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**BRICS experts on IMF reform
(based on a joint RISS and NCR BRICS
survey, December 2015—January 2016)**



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Committee on
BRICS Research

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Abstract

Globalization has made it easier for crisis phenomena to spread across borders, thus impairing ability of certain countries' monetary authorities to ensure their national financial markets stability. Since the IMF role as a key international financial institution and a global "crisis manager" has been rising in that environment, it has become imperative for developing countries to have a greater say in running the Fund.

The 2010 reform agreed at the Seoul G20 summit, though, did not offer them significant opportunity to influence the IMF decision-making process. Moreover, quota formula revision and subsequent quota review are still on the agenda. It is the BRICS countries that should take the lead in securing those issues. They should also develop new initiatives whose implementation will ensure further IMF reform. For these ends, the Russian Institute for Strategic Studies and the Russian National Committee on BRICS Research have carried out a survey of the BRICS expert community, with results presented in this paper.



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BRICS experts on IMF reform (based on a joint RISS and NCR BRICS survey, December 2015—January 2016)

Adopting the IMF reform agenda in the global crisis

Globalization has made it easier for crisis phenomena to spread across borders, thus impairing ability of certain countries' monetary authorities to ensure their national financial markets stability. In 2008–2009, that factor surfaced on a large scale for the first time. The rapid and destructive effects of the crisis proved that the existing level of international cooperation in carrying out joint anti-crisis measures was inadequate. International organizations, most notably the IMF, were totally unprepared to meet new challenges, and that was a major problem.

Transition from western dominance in the system of international institutions' management to a more just distribution of powers among countries contributing to the world

economy was to become a key step for the international community to adequately deal with and get over the shortcomings brought to light, most experts believe¹. And throughout the crisis, western countries could not but admit that it was not possible for the IMF to be effective and legitimate in its activities unless developing countries had a more say in the Fund management.

Several circumstances contributed to re-examination of the developing countries' role. Firstly, major developing economies had become creditors, having ceased to be borrowers of the IMF. Secondly, many developed countries (European, first and foremost), by contrast, had turned into recipients of IMF financial aid².

A compromise was reached when authority to debate and eventually accept a global anti-crisis plan was transferred from the G7 to the G20,



which also included developing countries' leaders. It was on the sidelines of the 2008 Washington, D. C., G20 summit that the leaders of Brazil, Russia, India and China—the then most dynamic developing economies—agreed to coordinate their positions thereafter. And it was as early as 2009 that a new international group, BRIC, appeared, with South Africa joining in later on (and as a result, BRIC became BRICS).

Since the very beginning, developing international financial architecture and IMF restructuring had been fundamental issues for the BRICS, and it was emphasized in their leaders' first joint statement³. Admitting the IMF leading role as a key international financial institution and a sort of “crisis manager” ensuring financial markets stability and dealing with world crises, the BRICS countries repeatedly pointed at discrepancy between their share of the world production and their IMF quota (22.9 per cent⁴ and 10 per cent respectively, as of 2008). Such significant underestimation of developing countries' role deprived them of the opportunity to influence the IMF decisions effectively.

The proactive stance of BRICS member countries in many ways determined conditions for IMF reform agreed by the G20. Developed countries committed themselves to changing the IMF institution governance system, as their response to developing nations' participation in financing IMF extra needs. The Seoul Action Plan contains a final reform scheme, which declares:

- shifts in quota shares of over 6 per cent for the benefit of emerging market and developing countries and to under-represented countries;
- doubling the quotas while preserving existing member-countries shares;

- transition to a completely elective IMF Executive Board;
- greater representation for emerging market and developing countries at the Executive Board through two fewer advanced European chairs, and the possibility of a second alternate for all multi-country constituencies;
- further increase in representation of emerging market and developing countries through a comprehensive review of the quota formula by January 2013, and through completion of the next general review of quotas by January 2014⁵.

IMF reform implementation in 2010–2016

Implementation of agreement already achieved was being unreasonably delayed. The U.S. Congress had long refused to debate a bill that would allow the reform. Meanwhile, the quota review and changes to the IMF Executive Board members' election procedures agreed in 2010 could not enter into force without approval of a member with blocking shareholding, i.e. the USA with IMF share exceeding 15 per cent.

