IMF Reforms

Why in news?

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Indian Finance Minister called for reforms in IMF quota system.

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Why quotas are important?

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- **Quotas determine the size of contingency funds at the disposal** of the IMF to lend to countries in need of help.
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- It also decides the power of individual countries to influence lending decisions and tap into the funds themselves.
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- Though developing countries hold less than half the overall quota at the moment, with their rapidly increasing economic heft they have demanded a greater share — with limited success.
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Why is the quota system a matter of concern?

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- The **15th General Review of Quotas (GRQ),** the most recent attempt to revise the size and composition of the system, was to be completed by October 2017, but now extended to 2019.
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- The delay was not unexpected, given the poor precedent set by the long delay in adoption in 2016 of the previous GRQ (originally approved in 2010).
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- That had doubled the overall size of the quotas to $659 billion (from $329 billion) while allotting an additional 6% of quotas to the developing world.
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Why IMF’s relevance is being questioned?

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- This delay is raising the **question of relevance of the Bretton woods institutions** among the developing countries.
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- Also at stake is the potency of the IMF in keeping up with the changed fundamental needs of developing economies.
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- The developing world is **looking beyond the short-term crisis management tools** that the IMF, as the sole international lender of last resort, has traditionally offered them for decades now.
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- China, for instance, with its steadily rising influence on the global economy, has grown to be the focal point for economies seeking alternative sources of capital to fund their long-term growth needs.
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- India announced that it is seeking $2 billion from **the New Development Bank,** set up by the BRICS countries in 2015 with a more equitable power structure, to fund infrastructure projects.
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- **The Asian Infrastructure Investment Bank,** launched in 2014, could be an even bigger threat to the IMF’s influence given its larger membership, lending capacity and international reach.
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- In this environment of competition, the IMF will have to do more than just superficially tinker with its asymmetric power structure and out-dated quota system.
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Source: The Hindu

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