The Governance of the International Monetary Fund with a Single EU Chair

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1. Introduction and main issues

The introduction of the euro and the strengthening of the co-ordination of economic policies in the European Union (EU) are fuelling a reflection on the representation of Europe in the international financial institutions. Both in Europe and elsewhere, calls are mounting for European position taking and representation in international fora to be streamlined, a process which could end in a single EU representation, as in the World Trade Organisation (WTO). The issue has received much attention at the European Convention, and is – at least in the view of many current member states of the Union – a long-term objective.

In the light of the establishment of a single monetary policy, the question of a single external EU representation is of particular relevance with regard to the International Monetary Fund (IMF), which is at the core of the international financial system. Through its almost world-wide membership, the surveillance which it exerts over its members’ policies, and the assistance and conditional emergency financing which it provides, the Fund is a major instrument contributing to macroeconomic and financial stability.

The establishment of a single EU representation would constitute an historical change in the IMF membership, and would raise major governance issues in various fields. While this exploratory article focuses on governance issues raised with regard to the IMF itself, it also touches upon the possible impact on the internal functioning of the Union, and “spill-over effects” for the governance of other international financial institutions and fora.

These issues have to be approached within the perspective of the ongoing, broad debate on the governance of the Fund. With the collapse of the Bretton Woods system of fixed exchange rates in the early seventies, the Fund had lost its core function with regard to balance of payments crises, and thereby also – in the eyes of many – its raison d’être. The institution has nevertheless come back to the foreground, in particular as an instrument for the prevention and resolution of financial crises. However, since the succession of crises in the nineties, which were primarily capital account driven, the effectiveness of the Fund’s surveillance and its governance have been increasingly questioned. Basically, the Fund has been under criticism for being insufficiently transparent, independent and accountable(1). The organisation was able to react positively to many of the reproaches made; the progresses realised with regard to transparency are illustrative in this field.

It follows from the analysis developed in this article that the creation of a single EU chair may affect two of the major controversies still in the forefront in this respect: excessive politicisation of the Fund’s decision-making, and unbalanced representation of its members.

First, critics point to what is seen as the current disproportional influence over Fund decision-making of the Fund staff on the one hand, and of the Group of Seven (G7) on the other. The G7 countries are believed to bring into the IMF decision-making process their own geopolitical considerations, which can be at odds with sound

(1) See for instance De Gregorio et al. (1999).
governance of the institution. While many acknowledge that political considerations are difficult to discard when deciding whether or not to provide Fund financing, it is often stressed that the IMF’s surveillance activities should be exerted in a more objective and independent way. From the analysis below it follows that establishing a single EU chair may, on the one hand, provide a countervailing power for the perceived imbalances. On the other hand, it could also further exacerbate the trend towards polarisation in IMF governance, as the result could be a duopoly at the head of (the G7 and) the IMF, the ability of which to provide real leadership remains to be demonstrated. It will be further argued that the extent to which the EU will be willing and able to define a common external policy could be crucial in this respect.

A second criticism addressed to the IMF is the insufficient voice, both in terms of voting power and in terms of number of Executive Directors (EDs), given to emerging economies and developing countries, while industrialised countries, and Europe in particular, are deemed to benefit from excessive influence. In this respect, the establishment of a single EU chair could provide a window of opportunity for bringing the actual quotas in the Fund more in line with newly calculated quotas. The quota of the EU chair could indeed be set significantly below the sum of the actual quotas of the EU member states, and there might be a quite fundamental reallocation of quotas and EDs among the Fund membership. A single EU chair might involve the interesting paradox that a reduction in the number of European EDs, in the global voting power of Europe and in its contribution to the Fund’s general resources could go hand in hand with an increase in the Union’s impact on IMF decision-making.

A single EU chair would also affect the co-operative nature of the Fund. Originally, this nature was underpinned by the possibility for each member to become both a Fund creditor and a Fund debtor, depending on the member’s needs. Over the years, the relative economic development of IMF members has led to a growing separation between creditor and debtor countries. Nevertheless, EU countries, through their involvement in mixed constituencies, have so far mitigated the potential detrimental effects on the co-operative nature of the IMF of too strong a division between creditor and debtor chairs. The number and impact of mixed constituencies in the Fund could, however, be reduced significantly by the establishment of a single EU chair.

Whichever, the emergence of a single EU chair at the IMF would inevitably entail a fundamental and comprehensive debate on the governance of that institution. Much, however, will also depend on the way in which such an EU chair would be set up, which in turn hinges on the future internal governance of the Union. In this respect also, this contribution can only be a first exploratory exercise, the conclusions remaining very tentative due to the many political imponderabilia.

A political willingness of the Member States will undoubtedly be a vital prerequisite for the process to be set in motion. After that, the effective impact will very much depend on the governance of the EU chair itself (i.e. the way in which its positions are determined, and, more broadly, how its functioning is organised). It can be argued that a common EU foreign policy constitutes a prerequisite for the single EU chair to be able to perform an effective leading role in the decision-making process at the IMF. However, as is reflected by the current debate within the European Convention, a unique EU membership at the IMF might be arranged before a binding consensus is reached on the establishment of a common foreign policy. EU positions at the Fund should then be prepared either through co-ordination mechanisms between national authorities (which already function today, be it evidently – within a different framework, the Fund remaining a country-based institution), or via a more independent EU institution (existing or newly created).

The conclusion is that a single EU chair, by affecting profoundly the balance of power at the Fund and through its inextricable links with the internal governance of the Union, will inevitably lead to a further and comprehensive debate on the governance of the international financial system. What can be seen as a positive step on the long road to further European integration, will undoubtedly have major implications extending far beyond the borders of the Union, and the functioning of the IMF as such. Hence, the European Union has to consider carefully all the implications of possible actions in this field.