For 5 years the world community was in a stalemate because of only one IMF member, albeit the largest one. Other shareholders could not ensure further IMF governance reform without accomplishing the changes agreed by the G20. For example, IMF executives had been postponing debates on quota formula review (one of the issues agreed in Seoul) till the 2010 reform completion. As a result, debates on the IMF future on major international platforms decreased to discussing possible ways to settle the USA issue.

That is why the world community was somewhat taken by surprise when American legislators agreed to

ratify the IMF reform in December 2015. Questions of what further steps to improve IMF governance should be were not asked because of the boundless optimism caused by the long-term expectations come true. Moreover, Christine Lagarde was re-elected IMF Managing Director at the beginning of 2016, without any other candidates to choose from.

BRICS and further IMF reform

It is probably too early for developing countries to celebrate though. No significant changes in quotas – and also votes – are intended by the 2010 reform. The joint developing-economies quota raised by only 2.8 per cent (to 42.4 from 39.6) instead of the 6 per cent stated in the G20 papers. Other objectives (including BRICS share increase from 11.5 to 14.8 per cent) were achieved through quota redistribution among developing economies themselves⁶.

However, it is not in the U.S. interest to further reform the IMF, and Ms Lagarde's extended powers could "freeze" the reform process yet again. The IMF statement of January 2016 claiming that agreement on 15th General Review is not possible until the autumn of 2017 indicates a delay course in reforming the Fund⁷.

Moreover, in March 2016, Ms Lagarde spoke again of "a breathing space" and a slowdown between the 14th and 15th General Quota Reviews⁸. It is noteworthy that the IMF Managing Director did it to respond to the speech of India's Prime Minister, Narendra Modi, who pointed out that the existing quotas do not reflect the actual role of developing countries in the world economy.

In those challenging circumstances, the BRICS countries have started

campaign for full implementation of the Seoul Action Plan and for working out new ideas for IMF reform. China, chairing the G20 in 2016, has suggested that the international financial architecture working group restart its activities⁹. Further amendments of international institution governance have also been named among the three major G20 issues for the year 2016¹⁰. However, the BRICS priority is implementing the Seoul Summit decisions requirement to amend the quota formula so that it could "better reflect the economic weight of the countries"¹¹.

That issue is not to be looked at as solely a "technical" one. There should be a 15th General Quota Review on the basis of a modified formula, which could put an end to the US hegemony in the Fund. Anyway, if it was being carried out now (according to 2013 statistics), even with the current formula the BRICS' share would be 20 per cent, while the US share would drop to 14.5 per cent. Quota share among developed and developing economies would be fairer as well (51.3 per cent and 48.7 per cent respectively)¹².

The CNN interview of Jack Lew, US Treasury Secretary, shows unequivocally that Washington fully understands how important the issue is. Explaining the meaning of IMF reform to Americans, he noted that although the words 'quota review' "sound esoteric" to most of them, "what it stands for around the world is American leadership"¹³.

However, if the BRICS countries are to challenge the US leadership, they should offer the international community (and in particular the G20) a new IMF reform agenda. The BRICS should also take into account longstanding US concerns about the EU over-representation on the Executive Board¹⁴, as well as recently

surfaced risks connected with the European Commission plans to make Eurozone directors take collective decisions and later move to a single euro area representation in the IMF¹⁵.

Therefore, further consolidation of BRICS efforts within the IMF is of major importance. The countries are to develop joint initiatives whose realization will best serve the interests of the BRICS in the course of further IMF reform.

The BRICS experts on implementing IMF reform

In order to identify most promising “interaction points” the Russian Institute for Strategic Studies and the Russian National Committee on BRICS Research surveyed the member countries’ expert community in December 2015–January 2016, with more than 50 experts from BRICS taking part. The questionnaire was aimed at revealing respondents’ position on the following issues:

- role of BRICS (as compared with other international forums and organisations) in the current and any subsequent changes in the IMF governance system;
- ways of further IMF reform, including the review of the quota formula;
- assessment of BRICS expert community interaction and of the prospects for increasing its efficiency.

