

I. INTRODUCTION

1. **The report of the Executive Board to the Fund's Board of Governors on the increases in quotas of Fund members under the Eleventh General Review reaffirmed the view of the Interim Committee that the quota formulas should be reviewed following the completion of that review.**¹ Accordingly, in 1999 the Managing Director requested a group of external experts to provide the Executive Board with an independent report on the adequacy of the quota formulas, including proposals for changes if appropriate. This Quota Formula Review Group (QFRG) recently submitted its report to the Executive Board. As called for in the Terms of Reference of the Review of the Quota Formulas, this commentary presents the staff's views on the report.
2. **The report of the Quota Formula Review Group (QFRG) addresses many of the complex issues that the Executive Board has discussed over the years regarding the role, structure, and content of the quota formulas.** The QFRG has made a proposal for a new formula which involves a major simplification and updating of the formula to enhance transparency and to take account of changes in the world economy. Adoption and implementation of the QFRG proposal could have significant implications for the distribution of quotas with important consequences for members' financial relations with, and governance of, the IMF.
3. **This commentary presents the staff's views on the QFRG's approach and indicates areas where further work is required on a number of key conceptual and data related issues.** The remainder of this paper is organized as follows. Section II provides background on how quota formulas have been utilized in the past and how a reformed formula would need to be introduced in the future. Section III discusses the method used by the QFRG to derive a new quota formula, including the role that the different functions of quotas should play in quota formulas and the specific criteria that might be used to guide any changes in the quota formulas. Section IV assesses the quota formulas proposed by the QFRG, discusses data-related issues, and presents the results of mechanically applying an incomplete version of the QFRG formula to the data ending in 1994 that were used for the Eleventh Review. Section V discusses the next steps that could be undertaken by the staff.

II. ROLE OF QUOTA FORMULAS

4. **Since the IMF's inception, the quota formulas have been used primarily to help guide decisions regarding the size and distribution of members' actual quotas.** In recent years, the calculated quotas derived from the formulas have served to distribute a portion of the quota increases in the context of general quota reviews, to determine the initial quotas of

¹ *Selected Decisions and Selected Documents of the International Monetary Fund*, Twenty-Fourth Issue, June 30, 1999, p. 723.