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The remainder of the article is structured as follows. In a second chapter we analyse the potential impact of a single EU chair on the IMF members’ quota shares. Chapter 3 examines the possible impact of a single EU chair on IMF finances, in particular the Fund’s liquidity position, access to Fund financing, and Special Drawing Rights (SDR) allocations. Chapter 4 then focuses on the potential consequences for the governance of the IMF, assessing the impact on the decision-making process at the IMF and the importance of the EU internal governance in this process. Some legal issues are touched upon in chapter 5, while chapter 6 considers the impact on other international organisations.
2. Considerations on Fund quotas

Each country’s capital subscription to the Fund is referred to as the country’s IMF quota. A member’s quota is at the core of its relations with the Fund. In addition to fixing its contribution to the general resources of the IMF, a member’s quota determines its voting power, affects its borrowing capacity and determines its part in the allocation of SDR.

2.1 Historical evolution of quota allocations

At the Bretton Woods negotiations in 1944, the quota question was central and highly political. America’s main negotiator, the US Treasury chief international economist (and later first US ED) Harry Dexter White, took the position that the aggregate voting power of the British Commonwealth as determined by the quotas should not exceed the quota share of the US (36.2 p.c.). The UK, represented by its chief negotiator John Maynard Keynes, got a large quota; it ranked second with 17.1 p.c. France was “given” a quota totalling one-third of the UK’s. European countries such as Germany, Italy and Spain were not invited to the conference.

Over the years, many members have acceded to the Fund, while some others have withdrawn – sometimes temporarily –, such as Cuba, Poland and Czechoslovakia. The Fund grew from a club with 44 countries to a world association of 184 members. Currently, only Andorra, Cuba, Liechtenstein, North Korea and some island- and city-states have not (yet) joined.

It is difficult to draw lessons from the history of the Fund for the process of the establishment of a single EU chair. One could refer to the division of Czechoslovakia and Ethiopia, on which occasions the new countries together received a larger quota than the original quota of the country they replaced. But the most relevant experience may be the case of the United Arab Republic. In 1958, Syria and Egypt merged politically and informed the Managing Director that they wanted to become a single member of the IMF “with a single quota and subject to the provisions of its Articles”. The Executive Board took a pragmatic approach towards this request, finding it unnecessary for the Board of Governors “to adopt a membership resolution establishing terms that had been laid down already and requiring actions, such as the payment of subscriptions and the agreement on par value, that had been taken already”. The new member inherited the sum of the quota of Syria and Egypt, but only got the basic votes of a single member. Joseph Gold (1974) notes that the Fund continued to “hold the currencies of the two regions, have separate depositories in Cairo and Damascus for the currencies, deal through two fiscal agencies, make separate calculations of monetary reserves for the purpose of repurchase obligations and conduct separate consultations”. At the end of 1961, Syria requested reinstatement of its Fund membership and original quota. Again, the Executive Board accepted the request.

The Syrian-Egyptian case is interesting, as the merger was instigated by the political will of two IMF members, to which the Fund formulated a very pragmatic response. However, it does not constitute a real precedent for the unification of Europe’s representation in the Fund. The number of countries and the importance of the economies involved in the latter process make the economic, political and legal issues at stake much more complex.

2.2 The establishment of a single EU quota

A single EU chair could be set up in various ways. In a first scenario, all EU countries could remain Fund members individually, while being grouped in a single EU constituency. Or, as in the United Arab Republic case, there might be a single EU chair that would take over the actual quotas of the countries it replaces, but with the basic votes of a single member. Both possibilities would imply a status quo for the actual quota shares of all other IMF members, while the EU chair would inherit a vast voting power. Bini-Smaghi (2003) however considers a single EU constituency with an adapted quota share.

In a second scenario, the EU could become a “fully fledged” single member, for which a new “fully fledged and single” quota would need to be established. The starting point for the determination of a Fund member’s quota is its calculated quota. This number is the outcome of five specific formulas, based on economic variables related to the different functions that quotas perform. First, a country’s potential contribution to the IMF’s general resources is determined by its economic size, its foreign reserves and the strength of its balance of payments position. Second, the quota formulas are intended to reflect a country’s economic and financial impact on the rest of the world. Third, as quotas also determine normal access limits to Fund financing, the formulas relate to the potential borrowing needs of a country, in turn a function of the size of the country, its openness and current account imbalances, the variability of its receipts, and the amount of its reserves.

(2) For the moment, 97.87 p.c. of voting power depends on quotas and 2.13 p.c. on basic votes, which are identical for all members.

(3) Respectively the Czech and the Slovak Republic, Ethiopia and Eritrea.
The actual quota shares of the IMF members were lastly adapted on the basis of calculated quotas computed for the eleventh general review of quotas (CQ11)\(^1\). However, due among other things to the primacy of equiproportional adjustments (distributed to all members according to their existing, actual quota shares) in general quota reviews, there still exist relatively substantial differences between the calculated and actual quotas.

We have computed new calculated quota shares (NCQS) for the option under which a new single quota would be attributed to the EU chair, representing the current fifteen member states of the Union. Our computations are based upon the five existing quota formulas and use the data from the most recent (twelfth) quota review. Although there have been in recent (and earlier) years many discussions on a revision of the current quota formulas, it is very likely that any potential future alternative formula will still largely be based on GDP and balance of payments data.

The first columns of the chart show the calculated quotas (CQ11) as they were computed for the eleventh quota review for the largest members and for various relevant groups of countries. The second columns indicate the actual quota shares of these members (Actual), which for various, technical and political, reasons differ from the CQ11. The third columns give the new calculated quota shares (NCQS).