The survey reveals a significant similarity in views of the BRICS experts. Their answers speak of their dissatisfaction with IMF reform progress. They also show high expectations of more active and consolidated BRICS participation in further IMF reforming. At the same time, the answers were largely affected by the 2010 reform completion which occurred after its ratification in the

US Congress at the end of 2015.

Specific country factors that influenced BRICS expert opinion should also be described. For Russia, it is deterioration of its relations with developed countries following the US-inspired sanctions against the country and a rather negative reaction to Western initiatives as a result. For China, on the contrary, it is a positive attitude to the current IMF management and the Fund’s readiness to confirm the ambitions of Beijing (renminbi inclusion in the reserve currencies basket, official recognition of China as the largest world economy).

That influence has been confirmed by the respondents’ evaluation of the IMF executive bodies’ efforts to implement the 2010 reform package. Over two thirds of experts (69 per cent) think of them either as totally or rather ineffective, with no one considering them highly effective. Chinese and Indian experts’ attitude was more favourable though, with 47 and 40 per cent respectively rating the IMF efforts as “rather effective”. However their reaction was received after the US Congress decision to ratify the 2010 reform.

The question about G20 and IMF efforts in implementing the 2010 reform led to similar results. While all (100 per cent) Russian experts, surveyed prior to the US Congress decision, gave a negative answer, among Chinese and Indian respondents, surveyed in January and February 2016, negative reaction made up 50 and 60 per cent respectively.

It may be partly explained by the fact that experts from the BRICS countries other than Russia consider the G20 international forum to be quite important, since involved not only developed but also developing countries. A rather positive attitude of the BRICS expert community to

G20 is also reflected in their answers to the question about BRICS, G20 and G7 effectiveness in their actions taken to implement the IMF reform (Fig. 1).

Despite the fact that no one of the three – BRICS, G20, G7 – was scored high (5 points), all experts looking at the effectiveness of actions taken to implement the IMF reform put the BRICS at the top, with G20 following immediately after. According to Chinese experts, the G20 role in the reform is all but slightly less important than that of BRICS; with the other four countries’ experts, that gap is more obvious. Noticeable is the G7 ranked third by all respondents, although the Chinese and Indian approach proved more positive than Russian.

It should also be noted that the experts showed high consistency of opinion on the issue (within the group at large, and among Russian, Chinese and Indian respondents), and that indicates reliability of the data. However, the absolute figure in evaluation of the BRICS efforts in implementing the 2010 reform was rather low (3.2 points on a five-point scale), not to mention the other two international bodies. In fact, it is a result of the unreasonable delays in implementation of the agreed chang-

es and the world community failure to influence the US policies.

Assessing steps to improve the IMF governance

Confirming the fact that there is a clear need to ensure fairer representation for all IMF member countries, most survey participants (71 per cent) consider the IMF reform a priority on the BRICS agenda, with 26 per cent assessing it very high, and no one pointing at the opposite ‘very low’ option. It is noteworthy that Russian experts, more than Chinese respondents, underline importance of changes in the IMF governance system. The reason might be in the timing, with Russian reaction received before and Chinese after the US Congress decision to ratify the 2010 reform.

Practically all experts agree that the BRICS are to work out a common vision for further IMF reform (only one expert does not find it necessary). 65 per cent of the respondents pointed to the necessity of developing a long-term BRICS strategy on that issue; further 33 per cent support its consecutive coordination with the other G20 members. The interesting point is that those who ranked priority of IMF reform on the

Expert assessment of the BRICS, G20 and G7 efficiency in promoting the IMF reform

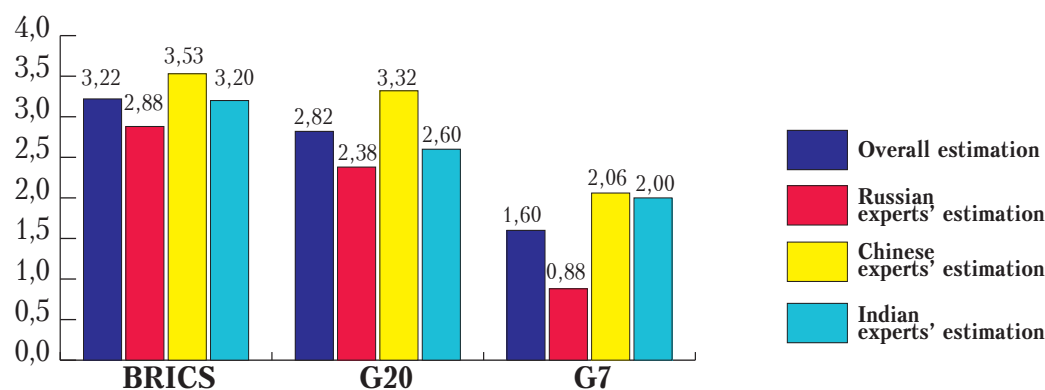


Fig. 1.

