The International Monetary Fund's quotas – their function and influence

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In a world that has changed significantly in many aspects since the International Monetary Fund (IMF) was founded in 1944, it is natural to wonder whether the formal core of the IMF, its quota system regulating financial resources and influence, still has the relevance and function required to achieve the Fund's objectives. Both the quotas and voting rights reflect a distribution of power where the rich industrial nations hold the power within the IMF. This distribution of power has been closely tied to the organisation's operational function, of supplying liquidity, ever since the IMF was founded. The fact that potential financial contributor countries – creditors – have more influence than potential borrower countries is constantly justified within the framework of the quota system. The IMF's function has moved away from "liquidity assurance" towards supporting financial infrastructures. The Fund has concentrated the focus of its activity on preventing crises. Accordingly an increasing realisation has been attained that greater influence is necessary for developing countries in order to achieve the IMF's objectives.

The quota share system from an historical perspective

The quota shares determine the size of the IMF's financial base and are thus very important to the Fund's capacity to carry out its tasks.

The IMF's quota system is of vital importance to the organisation, both with regard to influence within the organisation and to operations. By operations here, we mean the build-up of a financial base, the members access to, and loans from currency reserves. The quotas determine the size of the IMF's financial base and are thus of vital importance to the Fund's capacity to carry out its tasks. When distributing quotas, the size of the quota is determined partly by a quota formula[1], and partly through a selective[2] assessment. The quota should relate to the member country's economic share of the world economy. This includes, in addition to the country's economic size, its share of world trade. Each member country is assigned a maximum financial undertaking, which the Fund can require, determined by the quota. The total of all of the quotas forms the financial base.[3] The quota also regulates the size of the liquidity to which each individual member country has access and how much the country can borrow if the need arises. In addition, the quota system also regulates the member countries' influence in the organisation, that is to say, the power structure. It is the quota expressed as a percentage that establishes the member country's voting share in the IMF's executive board, known as its representation.

Today, most people know the IMF as an organisation that lends money. The countries that currently borrow from the IMF are poor countries and developing countries, while rich industrial nations merely provide credit, i.e. contribute capital. Many are also aware that the IMF lends money to enable member countries to meet their payment obligations to other countries, in order to thereby promote international trade. The IMF's role has been debated considerably in the media and various independent groups have demanded far-reaching changes to the IMF's role and sometimes even a shelving of the IMF.

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The quota system itself and the objectives have remained largely the same as they were when the IMF was founded. With regard to the quota system, this is probably due to its capacity to adapt to changing circumstances. It may thus be worthwhile here to emphasise how the IMF has succeeded, with the aid of the quota system, in adapting its operations to the new conditions in the world economy. The background is briefly that at the end of the Second World War currency prices were uncertain and capital and foreign exchange markets were regulated. Today there is a fully functional global market that provides access to liquidity in the form of loans, or quite simply the opportunity to exchange currency at market prices. Industrial nations today have no shortage of access to liquidity.

[1] The quota formula is based on economic factors such as GDP, foreign trade and currency reserves. Over time, these factors have been given different values. The quota formula has thus varied over the years. In addition, the application of various quota formulas has at times been very complicated. The development of these quota formulas is described in "Financial Organization and Operations of the IMF".

[2] The selective assessment involves weighing up factors that are difficult or impossible to take into account in a quota formula. There is a description later in the text as to where in the process this assessment comes in.

[3] The financial resources base comprises the IMF's balance sheet and is called the General Resources Account (GRA).

Other important factors in the change process were decolonisation and the fall of the Soviet Union. The number of member countries has thereby increased from 45 when the Fund was founded to today's 183.

The objective of the IMF's operations is to promote the development of international trade by actively working to attain a stable international payment system.

The objective of the IMF's operations is regulated in its charter, known as the Articles for Agreement. This objective is to promote the development of international trade by actively working to attain a stable international payment system. However, it is clear that today the operations do not strictly adhere to what ought, on the basis of this objective, to be its main function. The IMF has pursued lending operations to poor countries since the 1970s, with other purposes than to stabilise the payment system.[4] Similarly, there is probably a limit to when loans to emerging market economies can be regarded more as aid than as promoting a stable payment system.