It appears from our computations that the EU chair and the US have a very similar new calculated quota share\(^2\). This mainly follows from a downward adjustment of the single EU quota share, as compared to the aggregate quota share of the fifteen EU countries, largely due to the exclusion of the current account flows among the EU members from the computations. Every non-EU country gains a part of the difference. In addition, the recent relative economic development of the Fund members also plays a role in the adjustment, as the NCQS are based on more recent economic data than the data underlying the current quotas. While these effects may be substantial for some emerging countries, for European economies they are almost negligible at present, as the recent growth rate of this group of countries is relatively close to the world average growth rate.

\(^1\) The eleventh and twelfth general quota reviews were respectively closed in 1997 and 2002 and based on 1982-1994 and 1987-1999 data. The eleventh review led to an adaptation of actual quotas, the twelfth did not.

\(^2\) Note that our calculated quotas are different from the ones calculated by the Quota Formula Review Group (QFRG) or Cooper Report (IMF (2001b)). This QFRG was an external panel of experts, chaired by Professor Richard Cooper, which was commissioned by the IMF in 1999 to submit an independent report on the adequacy of the quota formulas and to make proposals on a formula which would more closely reflect members’ relative positions in the world economy as well as their ability to contribute to, and to meet the needs of, IMF resources. This group found a calculated quota share for the EU-15 of 28 p.c., much larger than the US quota of 19.6 p.c., as it only excluded intra-EU trade in goods. It did not exclude other current account flows (services, income and current transfers), as we did.
Between the “status quo” option (one EU constituency) and a full alignment of actual quota shares with calculated quota shares, there are many scenarios. History shows that on the sometimes-long road from calculated quota to actual quota, political considerations play an important role. There is a very strong probability that such considerations will play an equally prominent role in deciding the voting power of a single EU chair. Specific points concerning that topic will be discussed at a later stage, in chapter 4.

In case a single EU chair is created, a complete status quo seems politically very improbable, since this would imply an EU quota share twice as large as the quota share of the second largest IMF member, being the US. A single EU chair could thus conceivably lead to a certain convergence between the EU and US quotas. Both members would even have very similar quotas, if it would be agreed to stick closely to new calculated quota shares.

Before looking further into the governance implications for the Fund, more technical consequences with respect to IMF financing may be derived from the previous exercise.

The outcomes of our computations would not be affected significantly by the enlargement of the Union. Ten countries will accede to the EU in May 2004, plus Bulgaria and Romania probably in 2007, while Turkey could begin negotiations towards accession in 2004. The consequences of the potential inclusion of these thirteen countries in the EU chair are rather minor, due to their relatively limited economic weight in comparison with the current EU members, and to their close trade links with the Union (3). The EU chair would still have a calculated quota relatively comparable to that of the US.

(3) The calculated quota share of the EU chair would increase by less than 3.5 percentage points when including these thirteen countries. However, these percentages overestimate the quota share of the enlarged EU chair, as we have not subtracted the current account flows of these members from and to the other EU members, due to the lack of data.
3. Potential impact on Fund finances

The reshuffling of actual quotas that a single EU chair could bring about, will inevitably have consequences for IMF finances, in particular for the liquidity position of the Fund, the access to its financing and SDR holdings and allocations. We assess the potential impact in these fields by assuming that the nominal amount of total Fund quotas remains unchanged and is not affected by the creation of the single EU chair[4].

3.1 The liquidity position of the IMF

Quota subscriptions represent the overwhelming part of the IMF general resources. As these resources are not all available immediately – only currencies issued by members with strong enough external payments positions are qualified as usable –, the Fund establishes a financial transactions plan for each quarterly period, in order to manage its usable resources. It thereby selects the currencies to be used in transactions and allocates the financing of the transactions among members included in the plan. These members are selected on the basis of an assessment by the Executive Board of the strength of their external position (i.e. sufficiently strong balance of payments and reserve position). The participation of members aims to be broad, in order to reflect the co-operative nature of the Fund and to maximise the liquidity of its resources.

There are currently (March 2003) 44 members included in the financial transactions plan, among which are the fifteen current EU members and five EU acceding countries. A reduction in the quota of EU members would diminish the usable resources of the IMF if, as is currently the case, an attempt were made to balance the members’ participation in transactions in proportion to their quotas. However, such a reduction would be partially compensated by the increase in the quota of other members, some of which are currently major contributors to Fund resources, such as Japan and the US.

The actual reserve positions in the Fund[5] of the current fifteen EU members amount to SDR 25.5 billion, representing on average 39.5 p.c. of their quota. If the contribution of each participant in the financial transactions plan is kept constant in proportion to its quota but each member’s actual quota is set equal to its NCQS, the reduction of the EU quota would diminish the resources available to the IMF by SDR 7.1 billion. This would, however, be more than compensated by the increase in the quota of the other 29 members included in the financial transactions plan (increase of SDR 12 billion).

On the other hand, if the members’ reserve positions in the Fund were set uniformly at the current average proportion of all members concerned (32.94 p.c. of quota), the IMF usable resources would be reduced by SDR 10.2 billion due to the change in the EU quota share, but increased by SDR 4.9 billion due to the adjustment of the other members’ quota share.

Another way of increasing the IMF’s usable resources might be for the list of sufficiently strong members to be extended. Members who, at the time of establishment of the single chair, have experienced a sufficient, sustainable improvement in their balance of payments and reserve position could then be included.

3.2 Access to Fund financing

Quotas also determine the amount of financing members can obtain from the IMF under “normal” circumstances. Currently, annual and cumulative ceilings for access limits to IMF resources are set at 100 p.c. and 300 p.c. of quota[6]. In addition, conditionality and interest surcharges applied under the two facilities with explicit access limits increase with the amount of outstanding credit, in order to discourage substantial and prolonged use of IMF resources. A modification of the quota shares of countries would hence have implications for the amount of financing they can obtain from the IMF under normal circumstances, as well as affect the conditions, eligibility criteria and costs of these borrowings.

