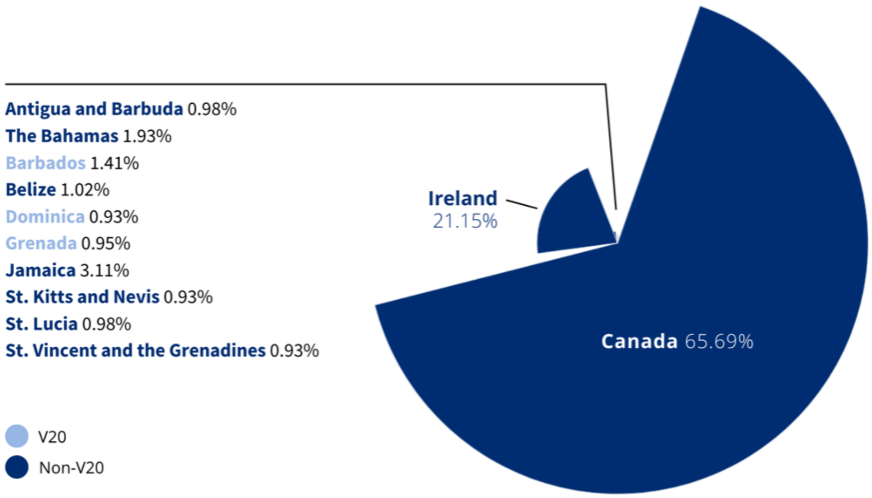
Figure 3 shows the 24 Executive Board offices representing all 190 IMF members, with the weighted size of the circles representing the voting power held within each office. Half of the total offices for all 190 member countries are controlled by one country, with some only representing a single country, and others where one member alone holds a majority of votes within that group. Each office

[2] Only 189 members are assigned an office, with no current representation for Venezuela (IMF 2022b).

represents anywhere from one to 23 different countries. A full breakdown of countries and voting shares in each Executive Board office is included in Annex 1.

For many emerging and developing countries, their voting power is weaker on the Executive Board based on the makeup of the Executive Director office they are a part of. To illustrate this point, Figure 4 offers an example for the composition of one office, which includes a total of 12 countries and has 3.4 percent of all voting shares.

Figure 4: Example of Composition of IMF Executive Director Office



Source: Author's calculation, IMF 2022b.

As seen in Figure 4, the weight of Canada alone is sufficient for it to have a majority internally. Thus, within the Executive Board, Canada can effectively control and decide how the voting power allocated to all countries within that group is used. This amplifies the voice of Canada at the Board, while drowning out the voices of the other countries in that office.

QUOTAS, BORROWING LIMITS AND THE IMF'S SURCHARGE POLICY

As mentioned above, the quotas of member countries at the IMF are not only the determining factor for how decision-making power is distributed but also affect policies beyond voting power, including access to and cost of credit.

Each member country contributes the equivalent of its quota to the IMF, with these quota-based subscriptions meant to serve as the primary source of funding for the IMF. Quota share further determines access limits and fees for borrowing countries.

Since the IMF was established, 15 reviews of quotas have been concluded, out of which nine resulted in an increase of quota shares. The largest increase doubled quota shares and was agreed upon in 2010 and went into effect in 2016. It is one of only two quota share increases in the last 30 years (IMF2021b). Compared to 1980, the size of the world economy in 2022 is 9.2 times larger, and 12 times larger when adjusted for purchasing power parity, while IMF quotas are only 6.4 times larger.[3]

[3] Calculations based on IMF WEO 2022 Database.