Bearing in mind the economic changes that have occurred globally since 1944, it is natural to more closely analyse the relevance and function of the quota system, as it still retains its significance for the purely operational functions and for influence within the organisation.

Gradual adaptation of operations

Today the IMF mainly grants loans to member countries that cannot obtain loans on the free capital market.

The original purpose when the IMF was founded was to supply liquidity to member countries in order to stimulate cross-border trade. The price of one currency, the US dollar, was secured by linking the dollar to the gold index. All member countries' currencies could be exchanged for gold at a fixed price in the IMF's currency reserve. As we now have well-functioning foreign exchange and capital markets, one may wonder what role the IMF can play today. The answer is that the IMF has in practice taken on a new role. In its operational activities loans are mainly granted to member countries that are not considered creditworthy and thus cannot obtain loans on the free capital markets. The price of the IMF's loans is always set administratively, based on the interest rate situation for the currencies

[4] The lending operations lie outside of the financial resources base regulated by the quota system. The IMF formed the Trust Fund in 1976 from financial resources generated through the auction of part of the gold reserve during 1976-1980. Profits from direct sales of gold, as well as invested funds were placed in this Trust Fund. The Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) are lending facilities connected to this fund. The Poverty Reduction and Growth Facility (PRGF) is a facility for soft lending and for the debt relief initiative.

most important in payments in the world today. The interest rate is set below the market rate.

To understand the role of the IMF today, it is worth taking a closer look at how the Fund's operational activities have interacted over time with changes in the outside world, which basically means looking at the dynamism of the quota system. Some prominent economists on both sides of the Atlantic saw that the way forward for rebuilding European economies was through international trade and access to liquidity. However, this needed to be arranged on an organisational basis. Even before the Second World War, during the depression in the 1930s, foreign exchange systems and payment systems had broken down, which greatly depleted both trade and financing across national boundaries. The formulation of the IMF's objectives was based on the ideas of Harry Dexter White and John Maynard Keynes'[5], who in turn based their proposals on a conviction of the necessity of international monetary co-operation to avoid further breakdowns in the international payment system.

The way forward for the reconstruction of Europe's economies following the war was through international trade and access to liquidity.

The objectives were formulated and operations designed with the aim of maintaining a stable monetary system through providing member countries with an assurance that they could finance temporary current account deficits. A central element in the framework of the IMF's operations was thus to create opportunities for the countries to finance their current account deficits and correspondingly to deposit surpluses to be able to maintain the established exchange rate. This in itself assumed a permanent, continuous co-operation to establish joint game-rules for payments between countries. The framework for the IMF's operations was clear and well defined. Even before the Bretton Woods conference, economists from primarily the USA and the UK had analysed technical issues, such as quota allocation, gold contributions, access to the Fund's resources, allocation of votes and management.

A stable monetary system was to be maintained through an assurance to the member countries that they could finance temporary current account deficits.

The clear definition of the IMF's operations also provided scope for the respective member countries to act freely within the guidelines established in the

[5] White, who was employed at the US Treasury, began writing "the White Plan" back in 1940. Keynes began writing "the Keynes plan" in 1941. Both contributions came to have great significance for the shaping of both the IMF and the World Bank.

IMF's Articles of Agreement. It was only on the issue of exchange rates that member countries were bound to make decisions in consultation with the IMF: The member countries could thus continue to conduct their own fiscal policy and monetary policy to attain domestic objectives, such as full employment. The alternative would have been an international organisation with strict regulations for each respective nation. However, it was very important for the countries on the victorious side of the Second World War that the countries joining the IMF should retain their national sovereignty.

Unstable currency prices were one reason for the liquidity shortage among member countries.

The victorious nations were very motivated to co-operate on the prices of currencies, as building up production once again required correcting the large imbalances with regard to production capacity. Uncertain currency prices were one reason for the liquidity shortage among the member countries, who at that point numbered only 45.[6] The idea was that a focus on stable exchange rates for access to international trade would counteract import and payment restrictions as well as competitive devaluation.