In recent years, emerging markets have relied on extensive Fund financing (between 1995-2002, the group of emerging markets benefited from 26 IMF packages, ten of which were beyond normal access limits). An increase in the actual quotas of this group towards the level of their NCQS would have some impact on the cost of the resources borrowed. For example, the outstanding credit of Turkey would represent a much smaller share of its quota based on the NCQS than is currently the case, while the contrary would apply to Argentina and Uruguay.

As far as the EU countries are concerned, the question of access to IMF financing is likely to be of decreasing relevance. First, even if France was the first IMF borrower and the UK is still among the largest borrowers in the history

[4] The establishment of a single EU chair as such would not affect the potential financing needs of the Fund membership, nor the level of Fund resources deemed appropriate to cover these.

[5] The reserve position of a member is a liquid claim on the IMF received by this member for the reserve assets that it has contributed to the IMF. The use of a member’s currency in a transfer, i.e. a purchase by another member in exchange for an equivalent amount of its own currency, increases the former member’s reserve position in the Fund.

[6] Facilities including access limits are the Stand-By Arrangement (SBA) and the Extended Fund Facility (EFF). Financial assistance above these statutory limits can, however, be granted through two alternative avenues, i.e. the exceptional circumstances clause or the two facilities that are not subject to statutory limits – the Supplemental Reserve Facility (SRF) and the Contingent Credit Lines (CCL).
of the IMF (7) (Chart 1), the current members of the EU are unlikely to rely on IMF financing in the foreseeable future. Indeed, they are all net creditors of the IMF, the majority of them having not borrowed from the Fund since 1970. Italy, the UK, Greece, Spain, Portugal and Finland still received loans from the IMF in the 1980s. The last EU country to have borrowed from IMF resources was Portugal in 1987. Second, among the acceding countries, only Latvia and Lithuania are currently IMF debtors; the three accession countries, Bulgaria, Romania and Turkey, are in the same position. The likelihood of these countries requesting IMF financing is called to decrease further with the convergence process and their accession to the EU.

3.3 The future of SDR

Quotas also determine each member’s share in an allocation of SDR. Until now, the total allocation of SDR amounts to SDR 21.4 billion (8), 33.7 p.c. of which being attributed to the current members of the European Union (representing SDR 7.3 billion) (9). In addition to holding a substantial share of SDR, EU members actively participate in the SDR market and contribute greatly to its liquidity. Among the thirteen countries or institutions (10) which have concluded a two-way arrangement, allowing the IMF to conduct voluntary transactions in SDR within specific limits, on behalf of the members and without their preliminary agreement, eight are EU countries. The current (October 2002) holdings of SDR by EU members represent 55 p.c. of their net cumulative allocation.

With the creation of a single EU chair, a decision would need to be taken regarding the existing SDR of the EU members. As long as the members of the EU chair remain participants in the SDR Department and observe the obligations of participants, they could keep the previously allocated SDR. However, in view of these members’ strong foreign reserve position, other possibilities could be envisaged such as straightforward cancellation of the allocations, their partial or total donation to poorer economies (11), or measures to increase the liquidity of the SDR market (such as the conclusion of two-way arrangements with the IMF).

4. Implications for the governance of the IMF

4.1 Decision-making process at the IMF

A single EU chair at the IMF will have important political implications. It will obviously affect the composition of the Executive Board. Moreover, changes to the quotas of IMF members and thus their voting power will also affect the political governance of the IMF.

4.1.1 Changes in the composition of the IMF Executive Board

Article XII Section 3b of the IMF Articles of Agreement provides for 5 appointed and 15 elected EDs for the IMF Executive Board.

The 5 IMF members with the largest quota each appoint one ED representing their country. At the present time, these are the EDs of the US, Japan, Germany, France and the UK. With a single EU chair, Europe would give up two appointed EDs. If we stick to the NCQS ranking, these could be transferred to China and, surprisingly, Singapore (12), whereas the actual quotas would rank Saudi Arabia fourth and China and

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(7) The UK still ranks eighth, even if these nominal figures do not take inflation into account. Moreover, IMF financing has sharply increased in the late nineties with large financing packages for emerging markets.

(8) The fourth amendment of the IMF Articles of Agreement provides for a special one-off allocation of SDR 21.4 billion to correct the fact that many members have never received SDR (more than one-fifth of the current IMF members) or have not participated in all the allocations made. This amendment was approved by the IMF Board of Governors in 1997 but cannot take effect until it has been ratified by the US Congress, as the ratification by 123 members representing 73.74 p.c. of total voting power is not yet enough for implementation.

(9) For comparison, the net cumulative allocation of the US amounts to SDR 4.9 billion (22.8 p.c. of total allocation).

(10) Austria, Belgium, Denmark, ECB, Finland, France, Japan, the Netherlands, Norway, Sweden, Switzerland, UK, Venezuela.

(11) In accordance with Article XIX, Section 2(c), the Fund prescribes that a participant, by agreement with another participant, may donate SDR to the other participant and inform the Fund of the amount of SDR and the value date for the transfer.

(12) Thanks to its very open economy and strong economic growth, Singapore has a large calculated quota. Since Italy and the Netherlands would no longer be separate members, Singapore could, depending on the future development of its economy, even rank fifth. According to 1999 figures, its economy almost matches Canada. With GDP and current account growing faster for Singapore, this tendency may be confirmed.
Canada ex aequo fifth (Box 1). Such transfer would be welcomed by critics who claim that Europe is over-represented vis-à-vis emerging markets.