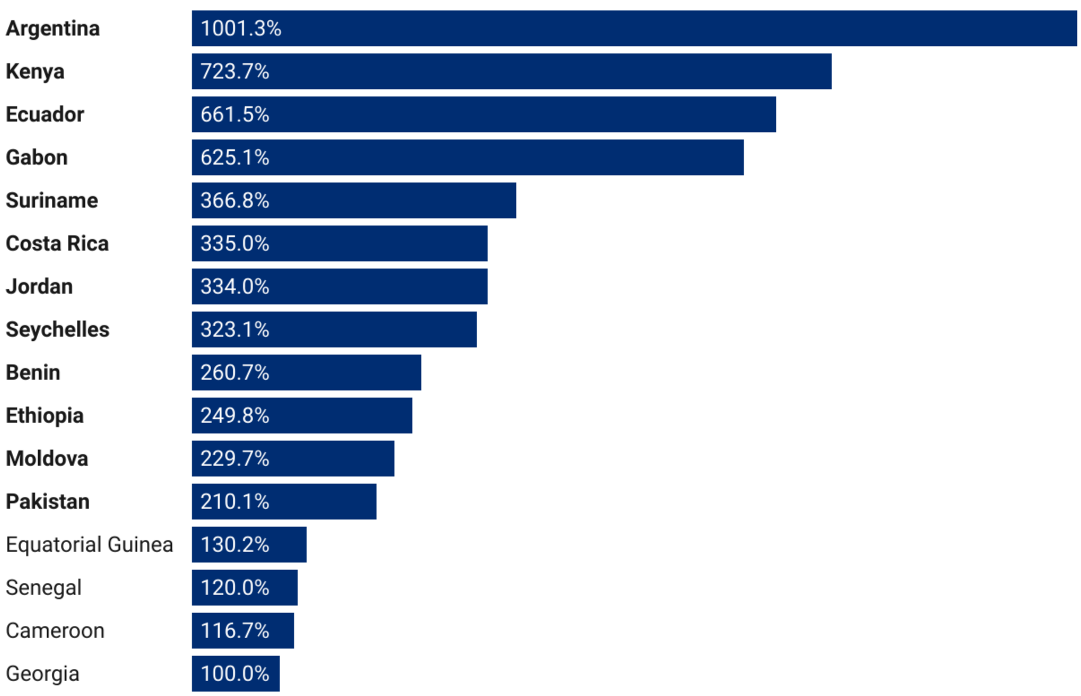
IMF quotas add up to 477 billion SDRs (roughly $637 billion). To backstop the resources from IMF quota subscriptions, the IMF has made secured additional funding and credit lines from some of its larger advanced economy members, amounting to 500 billion SDRs (IMF 2021c). These additional resources are overall larger than the total quota subscriptions, and those making the funding available do not receive additional voting power.

While the resources of the IMF have increased beyond quota subscriptions, the cost and limits for countries accessing funds from the IMF continue to be based on their quotas. Access limits and payment of surcharges – additional fees on top of interest rates – are determined by quota shares (IMF 2021b). This means that despite the extraordinary circumstances that the global economy finds itself in, a growing number of countries are due to pay these fees that negatively impact their ability to recover (Stiglitz and Gallagher 2022).

The IMF charges penalties to countries that borrow above 187.5 percent of their quota through the main lending account (IMF 2020). A small number of countries that borrow through a separate concessional facility are excluded from these fees (IMF 2016). These charges are meant to act as a disincentive from excessive use of IMF credit. However, IMF loans already carry conditionality, and the IMF is the lender of last resort for countries that have lost access to other sources (Stiglitz and Gallagher 2022).

These charges are pro-cyclical and extract additional resources from countries most in need, with an adverse impact on their ability to recover (Stiglitz and Gallagher 2022). At the onset of the pandemic, the IMF estimated its borrowers would pay close to $4 billion in surcharge fees between 2020-2022, and another $1.2 billion in 2023 (IMF 2020). If more countries turn to the IMF in what is a deteriorating global context, those estimates are likely to increase.

Figure 5: Current IMF Loan Agreements as Share of Quota, as of July 31st 2022



Source: Author's calculation, IMF 2022b, 2022f.

Figure 5 shows all current IMF loan agreements from the General Resources Account (GRA) as a share of each borrower's quota. Of 16 active loans, 12 countries have agreed to borrow amounts that are above the threshold for paying surcharges. With a majority of countries requiring loans that surpass that threshold, it raises the question of adequacy of quotas and borrowing access limits. It also means that most IMF borrowers will be negatively impacted by this policy.