The IMF as an economic co-operation has met with setbacks over the years when individual countries' short-term interests have come into conflict with the overall conformist ideas for maintaining both stable exchange rates and payment connections that are of benefit to all in a long-term perspective. Thus, the well-defined framework for the IMF's operations with regard to the financial base and supplying of liquidity was constantly challenged to adapt its operational tasks.

The financial base was built up by the member countries paying 25 per cent of their quota in gold or dollars.

The foundation for the IMF's operations is its financial base. This was built up by the member countries paying 25 per cent of their quotas in gold or dollars. The regulations for access to liquidity were then, as they are now, that the IMF supplies currency by allowing a country in need of currency to utilise the currency it has deposited with the IMF. No special request to the IMF is necessary for amounts corresponding to up to 25 per cent of the country's quota, as 25 per cent of the IMF's member countries' total quotas is invested directly among the Fund's assets. The remaining 75 per cent of the country's quota is held in the country's own curren-

[6] Australia, Belgium, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Cuba, Czechoslovakia, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, France, Greece, Guatemala, Haiti, Honduras, Iceland, India, Iraq, Iran, Liberia, Luxembourg, Mexico, the Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, the Philippines, Poland, the Soviet Union, South Africa, the UK, Uruguay, the USA, Venezuela and Yugoslavia.

cy – a form of committed credit line to the IMF. This constitutes the remaining obligation fulfilled by the member country in contributing its currency. As the need for reserves increased, opportunities were introduced for member countries to buy currency in excessive of 25 per cent of their quota in special circumstances, but only after consideration and on special terms. This type of arrangement is called a loan facility. The first facility was introduced back in 1952 and was called a "stand-by arrangement" (SBA). Such arrangements meant that the IMF had to draw on its committed credit line in the currency in demand's currency tranche.

The role of the USA, with a large quota fully convertible to gold, made the dollar the most important reserve currency.

The operational support was designed right from the start of the IMF so that there was an opportunity for member countries with non-convertible currencies to exchange them for convertible currencies in the Fund at a fixed price. The anchor for the fixed price in the Bretton Woods system was the fixed value of the US dollar against gold, with a guaranteed redemption against gold. The value of other currencies was linked either directly to gold, or indirectly to the dollar. At the beginning of the 1950s, the USA's share of the world's gold reserves amounted to 70 per cent. The role of the USA, with a large quota and thereby a large contribution with its reserve tranche, in those days fully convertible to gold, made the dollar the most important reserve currency.

During the greater part of the IMF's first decade, only the US dollar and the Canadian dollar were convertible.

As there was such a great need for financing of the reconstruction work after the war, a shortage of dollars arose relatively soon. When trade took off, it grew more rapidly than the supply of currency. The explanation for this was the shortage of convertible currency. One way of solving the liquidity shortage in cross-border trading was for the countries to apply different exchange rates for their currency, what were known as multiple rates. This type of action was directly counter to the IMF's aim of stable, uniform exchange rates. Initially, it was only the Latin American countries that applied this technique, but as the liquidity shortage increased, countries in western Europe also began to apply multiple rates, albeit for different reasons. The latter category experienced dire straits with their payments to and from countries without convertible currencies. During the latter part of the IMF's first decade, it was only the US and Canadian dollars that were convertible. This resulted in discriminatory pricing, which created a deficit in the balance of payments and thus influenced the exchange rates of affected countries.

When the post-war reconstruction was almost complete and production had returned to a relative balance between the larger economies and Europe, there followed a phase of expansion in international trade. The IMF called on countries with balance of trade problems to draw on the Fund's currency reserves, to prevent them from introducing restrictions once again. Preparations began for an increase in the quotas[7] to raise the level of the IMF's currency reserve.

A number of the member countries shouldered their responsibility and announced that their currencies had become convertible.

A number of the member countries shouldered their responsibility and announced that their currencies had become convertible.[8] This reduced the opportunity for these countries to discriminate against developing economies. It would have been common practice to set a higher price on the country's own currency when trading with developing countries. Later on, convertibility was regulated within the framework of the IMF and Article VIII. On top of this came the Basel Agreement in 1961[9], with the aim of limiting the rapidly mobile capital that had arisen.