Alternatively, the number of appointed EDs could be cut, by changing Article XII. A reduction could indeed be appropriate in view of the gap in voting power between the EU/US, and the country ranking third.

As to the number of elected EDs, the Board of Governors may, by an 85 p.c. majority, reduce or increase it. At the moment, there are 19 elected EDs. Four of them are EU representatives: the Nordic, the Belgian, the Dutch and the Italian ED. They represent 4 constituencies totalling 37 countries altogether. For the moment, there are 10 EU countries in these 4 constituencies, but by the time a single EU chair becomes reality, there may be up to 12 more: all current acceding and accession countries except Poland. The creation of a single EU chair would require a rescheduling of these constituencies. 15 countries would need to change places; they might either become members of existing constituencies, or form new constituencies. In the process, the total number of constituencies could be reduced. Alternatively, one or two additional EDs could be made available to the rest of the membership, in particular to the less well represented developing countries.

4.1.2 The decline of mixed constituencies

Mainly for political reasons, Saudi Arabia, China and Russia elect an ED who only represents his own country. 16 EDs are elected by constituencies of several countries. Some of these multi-country constituencies are very homogeneous, while others are much more heterogeneous: the so-called mixed constituencies.

Mixed constituencies have an important role in the governance of the IMF. They fulfil a bridge function between the interests of rich and poor, industrialised and less-developed, northern and southern countries, creditors and debtors. Their Executive Director has to take into account the interests of all member countries of his constituency and, depending on their importance and involvement in the issue at stake and on the internal governance mechanisms of his constituency, he will have to make up his mind and express the opinion of his authorities. The consensus built within his constituency may already prepare or prefigure a consensus in the Board, since the different interests within the Executive Board may be represented, on a smaller scale, within the constituency.

The heterogeneous composition of mixed constituencies may occasionally also push the EDs of these constituencies towards a more neutral and technical stance. This was illustrated at the approval of Mexico’s Stand-By Arrangement in February 1995 or at the recent Board decision on Argentina (January 2003),

What are Mixed Constituencies?

There is no clear definition or exact list of mixed constituencies. Authors usually refer to constituencies including countries with different interests. Some mention geographical or economic criteria while others vaguely refer to the creditor-debtor distinction. In the table hereunder we attempt to classify mixed constituencies according to different criteria.

A first criterion consists in a comparison of GDP of the countries within a constituency. GDP pro capita figures offer a more accurate reflection of the heterogeneity of economic development than absolute GDP figures, as the latter depend too much on the population size of the member countries of a constituency. A constituency with one large country and several small countries may then be classified as mixed while it may be economically homogeneous. Measuring the relative deviation of GDP pro capita within constituencies (first column of the table), the Australian (Australia versus the others), Belgian (Belgium, Austria and Luxembourg versus the others), Dutch (the Netherlands versus the others), Indonesian (Singapore and Brunei Darussalam versus the others), Spanish (Spain versus Latin America), Sub-Saharan and Swiss (Switzerland versus Central and Eastern Europe) constituencies can be considered as mixed. Although the two Sub-Saharan constituencies do only comprise economically poor countries, they are still heterogeneous because the GDP pro capita differences between the poor and very poor remain
very substantial. The relatively strong growth of countries like Gabon and Mauritius, for instance, is a major factor in the economic heterogeneity of the French-speaking African constituency.

Secondly, dividing the world in broad geographical terms, we could classify the following constituencies as mixed: the Australian, Belgian, Canadian, Dutch, Indonesian and Swiss constituencies.

Eventually, as third criterion we could consider the creditor-debtor status of the member countries. This criterion provides the truest reflection of a country’s IMF status: creditor and debtor countries have very different interests in the IMF. We define debtors as countries that used IMF resources during a ten years time-span (1992-2001). There were, of course, many more countries that were debtors between 1992 and 2001 than exclusively in 2001. But a ten-year analysis takes greater account of the vulnerability/fragility of lenders(1). Under this criterion only one (the French-speaking African) constituency is entirely homogeneous. All other constituencies include both debtor and creditor countries. We hence fix a threshold and define constituencies with at least 75 p.c. debtors or creditors as homogeneous constituencies. Using this criterion, the Australian, Belgian, Canadian, Indonesian, Italian and Nordic constituencies can be considered as mixed constituencies.

(1) However, there is also a negative bias with a 10-year time span. A country that was an IMF debtor 10 years ago, such as Chile, may have become very sound and even a NAB member.

