

At issue: Double majority decision making at the IMF

Implementing effective board voting reform

Many have championed the use of double majorities at the IMF board in order to increase the ability of developing countries to influence decision making. The acceptance of this idea by incoming IMF managing director Dominique Strauss-Kahn is welcome, but if he chooses to use a chair-based, rather than member-state-based, second majority it will not change the power dynamics at the board.

Discussions on reform of IMF governance over the past two years have focused on reforming the quota formula, often veering into obscure debates about variables, filters, capital increases and other minutia. Some NGOs however have used the opportunity to try to focus attention on other aspects of the internal functioning of the IMF that undermine the developing country voices, prevent citizens from holding their governments and the institution accountable, and in the end weaken the Fund's legitimacy.¹

The use of double-majority decision making at the IMF has received significant attention.² It would allow the numerous developing countries to better represent their interests at the board and ensure consensus decision making. While the growing acceptance of this idea by the major shareholders of the Fund is a welcome change, the details of implementation are crucial. If implemented incorrectly – i.e. having the second majority decided based on the number of executive directors – the reform would not effectively increase the power of developing countries at the board, nor move the Fund towards more consensual decision making.

Justification for double majorities

Many Fund insiders have lamented the decline of consensual decision making at the IMF over the last decade. Though the Fund board continues to take decisions based on 'consensus', the determination of this consensus is a subjective matter for the chair of the board, the managing director or deputy managing director. The curtailment of lengthy discussions and decreased emphasis on consensual decisions and compromise has meant that developing countries feel even more alienated from the institution.

The IMF already faces a democratic deficit in its decision making because of the skewed quota structure, which gives developed economies the lion's share of the formal voting weight. This same quota imbalance contributes to the imbalance in the distribution of chairs at the executive board.

The quota formula is the single tool that aims to fulfil three purposes: determine voting weight, set the potential for contribution to the Fund's lending and define the limits to access to resources by borrowers. A single instrument can not effectively or efficiently fill all three of these goals, and does not even successfully allow representation given the diversity of the Fund's membership. As is well recognised by legislatures around the world, it is sometimes better to represent people along two different metrics, to ensure that people have effective means to exercise their rights to participate in decision making in public institutions.

In the IMF, two subsets of the membership can be thought of, the less numerous but economically advanced countries, and the more numerous but less economically developed countries. To balance the interests of these two diverse groups, a double majority system can be implemented that uses a first metric of quota, which is economically weighted, and a second metric of membership, which accords each IMF member state one vote.

The goal of implementing a double majority voting system is to improve the ability of the numerous low-income and other developing countries to represent their interests at the board. It would also increase the incentive for consensus by facilitating coalition building and enhancing the ability of the majority of the IMF membership to block decisions that they disagree with.

Drawbacks of a chair-based second majority

The biggest question in the implementation of a double majority decision-making system at the board is whether to base the second majority on the concept of equality of executive directors (chair-based) or equality of member countries (state-based). However, the chair-based system would not conform to the IMF's uniform treatment standard and would continue valuing the opinions of rich countries over those of low-income countries.

In a chair-based system, the director from France, as an appointed chair, would hold 1/24th or 4.16 per cent of the weight on the second majority even though France represents only 0.54 per cent of the membership. Meanwhile, the director from Rwanda would also hold 4.16 per cent of the weight on the chair-based majority, despite representing 12.97 per cent of the membership. Abstracting from the questions of intra-constituency decision making and assuming the equal treatment of all members of the francophone Africa constituency, that would give each member of the constituency just 0.17 per cent of the chair-based majority. For the Democratic Republic of the Congo (DRC), this would be even less than their quota share, currently at 0.25 per cent.

As shown in Box 1, the chair-based system, still leaves the advanced economies with 50 per cent of the board's weight on the proposed second majority. The domination of the board by

Box 1: Voting shares at the executive board on different metrics

Country group	Current quota share at board	Chair-based majority	State-based majority
Advanced economies	66%	50%	42%
Developing Asia	8%	12.5%	9%
Developing Africa	4%	8.3%	25%
Developing Middle East	9%	12.5%	11%
Developing Latin America	10%	12.5%	12%
Russia	3%	4.2%	1%

Box 2: Voting shares at the executive board by region

Country group	Current quota share at board	Chair-based majority	State-based majority
United States and Canada	21%	8.3%	7%
Europe	36%	33.3%	26.5%
Latin America	10%	12.5%	12.4%
Sub-Saharan Africa	4%	8.3%	24.9%
Middle East and North Africa	9%	12.5%	11.4%
Asia	18%	20.8%	17.3%
Russia	3%	4.2%	0.5%

the advanced countries will be exacerbated when Spain returns to the executive director's seat in its constituency.

