



## Review of IMF Role

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### Why in News

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Recently, in the backdrop of the 2021 annual meetings of the **World Bank Group** and the **International Monetary Fund (IMF)**, leading experts have suggested the need to review the role of the IMF.

- With a continuing trend of **emerging markets increasing their share in global output or GDP**, there is a need for review of the quota system.
- Apart from this, there is a **need for maintaining data integrity amid the World Bank discontinuing its Ease of Doing Business reports**.
- The **IMF was set up along with the World Bank after the Second World War** to assist in the reconstruction of war-ravaged countries. The two organisations were agreed to be set up at a conference in Bretton Woods in the US. Hence, they are known as the **Bretton Woods twins**.

### Key Points

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## Need for IMF Reforms:

### Quota Reforms:

- The IMF's quota system was created to raise funds for loans.
- **Each IMF member country is assigned a quota, or contribution**, that reflects the country's relative size in the global economy. **Each member's quota also determines its relative voting power** as well as its **borrowing capacity**.
  - This makes **wealthy countries have more say** in the making and revision of rules.
  - This leads to the problem where **countries that grow economically have tended to become under-represented** as their voting power lags behind. For eg: **BRICS countries**.
- Quotas are **denominated in Special Drawing Rights (SDRs)**, the IMF's unit of account.
  - **SDR is a potential claim on the freely usable currencies of IMF members**. SDRs can be exchanged for these currencies.
- The IMF's Board of Governors **conducts general reviews of quotas at regular intervals** (no more than five years apart).

### Earlier Quota Reforms

- In 2010, the **IMF's Quota and Governance Reforms** were drafted; which finally **became effective in 2016**.
- These reforms **shifted more than 6% of the quota shares to emerging and developing countries** from the US and European countries.
- Under this, **India's voting rights increased by 0.3% from then 2.3% to 2.6%** and **China's voting rights increased by 2.2% from then 3.8% to 6%**.

Presently, **India holds 2.75% of SDR quota, and 2.63% of votes** in the IMF.

### Multiple roles of quotas

| Resource Contributions  | Voting Power  | Access to Financing  | SDR Allocations   |
|---|---|--|---|
| Quotas determine the maximum amount of financial resources a member is obliged to provide to the IMF. | Quotas are a key determinant of the voting power in IMF decisions. Votes comprise one vote per SDR100,000 of quota plus basic votes (same for all members). | Quotas determine the maximum amount of financing a member can obtain from the IMF under normal access. | Quotas determine a member's share in a general allocation of SDRs.                    |
|                    |    |                     |  |

**Restructuring of the Article IV Consultations:** Under Article IV consultations, the **IMF holds bilateral discussions with its members usually every year** and its staff prepares a report.

Article IV consultation is the **most powerful instrument** and it needs to be restructured and sharpened to make it more useful by using the new technologies and access to public data.

## Proposed Reforms

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**Reforming Quota System:** The quota reform would reflect the changed economic realities, especially with regard to the increasing capabilities of the developing nations.

- For example, the quota of BRICS countries should increase and that of **European Union** Countries should decrease.
- Also, it is important that the new quota formula **give more weight to PPP GDP** to better reflect the true economic strength of emerging markets and developing economies.

## Purchasing Power Parity

- PPP is a popular metric used by macroeconomic analysis that **compares different countries' currencies through a "basket of goods"** approach.
- PPP allows for economists to compare economic productivity and standards of living between countries.
- Some countries adjust their Gross Domestic Product (GDP) figures to reflect PPP.
- **Helping Lower Income Countries:** The IMF should focus on lower income countries and support other developing countries' market funds raising activities, as its **Article IV consultation reports are utilised by credit rating agencies**, impacting the fund raising capacity of countries like India.

Most of the Asian countries including India can now raise funds on their own on the basis of strength of their **forex reserves**, and do not have to necessarily go to the IMF like in the past to tide of crisis.
- **Management Reforms:** The management system in the IMF should be modified.
  - In the IMF and World Bank group, there is an informal arrangement, that the **head of the IMF should be a European and the head of the World Bank should be an American.**
  - The time has come to reconsider this, and the IMF probably should really rethink it.

**Source: IE**