**HETEROGENEITY OF MULTI-COUNTRY CONSTITUENCIES**

<table>
<thead>
<tr>
<th>Constituency</th>
<th>Relative Deviation of GDP pro capita (1)</th>
<th>Geographical Share of Debtors (2)</th>
<th>Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian</td>
<td>0.3859</td>
<td>75</td>
<td>India and 3 neighbouring countries</td>
</tr>
<tr>
<td>Iranian</td>
<td>0.5514</td>
<td>83</td>
<td>Iran, Ghana, Pakistan and 3 Maghreb countries</td>
</tr>
<tr>
<td>Brazilian</td>
<td>0.6723</td>
<td>78</td>
<td>Brazil and 8 Latin-American countries</td>
</tr>
<tr>
<td>Argentinian</td>
<td>0.6905</td>
<td>83</td>
<td>Argentina and 5 South-American countries</td>
</tr>
<tr>
<td>Nordic</td>
<td>0.7397</td>
<td>38</td>
<td>5 Scandinavian and 3 Baltic countries</td>
</tr>
<tr>
<td>Italian</td>
<td>0.7859</td>
<td>33</td>
<td>Italy, Greece, Portugal, Albania, San Marino and Timor-Leste</td>
</tr>
<tr>
<td>Canadian</td>
<td>0.8718</td>
<td>Mixed</td>
<td>Canada, Ireland and 10 Caribbean countries</td>
</tr>
<tr>
<td>Egyptian</td>
<td>0.9622</td>
<td>23</td>
<td>Egypt, Maldives and 11 Arab countries</td>
</tr>
<tr>
<td>Belgian</td>
<td>1.1683</td>
<td>Mixed</td>
<td>Belgium, Austria, Luxembourg, Czech Republic, Hungary, Slovak Republic, Slovenia, Turkey, Belarus and Kazakhstan</td>
</tr>
<tr>
<td>Australian</td>
<td>1.2592</td>
<td>Mixed</td>
<td>Australia, Korea, Mongolia, New Zealand, the Philippines and 9 Pacific countries</td>
</tr>
<tr>
<td>Spanish</td>
<td>1.3038</td>
<td>75</td>
<td>Spain, Mexico, Venezuela and 5 Central-American countries</td>
</tr>
<tr>
<td>English-speaking African</td>
<td>1.3991</td>
<td>76</td>
<td>South Africa, Nigeria and 19 mainly English-speaking African countries</td>
</tr>
<tr>
<td>French-speaking African</td>
<td>1.4077</td>
<td>100</td>
<td>23 mainly French-speaking African countries</td>
</tr>
<tr>
<td>Dutch</td>
<td>1.4749</td>
<td>Mixed</td>
<td>Netherlands, Cyprus, Bulgaria, Romania, Israel, 3 Balkan and 4 CIS countries</td>
</tr>
<tr>
<td>Indonesian</td>
<td>1.6492</td>
<td>Mixed</td>
<td>Indonesia, Brunei Darussalam, Malaysia, Singapore, 6 Asian and 2 Pacific countries</td>
</tr>
<tr>
<td>Swiss</td>
<td>2.3325</td>
<td>Mixed</td>
<td>Switzerland, Poland and 5 CIS countries</td>
</tr>
</tbody>
</table>


(1) Standard deviation within the constituency of GDP pro capita is divided by GDP pro capita average of constituency.

(2) Share of debtor countries between 1992 and 2001 in the constituency.
where EDs of mixed constituencies abstained. Mixed constituencies thereby may contribute to balance political positions within the IMF.

In several cases, the EDs of mixed constituencies have played a decisive role in striking a balance between the interests of industrial countries and developing countries. While sharing industrial countries’ views on many issues, they have also often taken the same position as developing countries, and even helped to outvote industrial countries. For instance, during the 2000 Review of Fund facilities, several mixed constituencies supported the EDs of developing countries in resisting an increase in the rate of charge(17) advocated by the G7.

In the end, mixed constituencies may often be a better mouthpiece for developing countries than constituencies of less-developed countries, as the influence of the former generally is much higher.

The creation of a single EU chair at the IMF would greatly reduce the number of mixed constituencies. According to economic, geographic and debtor-creditor criteria, an EU constituency would be a homogeneous constituency(18). There would thus be fewer institutional bridges between industrialised European countries and other countries at different levels of development.

4.1.3 Growing political importance of the EU

In 1958, when the European Economic Community was established, its 6 founding members held 15.75 p.c. of total IMF voting power, while the US held 25.78 p.c. Up to now, the aggregated quota share of the EU members has been growing: not only has the number of Union members risen to 15 (and will shortly total at least 25), but their overall share in the world economy, and thus their calculated quota, has also increased. The growth in the number of IMF members (from 45 to 184) is the main reason why the share of the US has decreased to today’s 17.4 p.c. (Chart 2). With this share, the US nevertheless remains the only member with a veto right (for 85 p.c. majority votes(19)) and by far the largest member (almost three times bigger than the next largest). The nation’s political and economic power obviously reinforces this position. Moreover, since the IMF headquarters are located in the territory of the member having the largest quota, US ideas and opinions are relatively influential because they are close at hand. In practice, the single US position at the IMF was only seldom confronted with a strong and single European voice. However, helped by shared values and reinforced coordination mechanisms since the advent of EMU, EU countries increasingly find themselves on the same side on essential issues, such as the establishment of a Sovereign Debt Restructuring Mechanism.

A scenario in which a single EU chair would inherit the actual quotas of the EU membership and thus have a veto power for 70 p.c. majority votes(20) may not seem very plausible from a political point of view. Since the economic data relevant for quota calculations are very similar for the US and the EU, there are objective arguments in favour of convergence of the actual quotas of the two chairs. The quota for the EU chair could hence be significantly below the sum of the actual quotas of the EU member states. One element in the forthcoming - ultimately political - discussion might nevertheless be the observation that, in the process, Europe would stand ready to give up 6 of its current 7 EDs.

An interesting paradox in this field is that a reduction in the number of European EDs, in the global voting power of Europe and in its contribution to the Fund’s general resources (as explained in chapter 3), could go hand in hand with an increase in the Union’s impact on IMF decision-making. A single EU chair would indeed have both the power to veto important decisions, and substantial constructive power to foster decisions. Leech (2002) illustrates this by calculating power indices for IMF members. His results prove that for ordinary IMF decisions requiring a 50 p.c. majority, the US currently has political power far in excess of its voting weight, since it does not need many other members to form a winning coalition. According to such indices, a single EU chair would have more power than the EU members taken together.

Note that adapting actual quotas towards calculated quotas for the entire Fund membership might go against the current trend of strengthening the voices of the low-income countries. One way of compensating for this might be to increase the basic votes, i.e. the number of voting rights each Fund member automatically receives, regardless of its quota.