Quotas also determine access limits for IMF emergency lending, which was the cornerstone of the IMF's pandemic response. The Rapid Credit Facility (RCF) and Rapid Credit Instrument (RCI) provide rapid non-conditional loans for countries that face an urgent financing need due to an external shock or natural disaster. The access to these facilities is capped at 50 percent of quota for exogenous shocks and 80 percent for natural disasters. A temporary increase on cumulative access is in place until June 2023 due to the pandemic, which means total loans from these instruments are currently capped at 150 percent and 183.3 percent of quota, respectively (IMF 2020b).

As part of the IMF's response, access limits to emergency loans were temporarily increased from 50 percent to 100 percent of quota (IMF 2020b). During this period, 68 countries borrowed funds through these facilities, of which 52 made use of the expanded access limit.[4] However, despite economic uncertainty persisting, under current limits, most countries would not be able to access these facilities until they repay their previous loans.

The additional funding resources obtained by the IMF that back up its lending capacity, which double the IMF's resources, signal that the IMF is aware that its current quota contributions are not sufficient to meet the needs and secure its role as lender of last resort. However, these funds are not accounted for when assessing access limits for borrowing from the IMF.

IMF QUOTAS AND SPECIAL DRAWING RIGHTS ALLOCATIONS

SDRs, used by the IMF as its unit of account, are an international reserve asset, redeemable against one of the main currencies in the IMF. All IMF members participate in the SDR department and new SDR allocations can be made by the IMF to meet global liquidity needs if at least 85 percent of members support such an allocation (IMF 2022e). Following the IMF's Articles of Agreement, quota shares are used as a basis to distribute any new allocations of SDRs (IMF 2016b).

The SDRs allocated to a country count as international reserves and can be exchanged by a member that demonstrate need for one of the currencies in the basket defining its value: the US dollar, Euro, Chinese Yuan, Japanese Yen and the British Pound (IMF2022e). Alternatively, SDRs can be used to supplement fiscal budgets or for repayments and transactions with the IMF (Cashman et al. 2022).

The IMF's historic 2021 allocation of $650 billion worth of SDRs, the largest in history, was distributed amongst members according to quota shares. Despite advanced economies having access to ample liquidity through their own central banks, they received most of the allocation. The amount received by the rest of the world still amounted to the largest form of debt-free support, highlighting the asymmetries in terms of access to the Global Financial Safety Net (Cashman et al. 2022).

Figure 6 shows the distribution of the 2021 SDR allocation by income groups, as well as aggregates that exclude China from the emerging and developing economies group since its currency is part of the basket. Advanced economies and China received about two-thirds of the allocation worth about $440 billion dollars, while $210 billion went to emerging and developing economies. Reflecting the

[4] Calculation based IMF 2022g.

relatively small quota share, only about $23 million worth of SDRs were allocated to Sub-Saharan Africa. The 54 IMF members of the V20 together received just short of $26 billion.[5]

Figure 6: Distribution of 2021 SDR Allocation

Broad IMF Categorization	IMF Categorization	Approximate Share of 2021 Allocation (USD millions)	Percent of 2021 Allocation
World		***$650,000***	***100.0%***
Advanced Economies	Advanced Economies	$399,241	61.4%
Emerging and Developing Economies	Emerging and Developing Economies, total	$250,914	38.6%
	Emerging and Developing Asia	$84,361	13.0%
	Latin America and the Caribbean	$51,505	7.9%
	Middle East and Central Asia	$49,484	7.6%
	Emerging and Developing Europe	$42,634	6.6%
	Sub-Saharan Africa	$22,931	3.5%
Special Aggregates	Advanced Economies, plus China	$440,853	67.8%
	Emerging and Developing Economies, total excluding China	$209,302	32.2%
	Emerging and Developing Asia, excluding China	$42,749	6.6%
	Low-income countries	$21,508	3.3%
	Vulnerable 20 Group	$25,883	4.0%

Source: Reproduced from Cashman et al. 2022 and author's calculation.