In the mid-1960s the need for hard currency became even more tangible, as access to liquidity was far from adequate.

In the mid-1960s the need for what is termed hard currency became even more tangible, as access to liquidity was far from adequate, either for industry or for developing countries. Restrictions on long-term financing, such as direct investment, were used increasingly by member countries. However, they did realise the advantages of free short-term capital flows. Here, there arose a dividing line between industrial nations and developing countries. The developing countries gradually moved over to various types of restrictions with regard to trade and capital flows across borders when balance of payment problems arose and their reserves were not sufficient. Ten years after the stand-by arrangement, the Compensatory and Contingency Financing Facility was launched. This facility gave a member country needing currency reserves and exceeding 100 per cent of its quota the opportunity to borrow currency, short-term, from the IMF. The Fund allowed this type of credit after examination of the country's actual balance of payments and an assessment of the future development of the balance of payments. This extended the Fund's task from ensuring liquidity to redistributing liquidity.

[7] The increase in the quotas was implemented in 1959.

[8] Austria, Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, the UK and West Germany accepted in 1958 that their respective currencies could be exchanged for gold and dollars by other member countries. On the other hand, they could not be used for "repurchase" in the Fund, but the need for drawing on the Fund's currency reserve declined. Additions were later made to Article VIII, including a decree on statistical data on the nation's economic status for the Fund's assessment if deviations from the paragraph were requested or made.

[9] Stronger co-operation between central banks on maintaining a broad foreign currency reserve and not immediately exchanging less attractive currencies for gold or dollars.

The granting of loans in excess of the country's own total quota provided an opportunity for the redistribution of liquidity among member countries. In principle, each country's reserves or currency not being used for its own requirements could be lent to another country experiencing temporary problems with its balance of payments and not covered through its own currency reserve in the IMF. Here, the shaping of the quotas has significance, as the contribution of reserves corresponds to the economic size of the respective country and its share of international trade.[10]

To enable the Fund to retain its role as redistributor of liquidity, it required replenishment of various currencies in its reserves.

To enable the Fund to retain its role as redistributor of liquidity, it now required replenishment of various currencies in its reserves following on from the currencies determined to be convertible. As an increase in the quotas would strain the countries' own currency reserves, a departure from this method was made in 1961. This involved the creation of the General Arrangements to Borrow (GAB)[11], in which the larger industrial nations were asked to participate with their respective currencies outside of the regular financing, that is to say, in a separate loan arrangement. This was the foundation for the Group of Ten (G10), which built up a special co-operation in international financial issues. Nevertheless, a quota increase became necessary in 1963.[12]

In 1969 the Special Drawing Rights were created, with the aim of increasing the reserves in the international financial system.

In 1969 the Special Drawing Rights (SDR)[13] were created, with the aim of increasing the reserves in the international financial system, and at the same time reducing the dominance of the dollar as reserve currency, which was a threat to the fixed exchange rate system. Global liquidity was then increased by the member countries being allocated SDRs as a credit account in the IMF and at the same time a corresponding debt item was created in the central banks' balances. A member country can exchange SDRs for the

[10] In technical terms a drawing of currency involves the IMF reducing its reserve tranche in that currency, which means that the reserve in this currency declines. The system is therefore based on the member country paying back the borrowed currency by taking back its own currency deposited in the Fund. In this way, the reserves will be available again for the next member country with temporary balance of payment problems.

[11] Belgium, Canada, France, Italy, Japan, the Netherlands, Sweden, the UK, the USA and West Germany. The loan facility was linked to bilateral trade to avoid dominance of one currency in the transaction.

[12] Four quota increases had already taken place by 1965.

[13] SDRs can be seen as securities issued by the IMF. The liquidity of the security is guaranteed by the IMF, but only in transactions between member countries. The member countries were allocated SDRs according to their quotas. Thus, all countries gained a larger currency reserve, as they were given the opportunity to exchange or pay by SDR at any time.

currency the country needs. Despite the introduction of SDRs, the USA felt it necessary to abandon the dollar's link to gold in 1971. This meant the end of the Bretton Woods fixed exchange rate system.[14] The USA's expansive monetary and fiscal policy during the 1960s led to a lack of confidence in the dollar. Other countries' dollar reserves began to clearly exceed the USA's gold reserve, which led to countries holding dollars exchanging them for gold.