Advantages of a state-based second majority

Absent other major reforms to the executive board structure, a state-based second majority would more effectively achieve the goal of enhancing the voice of developing countries. In a state-based majority, each executive director would cast votes equivalent to the number of members in the constituency. So the francophone African ED would have 24 out of the 185 votes while the French ED would have just one vote out of the 185 member country votes.

Only through a state-based majority is the domination of the board by developed countries removed, and the incentive for coalitions and consensus increased. If developing countries hold more than 50 per cent of the voting weight according to the second majority, they will be in a better position to substantively influence the debates at the board. Only if the large constituencies of developing countries hold more voting power would it counter-balance the marginalisation of holding fewer shares in terms of economically weighted voting.

Part of the IMF's legitimacy crisis stems from a perceived overrepresentation of Europe at the IMF. As can be seen from Box 2, executive directors from Europe are the most numerous on the IMF executive board as well as holding the plurality of quota-based votes at the institution. Instituting a chair-based second majority at the executive board would do almost nothing to curtail the ability of European countries to control the agenda and policy decisions at the institution. Because they dominate the board chairs, the ability of other executive directors to successfully build coalitions would be constrained.

While the number of European chairs at the board will continue to need adjustment, for the purposes of immediately implementing a double majority decision-making system at the board, the only effective way to overcome the perceived domination of the board by Europe would be to institute a state-based second majority.

Remaining reform issues to address

Several areas of governance reform at the IMF would be left unresolved, even with the implementation of a state-based second

majority. First the double majority system should be formally implemented, not just put into practice in an informal way at the board. While informal implementation of a state-based second majority requirement should start immediately, the process should be put into motion for a formal amendment to the Articles of Agreement. This amendment could be joined with other proposed amendments that are being discussed in the current round of governance reform, thus reducing the administrative overhead.

Next, constituency realignment is imperative, especially fewer chairs for Europe. The formal implementation of a double majority system may provide some impetus for this to be accomplished. The state-based votes of developing countries now in constituencies headed by developed countries will be valuable to coalition building. This will give incentives for those developing countries to move to other constituencies that may better reflect their interests.

Implementing the proposed double majority would still allocate votes along economic criteria for the first majority. This is vital for making reform acceptable to the United States and other major shareholders, who seem unwilling to give up their power, especially veto power, in the institution. However it means that the democratic element of governance is partially undermined. One possibility to resolve this is to more explicitly recognise democratic values by using population as a variable in the quota formula.

The state-based double majority also does not obviously privilege the fast-growing emerging markets, or increase their ability to influence decisions. While some fast-growing economies are chairs of large constituencies, others are not. Double majority is not a substitute for quota reforms in this regard, but may ease the process of reform by giving countries a second outlet for representation of their interests.

Finally, none of the discussed reforms will be successful without greater accountability of the IMF at all levels. In reference to the double majority system, the taking and publishing of votes on all decisions at the board is vital. More transparency needs to be achieved in relation to IMF documents of all kinds. A more transparent, merit-based and democratic system needs to be implemented for selecting senior management at the IMF. The Fund needs to take greater input from stakeholders of all kinds. These reforms are vital for an effective and legitimate institution that can truly represent the interests of citizens around the world.

Members of the IMF should not assume that any single reform is enough to solve the Fund's legitimacy crisis. The shortcomings in the IMF's governance extend beyond just decision rules and the quota formula. A member-state-based, not chair-based, double majority decision-making system is only one of the first steps towards a more democratic structure for the IMF.

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¹ New Rules for Global Finance Coalition, "High-Level on Panel on IMF Board Accountability: Key Findings & Recommendations", 10 April 2007, http://www.new-rules.org/docs/imf_board_accountability.pdf

² One World Trust and Bretton Woods Project, "Bridging the democratic deficit: Double majority decision making and the IMF", February 2007, <http://www.brettonwoodsproject.org/doublemajoritybriefing>