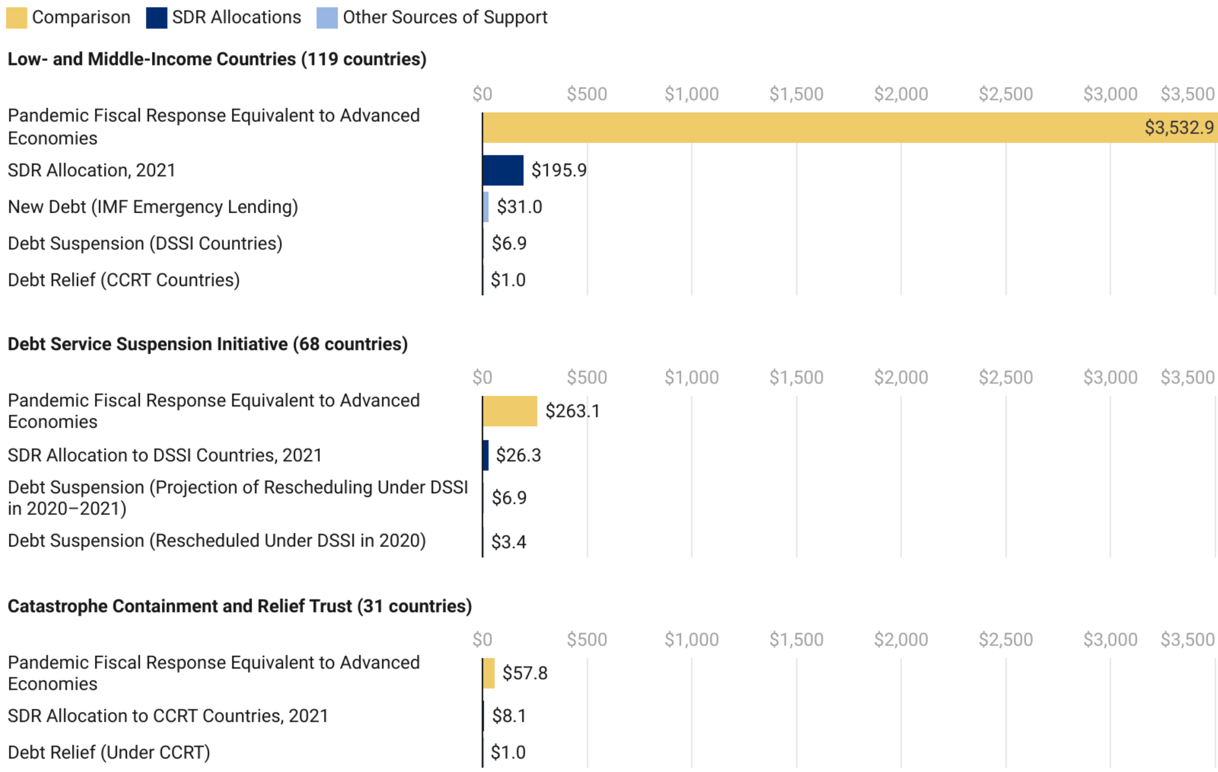
An evaluation of the use of SDRs from this allocation found that in the first year, 105 countries made use of their SDRs. Greece was the only advanced economy that used its SDRs towards a debt repayment to the IMF. Countries in Sub-Saharan Africa used over 90 percent of their allocation, with all emerging and developing countries using over half of theirs, highlighting the need for additional liquidity amongst this group (Cashman and Arauz 2022).

Figure 7 shows a comparison of the SDRs received by sub-groups of low- and middle-income countries and some of the other multilateral relief initiatives as part of the pandemic response compared to what support at the same scale as that of advanced economies in terms of percent of GDP would have looked like. As illustrated, even if the SDR allocation was the largest form of support, it still did not come close to closing the gap in support measures with advanced economies.