BRICS agenda as high and very high express less willingness to coordinate actions within the G20.

Respondents' views of the necessity to cooperate within the G20 proved quite different, with only 12.5 per cent among the Russian experts finding it sensible to coordinate the BRICS stance with the other G20 members, while among Indian and Chinese experts the figure amounted to 60 and 45 per cent respectively. The fact that in the Russian group there were quite a few experts who did not consider IMF reform to be a priority on the BRICS agenda obviously explains the gap.

More openness in discussing ways of implementing IMF reform is still another necessary change, with 56 per cent considering it to be extremely desirable and 44 per cent describing it as desirable. No one chose the "undesirable" or "highly undesirable" option. It is noteworthy that the "extremely desirable" option made up 73 per cent among the Chinese experts, as compared to the Russian 44 per cent and the Indian 20 per cent.

The survey demonstrates that within the BRICS expert community there is a ground for developing a common position on further IMF reform. All respondents agree that it is global aspects determining the IMF governance system that should be aimed for rather than peripheral ones, such as changes in approach to granting aid and assistance to countries in need. Still, some differences remain in the understanding which is to come first.

Most Russian and Indian experts consider quota review to be the most important task. The Chinese respondents find it more important to have the quota formulas revised. At the same time, the "change of approaches towards granting aid programmes" issue seems to be more significant to the Russian experts than to the Chinese or Indian. This probably has something to do with IMF inconsistent policy in matters of granting aid to Ukraine and settlement of the country's debt to Russia.

Besides, it is not easy to define clear preferences in expert view as for the BRICS priority direction. The

Expert assessment of IMF reform priority issues

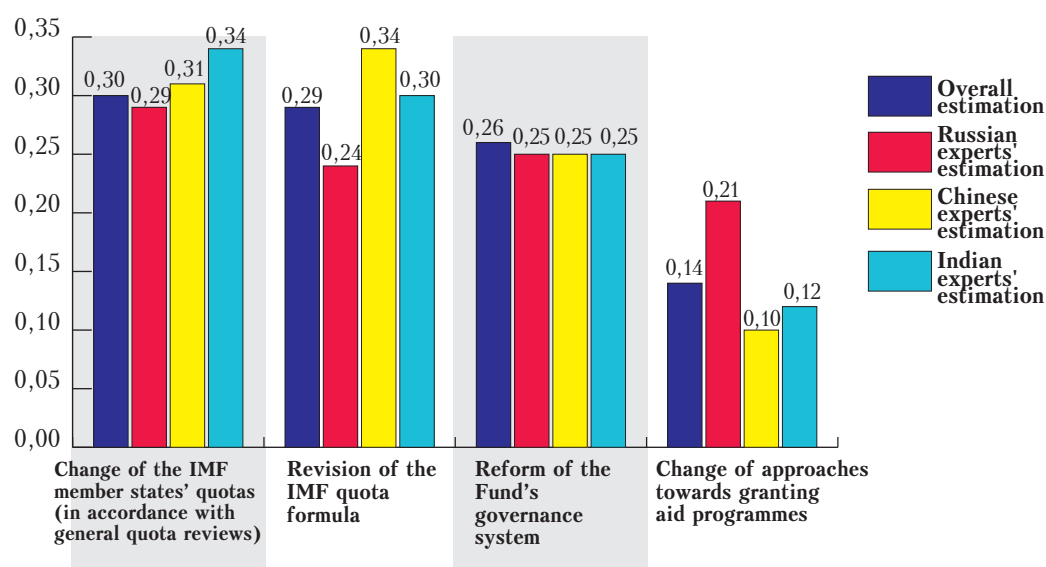


Fig. 2.

three options (quotas review, quota formula revision, IMF governance system reform) got approximately equal expert attention with only minor differences in the range of 0.30 to 0.26 (Fig.2). The thing to mention here though is that the “quota review” is seen the most important.

