## **Financing Policy Brief Series – Recommendations for FfD4**

# **Addressing representation issues of developing countries in international financial institutions**

Prepared by the Economic and Social Commission of Asia and the Pacific (ESCAP)

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## **Key messages (max. 200 words)**

* The issue of representation of developing countries in major international financial institutions, such as the International MonetaryFund (IMF), has been under discussion for decades but has not been addressed yet.
* Voting right imbalances also persist in multiple international financial institutions with no golden solution to address the issue.
* With better representation and a greater number of voting rights assigned to Asia and the Pacific at international financing institutions, the region would benefit from proportionally greater influence on policy decisions, including improved access to development financing.
* Amid ongoing discussions on reforms of the international financial architecture, regional initiatives represent a complementary approach.

## **Problem statement (max. 500 words)**

***Issue of representation of developing countries and voting power in international financial institutions***

The issue of representation and voting power of developing countries in major international financial institutions such as the IMF has been under discussion for decades. Recently, in August 2023, the XV BRICS Johannesburg II Summit resolution 10 called for changes in IMF quotas to ensure higher representation of developing economies.[[1]](#footnote-2) In April 2024, the Intergovernmental Group of Twenty Four (G-24) noted the need to increase representation of emerging markets and developing economies, including from the Asia-Pacific region, in the IMF governance structure.[[2]](#footnote-3) More recently, in September 2024, the recently adopted *Pact of the Future* underscored “*the need to enhance the representation and voice of developing countries in global economic decision-making, norm-setting and global economic governance at international economic and financial institutions* (Action 48)”.[[3]](#footnote-4)

***An overview of voting rights at the international financial institutions***

Significant decisions at the IMF require an 85 per cent approval rate of all voting rights. This high threshold ensures that decisions represent the vast majority of members and facilitate their implementation. However, the United States of America, with 16.5 per cent of the votes, is the only country with effective veto power at the IMF (figure 1).

**Figure 1. Voting power at the IMF Executive Board,\* June 2024**

*Source*: IMF, “IMF members' quotas and voting power, and IMF Board of Governors”. Available at www.imf.org/en/About/executive-board/members-quotas.

*Notes:* \* The Executive Board (the Board) is responsible for conducting the day-to-day business of the IMF (IMF, “IMF Board of Governors approves quota increase under 16th General Review Quotas”, 18 December 2023.)

\*\* Effective veto power – the IMF Executive Board agrees on decisions with 85 per cent majority, therefore it is enough to have 15 per cent of the votes to block decisions.

Imbalances in voting power are also present at the Asian Infrastructure Investment Bank (AIIB), similar to those at the IMF. The AIIB was established in 2016 as an Asia-focused multilateral development bank under China's auspices. AIIB initially aimed to support the One Belt and One Road initiative, but through deepening cooperation with neighbouring countries has further strengthened its place in the global financial architecture. China, the largest shareholder, dominates the AIIB with 27 per cent of the votes and effective veto power (figure 2).

**Figure 2. Voting power at the Asian Infrastructure Development Bank, June 2024, percentage points**

*Source*: AIIB, “Governance: members and prospective members of the Bank”. Available at www.aiib.org/en/about-aiib/governance/members-of-bank/.
*Note*: \*Effective veto power – the AIIB agrees on decisions with 75 per cent majority, therefore it is enough to have 25 per cent of the votes to block decisions.

The voting power distribution at the Asian Development Bank (ADB) is less concentrated than at the IMF or AIIB. ADB has more shareholders from developed countries who hold larger share positions. Major decisions at the ADB require a super majority of 75 per cent, but there is no ADB member that holds an effective veto power of 25 per cent of the votes (figure 3).

**Figure 3. Voting power at the Asian Development Bank, percentage points**

*Source:* ADB, *Annual Report 2023: Accelerating Climate Action for Sustainable Development* (Manila, 2024).
*Notes:* The table shows voting shares for ADB members as of 31 December 2023.

\*Effective veto power – the ADB agrees on decisions with 75 per cent majority, therefore it is enough to have 25 per cent of the votes to block decisions ([ADB, *Annual Report 2023*](https://www.adb.org/sites/default/files/institutional-document/959761/adb-annual-report-2023.pdf)).

***Besides quota allocation, other factors also play a role in availability of financing***

As of the end of May 2024, around 60 per cent of the total credit outstanding at the IMF has been given to only five borrowers with merely around 2.1 per cent of the total voting power (Argentina, Egypt, Ukraine, Pakistan and Ecuador), highlighting a skewed distribution against the majority of developing and least developed countries, including from the Asia and the Pacific (figure 4).[[4]](#footnote-5) Therefore, concerns about the distribution of votes remain overshadowed by the proportional access to financing by other developing and least developed countries within already existing rules.