Advanced economies pledged to remedy the asymmetry in the distribution of the SDR allocation through re-channeling parts of their allocations towards IMF trust funds that can support additional lending. However, most of the proposed mechanisms for re-distributing parts of the allocation do not maintain some of the characteristics that make SDRs desirable, such as a low cost of use, not

5 Palestine is the 55th member of the V20 and not a member of the IMF.

Figure 7: SDR Allocations and Other Forms of Global Support



Source: Reproduced from Cashman et al. 2022.

adding to debt burdens even when used, no conditionality and ownership over how to use them (Bradlow and Gallagher 2021).

The way in which SDR allocations are distributed resulted in over $400 billion worth of unused SDRs, a claim increasingly used to argue against the need for a new allocation. Given the high uptake and use of the allocation from emerging and developing countries, and the fact that unused SDRs of advanced economies are a possible claim on money that does not waste resources, there is a strong case that, in practice, the allocation is well-targeted in terms of who will make use of it (Merling and Gallagher 2022).

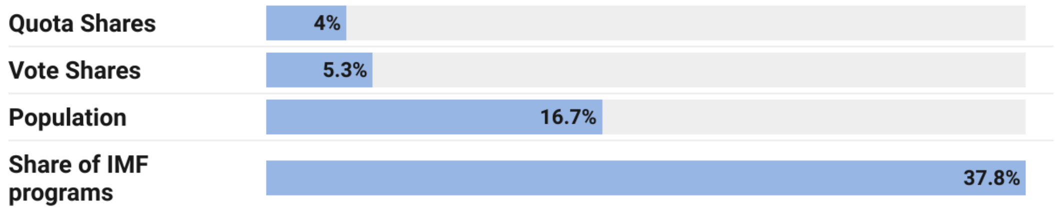
By allocating SDRs on quota shares, the asymmetries in quotas add additional hurdles for the already-limited avenues for emerging and developing countries to receive additional support.

CLIMATE VULNERABLE COUNTRIES AND THE IMF

The urgency to address climate change and its macro-critical implications are well understood by the IMF. The IMF adopted a formal Strategy to Help Members Address Climate Change Related Policy Challenges in July 2021 and is in the process of mainstreaming climate within its operations. The strategy acknowledges that developing countries least responsible for historical emissions are amongst the most vulnerable to climate risks but proposes no formal process to engage these countries in the process of designing policies to implement (IMF 2021a).

The V20 has almost no voice in decision-making at the IMF. As shown in Figure 8, over one-third of all IMF conditional lending programs over the last two decades were concentrated in these countries, and the IMF has played a key role in shaping their macroeconomic policies. Yet, many of these countries are at high risk of debt distress, lack fiscal space and are not making needed investment in climate adaptation (Chamon et al. 2022). This raises questions over the ability of decision-makers at the IMF to understand the needs of climate vulnerable countries.

Figure 8: The V20 and the IMF



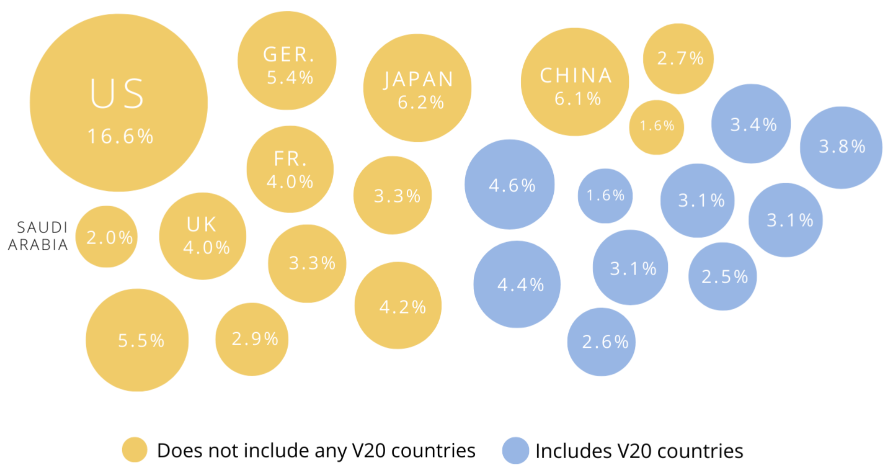
Source: Author's calculation.