The experts agree that the IMF governance should still be based on quota system, and only 10 per cent approve of switching to the “one country—one voice” approach (Fig.3). As for another “cornerstone”—blocking package—the experts’ opinions divided almost equally: 45 per cent believe that the majority requirements for decision-making process should be reduced so that no one country could get the right to veto, while 39 per cent think it possible not to change the 15-per cent blocking package element, provided that the list of issues requiring the 85 per cent approval threshold be revised; still another 6 per cent are in favour of maintaining the status quo.

Referring to differences in Russian, Chinese and Indian responses

[to the aforementioned question], it should be pointed out that the Chinese experts chose either the “review the list of issues which require the 85 per cent majority” option or the “reduce the majority requirements for decision making process” one. The Russian experts also preferred the latter option, while the Indian position contains more variants.

On the whole, the results indicate that the BRICS expert community disapproves of any blocking power of IMF decisions by any individual country.

As for the issue of the IMF Executive Board reform, a greater number of experts (73 per cent) consider it insufficient. They also believe that the developing countries’ share in IMF should account for no less than 45 per cent of the votes, including the 24 per cent of the BRICS’. The Chinese experts believe that the BRICS share must be 21 per cent, Russians think of the 26 per cent BRICS share and the Indian claim here amounts to 35 per cent. The US share at that turns out to be even higher, if just

Expert assessment of decision-making process requiring 85% of the IMF member-states votes

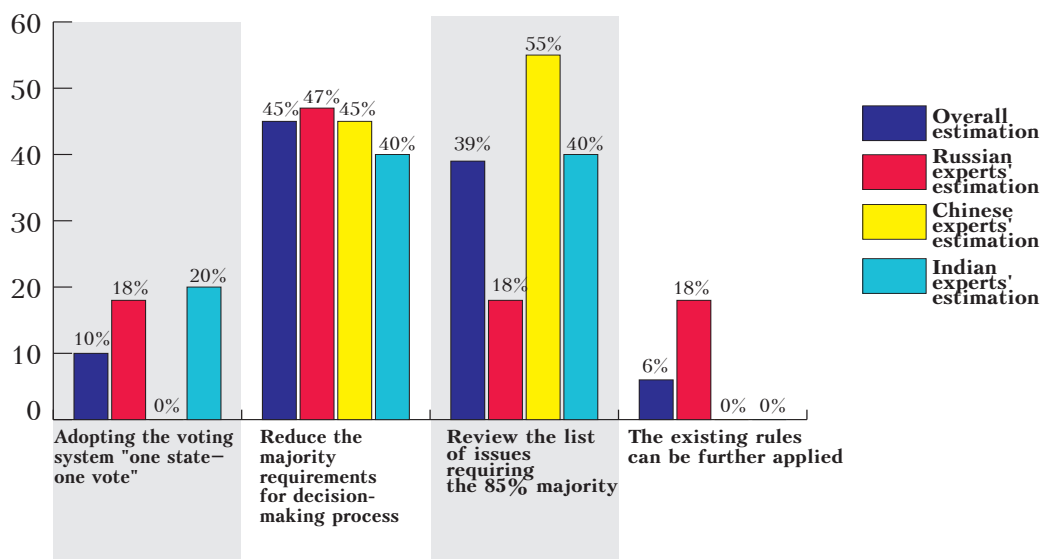


Fig. 3.

slightly, than it is now (18 per cent as compared to 17) but it is still lower than the aggregate BRICS share; the EU share on the Board (the experts point to up to 20 per cent) also turns out to be lower than the BRICS'. It might be stated then that BRICS' experts consider it sensible to have the BRICS share increased through a decrease of the EU's in the long term (Fig.4).

It is interesting to note a connection between respondents' opinion of developing and developed countries' votes and how they measured Executive Board amendments proposed by the 2010 reform. Thus, most Russian experts thought of the 17 per cent US share, while those who do not consider the Executive Board amendments sufficient gave the US 16 per cent. The gap is still larger with the Chinese respondents (18 per cent and 14.5 per cent respectively), and there is a similar gap in number combination as far as the EU share is concerned (18, and 16 per cent). It should also be emphasized that the Chinese experts give the US a share that is even lower than the one required for the 15 per

cent blocking package powers.