(18) With 25 countries, the EU would have a GDP pro capita relative deviation of 0.66 and a debtor ratio of 8 p.c. With 28 countries, these indices would be respectively 0.76 and 18 p.c.
(19) An 85 p.c. majority is required in 16 categories of decision, such as adjustment of quotas and votes, provisions for general exchange arrangements, allocation and cancellation of SDR and amendments to the Agreement.
(20) A 70 p.c. majority is required for many financial and operational decisions and the suspension of voting rights.
4.1.4 Increased polarisation of the IMF governance

The creation of a single EU chair would drastically change the balance of power at the IMF. There would be two large blocks: the EU chair and the US, each with a veto power for 85 p.c. majority votes. But together they would also be able to veto 70 p.c. majority decisions. And for simple majority decisions (50 p.c.), an alliance of Japan, Europe and the US would be sufficient. In order to obtain IMF financing, a member country will automatically have to convince the two main players. Once both chairs agree on a specific issue, it would be difficult to go against or block their agreement. It however remains a moot point whether in real life a Fund with two main players would function better than under the now prevailing structure.

At the current juncture, there is already a tendency towards creditor/debtor polarisation in IMF governance. The decline of mixed constituencies and the importance of the two largest members might further impair the co-operative nature of the IMF, which risks becoming a forum opposing creditors to debtors, where minority debtors can ask for financing. Although the IMF at its origin was a co-operative where a country could be a creditor one year and a debtor another year, creditor and debtor countries have become two more clearly distinctive categories. The diversity of interests of EU countries, the functioning of mixed constituencies, and – more recently – the element of “peer review” in surveillance and financial sector assessment activities, nevertheless still favour the co-operative nature of the IMF. The creation of a single EU chair with a clear, single European position and the waning importance of mixed constituencies it entails would affect this co-operative nature. However, much will depend on the positions taken by the EU chair. The internal decision-making process of the EU will therefore be very important.

4.2 Impact of internal EU governance on the IMF

The implications of the introduction of a single EU chair will depend very much on the internal governance of the EU. Specific mechanisms will have to be set up to operate, at the more technical level, the duties and rights of an EU chair at the IMF and to establish, at the political level, the European positions. These mechanisms would function either or not within the broader framework of a common European foreign policy.

Currently, the European Commission and the ECB have observer status at the IMF; the former however only at the International Monetary and Financial Committee, the latter at the Executive Board as well. Voting power lies entirely with the EU countries, the Fund remaining at the current stage a country-based institution. Nevertheless, co-ordination is increasing, both at a technical level (through the setting up of specific committees, in Brussels

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**CHART 2**

**EVOLUTION OF IMF VOTING POWER**

![Graph showing the evolution of IMF voting power from 1946 to 2000. The graph illustrates the changing voting power of different countries over time, with the EU, US, UK, China, France, Germany, Japan, and Belgium. The chart is sourced from IMF.](chart形象)
as well as in Washington) and at the political level (in particular through the informal ECOFIN Council meetings).

A situation in which all EU countries would gather in one constituency (or a membership similar to that of the United Arab Republic) would less strongly affect the rights and duties of the countries concerned. Each EU member state would remain a member of the Fund individually, but Europe would have to speak with one voice, and to cast a single vote. The decision-making process in the constituency would be based mainly on a confrontation of national interests of the members, as is already the case in multi-country constituencies. A major difference in relation to the currently prevailing situation of increased co-ordination would be the need for an ex-ante commitment to reaching a common view, as an ED can only take one position. No changes would be necessary as to IMF financing, which could continue to be a matter of national competence.

When the EU, in another scenario, would become a “fully fledged” single member of the Fund, it would obviously inherit the duties and rights of the actual European IMF member states. This would have more far-reaching implications. The single EU member would contribute to IMF financing according to its quota. Equally, since the IMF only deals with its members and not with sub-entities, the Fund would exert surveillance under Article IV of the Articles of Agreement over the European Union as a whole, and could no longer eventually provide financing to individual member states of the Union.

Whether a single chair will be introduced, and which positions it will take in IMF decision-making, will largely depend on the progress made in the unification of foreign policies. If the European Union succeeds in formulating a common foreign policy, in addition to a common monetary policy, a single EU membership at the Fund would become inevitable. In such a situation, and obviously depending on the clarity of the common foreign policy, all conditions would be present for the European chair to be able to define and defend clear-cut positions.

However, if the EU were to opt for a single membership before foreign policy is unified, EU positions at the IMF would risk to become either watered down, or largely technocratic. The co-ordination of national positions would indeed be a cumbersome process, the outcome of which would risk being compromises reflecting the largest common denominator between still highly differing political views of member states. If and when IMF position-taking would be left to a more or less independent institution of the Union, a factor for tensions within the Union and between the Union and its member states would be built into the system, while at the same time the accountability of the Fund could suffer.

The link between EU and IMF governance obviously is a two-way relationship. The Union’s internal organisation with regard to its single chair at the Fund will indeed undoubtedly be influenced by the degree to which the IMF will be a rules-based institution, providing a clear and transparent framework for decision taking, with well-defined objectives and proper accountability. The higher the degree of discretion in managing the Fund, the more difficult it could be to organise a well-functioning EU chair, able to reach well-defined positions within the often required short time-span.

5. Legal feasibility

The introduction of a single EU chair will require legal adaptations at different levels: the IMF Articles of Agreement, the European Treaties and, in many countries, domestic legislation will have to be amended. Moreover, legal settlements between the IMF and the EU member countries will be needed in order to solve specific transition problems.

The Fund’s Articles of Agreement define the duties and rights of IMF members. Including monetary unions alongside countries in the definition of possible members of the IMF (Article II) could be a promising avenue for establishing a single, fully-fledged EU membership. The at first sight less complex creation of a single European constituency would also require amendments to the Articles of Agreement, mainly regarding the composition of the Executive Board. Article XII, for instance, does not allow the five largest members to join a constituency. As for the settlement of specific transition problems, Schedule J of the Articles of Agreement, ruling settlements of accounts with members withdrawing, and its application in cases like Poland, Czechoslovakia, Cuba or Indonesia, could provide some valuable insights.