To summarise, it can be said that the operational activities, i.e. the build-up of the financial resources base and the lending activities, have constantly been in the centre of the IMF's adaptation to the changes that have taken place since its start.

The IMF's continued interplay with developments on the financial markets

As long as the exchange rate co-operation on the linking to gold and dollars existed, the application of the operational support was clear and relatively simple. Gradually, both the foreign exchange and capital markets began to grow into well-functioning markets for prices on currency and access to capital. Technological developments and laborious work on deregulating the markets have led to the access to capital becoming largely global and to prices on the most common currencies no longer being set administratively. During this transformation of the financial market, the conditions for the IMF's operational support gradually became more complicated. The importance of a broader influence within the organisation has been emphasised in particular to improve the efficiency of operational support.

At the beginning of the 1970s, operational activities were aimed at creating loan facilities for balance of payment problems beyond the member country's own control.

At the beginning of the 1970s, operational activities were aimed at little by little creating loan facilities for balance of payment problems that lay beyond the member country's own control, such as the oil price shocks in 1973, with the aim of maintaining payments between countries and thereby trade. When many developing countries with much more serious balance of payment problems became members during the 1970s and 1980s, operations were gradually led into the debt problems in these countries. The IMF's role thereby moved away from purely "oiling" the international payment sys-

[14] A number of different system of exchange rate co-operation have existed since this, often linked to the US dollar, the D-mark and the British pound.

tem towards shouldering some of the World Bank's role as supporter of economic development and builder of stable financial infrastructures in poor countries. Developments led to industrial nations utilising the international financial markets to meet large loans to an increasing extent and to the IMF's reserves being mainly redistributed to poor countries and growth economies. Stable industrial nations with a high GDP per capita now, as before, contribute to the Fund's reserves to a greater extent than small economies with a low GDP per capita.

Countries with a need to finance loans through the IMF, that is to say, currency requirements of more than 100 per cent of their quota, normally have severe structural problems that cannot be solved in the short term. The IMF has been forced to take on a new role, with a focus on surveillance and preventive measures. The surveillance role was a part of its operational activities right from the start, as for instance exchange rate adjustments could be made if deemed necessary when a country's economic status changed in relation to its exchange rate. The reserves were used to temporarily finance deficits in the balance of payments and thereby enable the preservation of a fixed exchange rate system. In the case of more long-term, persistent problems, the surveillance role needs to be developed more towards predicting and using dialogue to prevent economic imbalances.

The IMF has been forced to take on a new role, with a focus on surveillance and preventive measures.

Technological developments and the liberalisation of the capital markets provided the right conditions for the now established international capital markets, with increasingly integrated financial systems. Nowadays, the industrial nations only meet their currency and financing requirements on the international capital and foreign exchange markets. The opportunities for emerging market economies to finance themselves "easily" have both an upside and a downside for the industrialised world. New markets for trade contain a potential for growth, abuse of capital and unstable financial systems provide a risk. The risk of large outflows of capital is particularly great when structural problems in these countries give rise to imbalances in the economy. Debt crises have been seen to succeed one another and the Fund has acted as "lender of last resort", which could in the long term have a destabilising effect on the international capital market. The IMF ensures, as before, that countries with payment problems will receive direct assistance. Today it is just as important that the IMF acts to encourage countries to take measures to prevent

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crises as it is that the Fund helps countries to return to the capital market after a crisis, or dawning crisis.

The risks in the international payment system have increased as larger and more accessible liquidity for financing has arisen.