As for Executive Board election procedures, most experts believe election is to be carried out in groups (as is the case), with 38 per cent who think that group allocation should take place before every election, and 15 per cent of those who believe that election could be held in the existing groups. The total number of those who favour direct vote amounts to 48 per cent including 31 per cent who agree with the "direct vote with limited number of directors from developed countries" option.

The only exception is India where the overwhelming majority of the experts support direct election combined with a quota for developed countries representatives.

By tacit agreement with their European partners, Americans secure the head of the World Bank post, while the IMF Managing Director comes from an EU country. The BRICS countries are ready to resist the established order, the survey results have shown. The majority of experts (67 per cent) assessed the priority of promoting a single BRICS candidate

Expert estimation of "fair" voting shares of IMF member countries

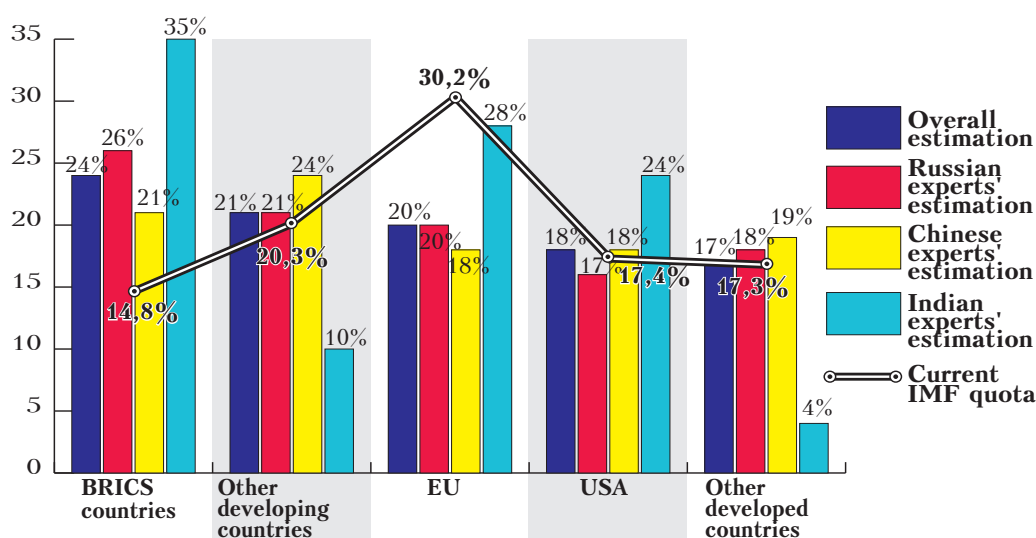


Fig. 4.

for the post as high and very high (33 and 34 per cent respectively). Commenting on their option, the experts pointed out that the BRICS candidate must be a single candidate representing developing countries.

The Chinese expert view of that is quite noteworthy: they evaluate the priority of promoting a single BRICS candidate as very high (62 per cent). The Indian expert view is by far more restrained, with 60 per cent rating that priority as medium or low. The Russian answers are divided equally (Fig. 5).

At the same time the survey showed that the BRICS expert community does not want any confrontation with other IMF members: 57 per cent consider raising an issue of moving the IMF headquarters from the United States elsewhere inappropriate.

The BRICS experts' view on the quota formula review

The next stage of the survey was to identify the BRICS expert attitude to the existing quota formula.

On average, over 61 per cent of respondents consider changing the current formula to be appropriate.

Almost all experts agree that it is not appropriate to further use “economic variability” (Fig. 6). At the same time more than 71 per cent think that the “GDP based on purchasing power parity” (PPP GDP) element may remain unchanged, though there are some differences within the BRICS expert community at that point. While in Russia (almost 90 per cent) and India (100 per cent) of the respondents agree with that, in China only 55 per cent are of a similar opinion.

