G-20 Nearing Agreement on Shifting IMF Quotas, Officials Say

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By Sandrine Rastello and Rebecca Christie

Sept. 17 (Bloomberg) -- Leaders from the Group of 20 are approaching an agreement that would give more power at the **International Monetary Fund** to developing countries judged to be underrepresented, two officials from G-20 nations said.

Talks before next week's summit in Pittsburgh are focusing on a 5 percent shift of so-called IMF quotas from countries with disproportionate influence, said the officials, who spoke on condition they not be identified by name or nationality. Quotas determine members' **voting rights**, financial commitments and access to IMF loans.

Brazil, Russia, India and China, the so-called BRIC countries, this month proposed a 7 percent shift in IMF quotas to emerging markets and developing countries "to correspond roughly to their share in world" gross domestic product. That came after they agreed to contribute to a tripling of IMF coffers that G-20 leaders announced in April, a move richer nations linked to emerging countries' demand for more clout.

"The BRIC economies feel collectively they need to have a significantly higher representation," **Eswar Prasad**, a senior fellow at the Brookings Institution in Washington, said in an interview. "This is the one window they have to achieve a significant rise in voting rights."

The IMF, which has shored up economies from Pakistan to Iceland in the past year, got a boost in April when G-20 leaders agreed to triple its lending capacity to $750 billion. The Washington-based institution, founded in the aftermath of World War II to assist countries in financial distress, had been criticized as irrelevant before the latest credit crisis began.

China's Emergence

China has overtaken Germany to become the world's third- largest economy with annual gross domestic product of about $3.9 trillion, according to Bloomberg data. China currently has a 3.7 percent voting share on IMF executive board decisions, compared with 3.2 percent for Saudi Arabia, whose economy is about one- eighth the size of China's.

Earlier this month, the U.S. proposed a 5 percent shift in quotas while not explicitly advocating that they go from overrepresented to underrepresented countries.

While discussions continue, the proposal that currently has the most support wouldn't involve a straight shift of quotas to all emerging economies, because some such as Saudi Arabia and Argentina are currently overrepresented, the officials said. At the same time, countries such as the U.S. could decline an increase in quotas and instead transfer it to others, according to one official.

Pittsburgh Talks

"The voice and representation of emerging and developing economies, including the poorest, must be significantly increased to reflect changes to the world economy," G-20 finance ministers and central bankers said in London. "We look forward to substantial progress in Pittsburgh."

The IMF board of governors in April 2008 approved a change in the lender's voting structure that would increase developing economies' overall share in voting rights to about 42 percent from 40.5 percent. The change hasn't been implemented because not enough countries have ratified the proposed formula. Former IMF officials have criticized it as inadequate.

Once leaders agree on a percentage shift, negotiations will take place to determine which of the underrepresented countries should benefit most from the boost. China is currently the most underrepresented emerging power at the IMF, one of the G-20 officials said.

The shift also would probably be designed to preserve the existing share of African nations, even as most of them are overrepresented in relation to the size of their economies, Prasad said.

To determine whether a country is over- or underrepresented, IMF negotiators will use a given nation's most recent data and run it against the new quota formula that was agreed to last year, according to one of the G-20 officials. The results will then be compared with the quota the country was allocated in the proposed overhaul.

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