On the basis of the IMF's main objectives, the operational activities are more difficult to interpret today than they were when the Fund was created. The IMF's operational commitments on the financial markets today provide no simple solutions to problems that arise in individual countries. It is particularly striking that the risks in the international payment system have increased as larger and more accessible liquidity for financing has arisen. The loan terms have become increasingly specific to ensure the repayment of the Fund's loans. Sovereignty over the domestic economy, which was of great importance to the victorious nations at the start, now risks being lost for poor and emerging markets. Further problems can thus be added, as these nations are probably not eager to admit that they themselves are responsible for the prevailing domestic conditions. The IMF has experienced that a country must acknowledge responsibility for the problems and participation in the measures in order for a programme of measures to function adequately. The distribution of power achieved through the quota system today has thus been put into question, mainly by the large emerging market economies. As lenders, they wish to have the opportunity to be involved and exercise greater influence in the IMF, and probably in the shaping of the loan terms in particular. Participation also gives an incentive to take responsibility as at least part owner of the problems. At the same time, a shift in the balance of power within the IMF must be weighed against industrial nations', which together account for the larger part of the capital, desire to maintain control over the risks in the use of the Fund's financial resources.

To summarise, it can be said that the demands for a change in the distribution of power within the IMF should be seen in the light of the Fund's operational activities having moved from providing assurance of access to liquidity to ensuring the financial infrastructure behind the liquidity. Preventing problems in the international payment system – which is a fundamental condition for the global economy – requires co-operation. The current quota system used as a basis for influence within the IMF does not favour co-operation on equal terms for the countries with the largest problems concerning creditworthiness. There is thus a risk that the efficiency of the IMF's operations will be reduced, as there is a risk that these countries' influence over their own economies will be limited.

Representation and distribution of power

Fact Box

The IMF's executive board has responsibility for the Fund's day-to-day work, which involves taking most of the decisions. The composition of the board is regulated in Article XIII of the Fund's charter and called representation. The executive board shall consist of a managing director, five countries shall be represented directly with one executive director each in their capacity of having the largest quotas and a further 15 directors are elected to represent groupings of the remaining countries. The latter thus represent constituencies. At the moment, the executive board consists of 24 directors, 19 of whom are elected and represent constituencies.[1]

A constituency's quota and number of votes constitute the total number of the individual countries' quotas and votes. The way that the constituencies are currently designed, containing member countries with differing political, cultural and economic backgrounds, provides scope in the work process for discussion of the IMF's various tasks. The mixed composition of member countries could have a bridging effect when making considerations and help to achieve mutual understanding and consensus on the issues. There is an opportunity here to provide a forum for the IMF's co-operative nature.

The risk in making major changes to the constituencies is that the mixture, containing both lenders and borrowers, could be lost. The co-operation within the constituencies is based on working out a consensus on all issues discussed. Each member country has the right to make its own vote, both within the constituency and in decisions taken by the Board of Governors, which is the highest decision-making body in the IMF. Each country's individual voting right can be, and has been, used in groupings within the Board of Governors, for instance G7[2], in that the countries informally agree on a decision within one of these groupings. Four small industrial nations have also joined together on certain issues, in G4[3]. They have 16 per cent of the votes and can therefore constitute a blocking minority, as many decisions require an 85 per cent majority. A smaller number of constituencies would give higher quotas and more votes per constituency, but there is a risk that it would be more difficult to co-operate and achieve a consensus on decisions in very large constituencies, and that the votes would instead be used within the scope of other constellations for decision-making. This could mean that the whole idea of the constituencies as a forum for co-operation on decisions in the executive board would be undermined.

[1] The decision to have 24 representatives instead of 20 must be reconfirmed every second year by a majority of 85 per cent. The USA holds 17.5 per cent of the votes. The next election will be in September 2002.
[2] There are several groups and clubs comprising groupings of member countries in the IMF. The purpose of these groupings is to jointly work out guidelines for common interests. They are described on the IMF's website (www.imf.org/About the IMF;/A brief Guide to Committees, Groups, and Clubs). G7 is comprised of Canada, France, Germany, Italy, Japan, the UK and the USA.
[3] Belgium, the Netherlands, Sweden and Switzerland.

The quotas also steer influence within the IMF. Implementing a shift in the balance of power with a change in the composition of the quota system would require an increase in the financial base.[15] There is usually an increase in the

[15] The Articles of Agreement do not allow a reduction in the quotas without the agreement of all countries involved.

financial base during a general quota revision, which should be made at least once every five years, in accordance with Article III of the IMF's charter. Countries whose economies have grown rapidly can be allocated a higher quota, both in a quota revision and in one of the ad-hoc changes that occur between these.[16]

Recent demands for transparency in the IMF's operations also include the quota formulas.