Amendments to the EU Treaty may also be necessary to adapt internal governance mechanisms if the EU becomes a single member of the IMF. An interesting precedent in this field is the European representation within the World Trade Organisation.
Legal considerations on differences in EC external representation: World Trade Organisation versus international financial institutions

Although their subject is different, Articles 111 and 133 of the EC Treaty have a very similar construction. On the one hand, Article 111 indicates the way to conclude agreements on an exchange-rate system for the euro in relation to non-EC currencies (or to formulate the general stance of exchange-rate policy in relation to these currencies), determines which EC body decides (under what conditions) on the arrangements for the negotiation and conclusion of such agreements, and which body decides (under what conditions) on the position of the EC at international level as regards issues of particular relevance to Economic and Monetary Union (EMU), and on its external representation. On the other hand, Article 133 indicates the way to conclude international trade agreements and determines which body decides (under what conditions) the arrangements for the negotiation and for the conclusion of such agreements.

**Article 111**

1. [...] the Council may, acting unanimously on a recommendation from the ECB or from the Commission, and after consulting the ECB [...], conclude formal agreements on an exchange-rate system for the [euro] in relation to non-Community currencies [...].

2. [...] the Council, acting by a qualified majority either on a recommendation from the Commission and after consulting the ECB or on a recommendation from the ECB, may formulate general orientations for exchange-rate policy in relation to these currencies [...].

3. [...] the Council, acting by a qualified majority on a recommendation from the Commission and after consulting the ECB, shall decide the arrangements for the negotiation and for the conclusion of agreements concerning monetary or foreign-exchange regime matters. These arrangements shall ensure that the Community expresses a single position. The Commission shall be fully associated with the negotiations [...].

4. [...] the Council, acting by a qualified majority on a proposal from the Commission and after consulting the ECB, shall decide on the position of the Community at international level as regards issues of particular relevance to economic and monetary union and on its representation, [...].

5. Without prejudice to Community competence and Community agreements as regards economic and monetary union, Member States may negotiate in international bodies and conclude international agreements.

**Article 133**

1. The common commercial policy shall be based on uniform principles, particularly in regard to [...] the conclusion of tariff and trade agreements, [...].

2. The Commission shall submit proposals to the Council for implementing the common commercial policy.

3. Where agreements with one or more States or international organisations need to be negotiated, the Commission shall make recommendations to the Council, which shall authorise the Commission to open the necessary negotiations [...].

The Commission shall conduct these negotiations in consultation with a special committee appointed by the Council [...]

4. In exercising the powers conferred upon it by this Article, the Council shall act by a qualified majority.

5. Paragraphs 1 to 4 shall also apply to the negotiation and conclusion of agreements in the fields of trade in services and the commercial aspects of intellectual property, [...].

This paragraph shall not affect the right of the Member States to maintain and conclude agreements with third countries or international organisations in so far as such agreements comply with Community law and other relevant international agreements [...].
6. Potential implications for other international economic and financial organisations

The creation of a single EU chair at the IMF would also affect other international economic and financial fora, and the global external representation of the EU countries. Apart from the IMF, there is a vast array of international groupings where EU countries are represented. The composition of these groups varies. In some of them, the European voice is already present via the European Commission and/or the ECB. In others, only some European countries are represented (Chart 3). The creation of a single EU chair at the IMF might be coupled with a review of how EU countries are represented in the other international financial spheres.

The creation of a single EU chair at the IMF would in all probability influence the governance of the World Bank. Should a single EU seat at the IMF also give rise to a single representation at the World Bank? Such a move might be facilitated by the relative similarity between the governance of the two institutions (the constituencies are identical, and their voting power very similar). In addition, the Bank and the Fund already collaborate closely on country programs and conditionality. On the other hand, it would probably be difficult to establish a single European position at the World Bank, in view of the often highly political development issues handled by this institution.

(1) As confirmed by the European Community Court of Justice (case 22/70 (AETR), judgment of 31 March 1971, ECR., p.263; case 1/94, opinion of 15 November 1994, ECR, §44).

(2) E.g. in IMF matters: surveillance under Article IV over the common monetary and exchange rate policies of the euro area, surveillance under Article IV over the policies of individual euro area members, role of the euro in the international monetary system, world economic outlook, international capital markets reports, and world economic and markets developments.
The consequences of the single EU chair at the Fund will probably be quite noticeable within the G7. The G7 has a decisive influence on IMF decision-making, and the Managing Director of the Fund usually participates, by invitation, in the surveillance discussions of the G7 (or G8) finance ministers and central bank governors. The EU already participates in the G7 (Chart 3). If the EU countries start speaking with one voice within this group, a single European representation could replace the current EU member states’ representatives. This group would hence become a group of four, with the EU and the US as major participants. The governance of the IMF with its two major blocks, the EU and the US, would thereby closely resemble the governance of the G7.

Similarly to the G7, the eleven participants to the General Arrangements to Borrow (GAB) - which also constitute the G10 - or the twenty-six participants of the New Arrangements to Borrow (NAB) are also selected groups of financially strong industrial countries (or their central banks). In the case of a single external European representation, the composition of the G10 and the G7 would become very similar (the only difference being the presence of Switzerland in the G10).

The number and impact of international institutions and fora, which moreover often cover considerable other fields in addition to mere financial and economic issues, again point to the complexity of a streamlining of the European Union’s representation, the far-reaching consequences a single EU chair would entail, and the quasi inextricable links the issue has with the establishment of a common European foreign policy.
References


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