**Figure 4. Total IMF credit outstanding against total voting power per member, 28 May 2024**

*Source:* IMF, “Total IMF credit outstanding movement”. Available at [www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas](http://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas) (accessed on 28 May 2024).

***Amid ongoing reforms of the international financial institutions, some regional initiative represent a complementary approach***

With the stalemate on voting rights distribution reform at the IMF, the status quo is likely to persist until at least the 17th General Review of Quotas, to be held no later than 2028. Therefore, regional associations or individual countries are seeking alternatives through creation of new financial institutions and systems. For example, the global financial stabilization system is being enriched by more regional initiatives. The European Stability Mechanism has already disbursed EUR 295 billion and has a further EUR 422 billion in lending capacity as of June 2024.[[5]](#footnote-6) The ASEAN+3 established the Chiang Mai Initiative Multilateralisation (CMIM) in 2010, with $240 billion in reserves.[[6]](#footnote-7) The New Development Bank, established by BRICS countries,[[7]](#footnote-8) has $100 billion in assets. Furthermore, central banks have developed a vast network of swap lines, often unlimited in size, that provide further flexibility, decentralization, and strength to the international financial system, as well as increase the agency of respective countries.

## **Policy solutions (max. 500 words)**

1. **Ensure fair representation of Asia and the Pacific in global financial policymaking**. Asia and the Pacific should raise a fair question about region’s representation in international financial institutions such as the IMF, given that it has almost two-thirds of the world’s population, one-third of the voting rights, and only around one-fifteenth of the total credit flows towards the region. With better representation of Asia and the Pacific, the region would benefit from proportionally greater influence on policy decisions. Consequently, policies that affect the global economy could align better towards regional needs and priorities. The move would also partly translate into improved access to resources for development financing, for example, the IMF quotas are linked to the availability of loans for the IMF members.
2. **A shift towards smaller and more flexible regional financing institutions and development banks.** This approach might serve as a complementary approach to deliver more financing for development in Asia and the Pacific. In any case, even under the current international financial architecture, most development financing is channeled through private banks and smaller creditors at the national level. Therefore, there are no compelling reasons against further regionalization of development financing initiatives.

## **Specific recommendations for FFD4 (max. 300 words)**

* Raise the issue of representation of Asia and the Pacific at the IMF, along with the distribution of the credit outstanding, in the FfD4 and before the upcoming deliberations on IMF voting rights reform.
* Continue efforts on regionalization of development financing initiatives to better serve regional financing for development needs.

**A 75-word summary of the brief for the website.**

Voting right imbalances persist in international financial institutions with respect to the population and size of the economy of their member states. Aiming for greater influence on financing policy decisions impacting developing countries, Asia-Pacific member states should continue on institutional reform discussions. However, strengthening of regional financial institutions in parallel as a complementary approach.

1. BRICS, “XV BRICS Summit Johannesburg II Declaration”, Gauteng, South Africa, 23 August 2023. Available at <http://brics2023.gov.za/wp-content/uploads/2023/08/Jhb-II-Declaration-24-August-2023-1.pdf>. [↑](#footnote-ref-2)
2. Group of Twenty-Four, “Communiqué”, 16 April 2024. Available at https://g24.org/wp-content/uploads/2024/07/ENG-G-24-2024-Spring-Meetings-Final-Communique-1.pdf. [↑](#footnote-ref-3)
3. United Nations, *Summit of the Future Outcome Documents: Pact for the Future, Global Digital Compact, and Declaration on Future Generations* (September 2024). Available at [www.un.org/sites/un2.un.org/files/sotf-pact\_for\_the\_future\_adopted.pdf](https://www.un.org/sites/un2.un.org/files/sotf-pact_for_the_future_adopted.pdf). [↑](#footnote-ref-4)
4. IMF, “Total IMF credit outstanding movement”. Available at [www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas](http://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas) (accessed on 28 May 2024). [↑](#footnote-ref-5)
5. European Stability Mechanism, “Facts”. Available at www.esm.europa.eu. [↑](#footnote-ref-6)
6. ASEAN+3 Macroeconomic Research Office, “Overview”. Available at https://amro-asia.org/about-us/regional-financing-arrangements/. [↑](#footnote-ref-7)
7. Brazil, Russian Federation, India, China and South Africa. [↑](#footnote-ref-8)