Recent demands for greater transparency in the IMF's operations also include the quota formulas. It is not easy to design a transparent quota formula, as many considerations have to be included. When the IMF was created, the quota calculation was in some ways simpler, as the IMF then functioned in principle like a co-operative bank, where countries could contribute liquidity and gain access to currency on the basis of their size and capital contribution, at a fixed price. Gradually, as we know, the countries have also been able to borrow more than they have actually contributed from the IMF's total financial resource base.

With regard to influence in the organisation, this development has made consideration of the quota formulas more difficult. If all member countries were to contribute, fairly homogeneously, on clear conditions – according to their ability – then function would be more important than influence in the IMF's operations. So it was originally. It is doubtful whether it is possible in the current situation to create a simple formula that will give the Fund an adequate financial base and at the same time provide a functional influence in the organisation for both potential lenders and borrowers. The formulas have been revised constantly and this is still the case. The guiding principle for a quota change is always that the quota formula shall provide a quota allocation that reflects the IMF's main objective, which is regulated in Article 1 of the monetary fund's charter.

There are risks involved in building potential financial needs into the quota formula with the aim of increasing borrowers' influence.

There are risks involved in building potential financial needs into the quota formula with the aim of increasing borrowers' influence. Particularly if the quota formula risks generating negative incentives. The use of certain variables can provide an incentive to build up structural imbalances, which in principle is easily done today with access to a private financial market.[17] The crisis areas in Asia and Latin America are a clear example of this. The balance between lenders and borrowers also clashes with the quota formulas' purpose of

[16] China's quota was raised in spring 2001.

[17] An example of a variable that risks providing a negative incentive is the variability of the external incomes, that is to say, the variability in all flows and incomes from abroad. A large inflow of, for instance, financial credits can build up risks and result in rapid outflows if the country has built up imbalances in its economy.

ensuring access to a financial resources base, i.e. sufficient financial resources to distribute. The relative nature of the quotas means, for instance, that countries which are almost constantly and to a large extent borrower countries in the IMF cannot have a very large quota, as this would mean that the potential contributed capital reduced the resources base.[18] For instance, a quota formula that places great emphasis on the GDP variable can provide a redistribution of the quotas among the member countries, as a country with a large GDP can have a large borrowing requirement. Transparency in the formula also assumes purely economic parameters that are uniform and are thereby comparable according to clear definitions and easy to collect in stable statistical series.

The selective assessment implemented today gives the board an opportunity to adjust the calculated quotas on the basis of aspects that are difficult to capture in a quota formula. The application of the selective assessment has in general given a distribution where countries with large calculated quotas, primarily industrial nations, have a slightly lower actual quota following the selective assessment, while countries with small quotas, primarily developing countries and poor countries, have a slightly higher actual quota (see Table 1).

The selective assessment implemented today gives the board the opportunity to adjust the calculated quotas.

Table1. Quota allocation with regard to the most recent quotas calculated and actual quotas

Country	Calculated quota, 11th revision	Actual quota, January 1999	Difference between columns 1 and 2
Sweden	1.26	1.13	–0.13
Norway	0.96	0.79	–0.17
Denmark	1.00	0.78	–0.22
Finland	0.64	0.6	–0.04
Iceland	0.04	0.06	0.02
Estonia	0.03	0.03	0.00
Latvia	0.05	0.06	0.01
Lithuania	0.06	0.07	0.01
Nordic-Baltic constituency	4.04	3.52	–0.52
G7	54.48	46.68	–7.80
G4	8.12	7.41	–0.71
EU 15	37.12	30.53	–6.59
Developing countries	11.55	16.13	4.58

Source: IMF.

[18] This is the total of all countries' quota values as expressed in SDRs, of which the respective country's quota constitutes a percentage. The higher the quota value, the larger the financial base. The value allocated to the total of all quotas can be adjusted, and is always adjusted upwards. However, it is important that there is sufficient currency to contribute to the financial base to enable the IMF to maintain its liquidity and lending operations.