Note: Population is based on 2020 values from the IMF WEO Database. Share of programs refers to all completed programs since 2002.

Figure 8 shows the quota and voting shares of the V20 in contrast to its population, as well as the concentration of IMF programs in V20 countries. The V20 has almost 17 percent of the world population (close to 1.3 billion people) but holds about 5 percent of voting power at the IMF. However, in the last 20 years, over one-third of all IMF programs have been in V20 countries.

The voting power of the V20 is further diluted within the IMF Executive Board. The 54 members of the V20 are spread throughout ten of the 24 Executive Board offices, as shown in Figure 9.

Figure 9: Executive Board Offices with V20 Members

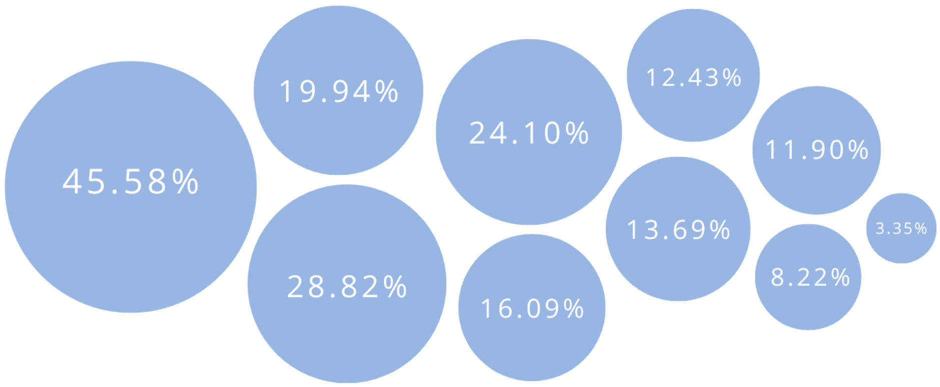


Source: Author's calculation.

The total votes of offices with some V20 presence amounts to 31.8 percent.[6] However, V20 members do not have a majority of votes within any of the offices they are part of.

[6] Calculation based on IMF 2021b.

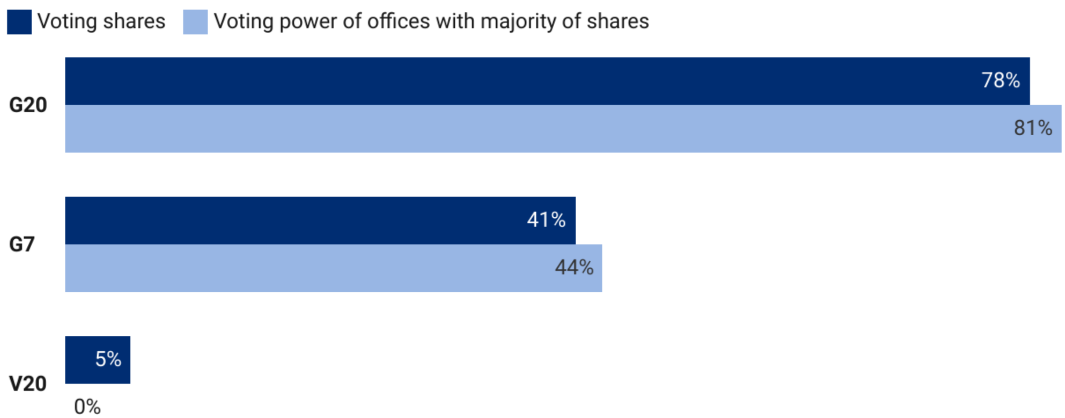
Figure 10: Weight of V20 Countries within Offices



Source: Author's calculation.

Figure 10 shows the weight of V20 countries in the ten offices of which their members are part of. There are no offices where they make up the majority and only one where they come close. For example, in the constituency comprising 23 Francophone African countries, members of the V20 account for 45.6 percent of the votes. By contrast, in the Canadian-dominated office, climate vulnerable countries command a mere 3.3 percent of the voting share.