From the start of the IMF, and throughout the years, the large industrial nations have been the major providers of credit in the IMF through the quota construction, which gives these countries a large share of the IMF's financial base. The distribution of power is quite clear from the perspective of the providers of credit. The provider of credit takes risks and therefore wants to have power to control them. For instance, the USA has approximately one quarter of the total reserve position and is thus the country that contributes most to lending within the framework of the Fund's balance sheet. The other G7 countries contribute almost 40 per cent of the total reserve position, which gives a total of 65 per cent for all the G7 countries together.

One of the IMF's most important tasks is to prevent crises in economies that have received loans too easily.

As described earlier, influence within the organisation is today based on other important grounds than just the capacity to contribute to the Fund's capital base, as when the IMF was formed. One of the IMF's most important tasks today is to prevent crises in economies that have received loans or risk capital from the international market too easily, i.e. no qualified risk analysis has been made. It is probably important to give these countries greater influence within the IMF to achieve good results in the work on crisis prevention.

The individual member countries' influence is also connected to their representation on the executive board. A change in this representation could involve a change in both the number of chairs and the country composition behind each chair.

The driving forces behind the adjustments in the balance of power

The economic construction of the IMF can even today be seen as an insurance arrangement, where countries are always guaranteed access to their premium or reserve position.

The IMF's new role in a globalised world constitutes the primary driving force for altering the balance of power. New markets and growth in existing market have caused a shift in both the political balance of power and the financial risk situation in the world. During the IMF's lifetime, trade has developed to other markets, from industrial nations to growth economies, and has grown substantially. However, the IMF is no longer important for the industrial nations' access to capital. As the rich countries have acquired currency and capital on the international markets, the IMF has moved over more to supplying developing countries and poor countries with currency and loans. History shows that the build-up of the IMF's financial resource base, with the quota system as the key to distribution, contains an interesting dynamism that can have a stabilising effect on the world economy, despite all the changes that have occurred in the world. The economic construction of the IMF can even today be seen as an insurance arrangement, where countries are always guaranteed access to their premium or reserve position in the event of problems in their balance of payments. However, the operational support for sustaining international trade is now primarily a means of assuring the infrastructure behind money flows around the world. Access to IMF funding above the reserve tranches cannot and should not be automatic.

In addition to difficulties and negligence in risk assessment among lenders on the capital market, and "moral hazard", there is considerable risk of crises arising in member countries with political instability, an uneven distribution of resources and poverty. This increases the need for countries to implement economic policy measures to counteract institutional barriers to development and to promote a stable financial market. This is confirmed by the fact that the IMF devotes a great deal of its work to preventing and solving payment crises on a largely deregulated market. For the large emerging markets, such as Mexico, Brazil and China, therefore, actual access to liquidity, in the form of global liquidity, is not normally a problem for growth potential. The situation is rather the reverse. It would be better to reform the financial sectors than to hinder the flow of liquidity in various ways.

The IMF devotes a great deal of its work to preventing and solving payment crises on a largely deregulated market.

Careless credit granting on the private market has contributed to the build-up of imbalances both in the public sector and the private sector in certain countries. The former applies primarily to the crisis regions in Latin America, while the latter applies mainly to the crisis regions in Asia during the 1990s. These countries still have a considerable need to implement structural reforms in addition to a greater harmonisation, in the form of liberalisation. Important decisions on these issues are taken by the IMF's executive board, whose composition – representation – reflects both the quota distribution and the division into voting constituencies. It is probably not particularly effective to disregard the developing countries' demand for greater influence in the IMF's operations, as this will take away the opportunity for a mutual dialogue. At the same time, it is difficult to imagine the financial contributor countries giving up their influence over how the financial means are used. There is a capacity within the IMF's decision-making structure for all member countries to exercise influence through the mixed constituencies, when the dialogue and work to consolidate the constituencies prior to decision-making actually functions. By supporting the processes within the constituencies and refraining as far as possible from utilising the informal power, i.e. voting rights for decisions within the various Groups, it is possible to give all countries active participation. The IMF is therefore still an organisation with great potential to act as a co-operative forum for monetary issues and monetary support.

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