Figure 11: Voting Power on Executive Board



Source: Author's calculation.
Note: G20 numbers include all European Union countries.

For the V20 at the IMF Executive Board, they effectively have no voting power; by contrast, voting power increases for the G7 and G20 based on Executive Board distribution, as illustrated in Figure 11.

This lack of representation of climate vulnerable countries in decision-making processes casts doubt over how any climate strategy from the IMF and its implementation can properly draw from the experiences of these countries, address their concerns and meet their needs.

CONCLUSION

Global rules and structures should be calibrated in a manner that gives all countries the same flexibilities and space to pursue developmental policies. A worsening global economic context, a looming debt crisis in emerging and developing countries and an increasing urgency to act on both climate and sustainable development goals highlight the need for a multilateral system that can meet the needs of all countries.

When members of the G7 talk about the importance of a rule-based multilateral system, they fail to acknowledge that they are favored by the current rules. Advanced economies do not face the same constraints they impose on other countries within the IMF, and their ability to respond to the pandemic and provide record stimulus serves as a stark reminder of the asymmetries within the international financial system (IMF 2021d).

Meaningful reform of the IMF's quota structure is a necessary step towards building an inclusive multilateral system. Under its current structure, countries and people most impacted by the policies of the IMF have the least say in how policies are designed and have little recourse to hold the IMF accountable.

The governance structure of the IMF concentrates formal power within the hands of a few wealthy countries, which effectively means IMF staff and leadership respond to the representatives of these countries. The countries that are most directly impacted by the policies of the IMF and most likely to seek assistance from the IMF have little say in the design of those programs and the policies imposed onto their people.

The IMF's quota structure also has implications beyond voting power: it negatively impacts countries' access to funds and lending costs while furthering asymmetries in access to liquidity because it is the basis on which the IMF distributes newly created reserve assets.

Within the IMF's current governance structure, decisions on establishing the frameworks and tools for how it will incorporate climate-related risks into its operations are made by the countries that have historically contributed the largest emissions. This gives no say to the countries that are least responsible for causing climate change and are often most at risk.

The ongoing review of quotas offers an opportunity to reform the international financial architecture to meet the challenges of the 21st century by recalibrating the balance of power and providing a basis for reshaping global rules (Gallagher and Kozul-Wright 2021). As a number of alternatives sources of lending emerged in recent years, these reforms are crucial for the IMF to maintain both its legitimacy and relevance.

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ANNEX 1

Figure 1A: Vote Share and Composition for Each IMF Executive Director Office

Office #	Vote Shares	Countries
1	16.5%	United States
2	6.1%	Japan
3	6.1%	China
4	5.5%	Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, North Macedonia, Romania, Ukraine
5	5.3%	Germany
6	4.5%	Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain
7	4.3%	Brunei Darussalam, Cambodia, Fiji, Republic of, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, Vietnam
8	4.1%	Albania ,Greece, Italy, Malta, Portugal, San Marino
9	4.0%	France
10	4.0%	United Kingdom
11	3.8%	Australia, Kiribati, Korea, Marshall Islands, Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Vanuatu
12	3.4%	Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
13	3.3%	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
14	3.2%	Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, Turkey
15	3.1%	Angola, Botswana, Burundi, Eritrea , Eswatini , Ethiopia, Gambia, Kenya, Lesotho ,Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, Zimbabwe
16	3.1%	Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, Trinidad and Tobago
17	3.0%	Bangladesh, Bhutan, India, Sri Lanka
18	2.9%	Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, Uzbekistan
19	2.7%	Russian Federation, Syrian Arab Republic
20	2.6%	Afghanistan, Algeria, Ghana, Iran, Libya, Morocco, Pakistan, Tunisia
21	2.5%	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, Yemen
22	2.0%	Saudi Arabia
23	1.6%	Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Republic of Congo, Democratic Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo
24	1.6%	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

Source: IMF 2022g.

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