Unlike the “GDP based on market exchange rates”, the PPP GDP is a fairer assessment of any economy share in the world production, and that was noted by all respondents. There were not as many Chinese experts as in the other BRICS countries to favour the PPP GDP (though there were more among them to agree to the GDP valued at market exchange rates element to be used further), and that, as we see it, reflects the increasing role of the renminbi in the

Expert assessment of promoting a single BRICS candidate for IMF Managing Director position

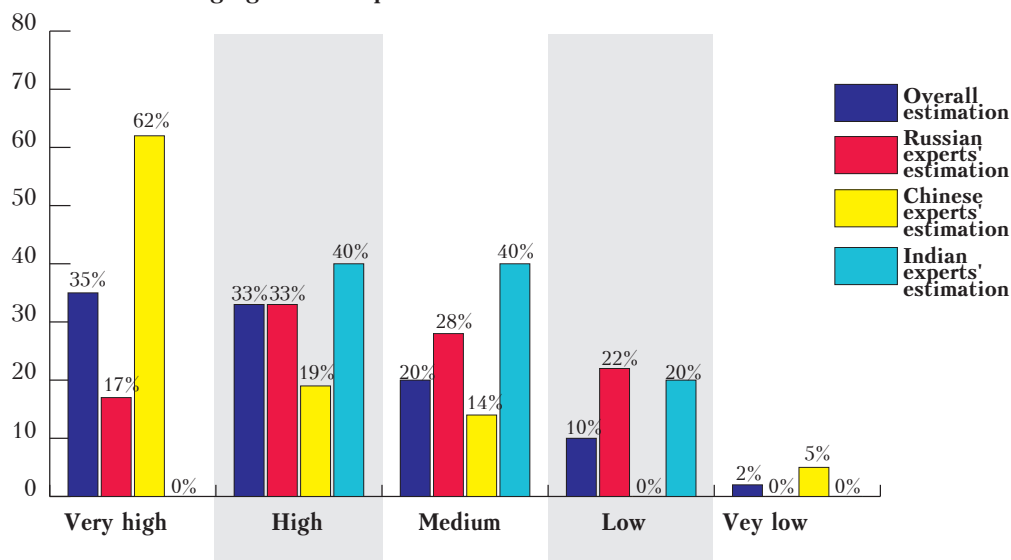


Fig. 5.

Expert view on further use of existing variables in the quota formula

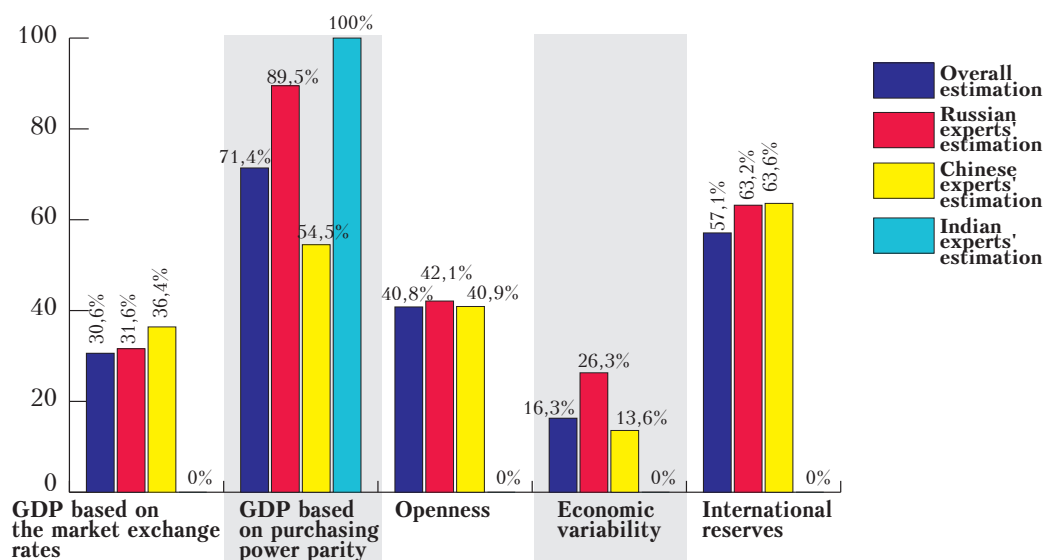


Fig. 6.

world financial system after it was included in the IMF basket. China would only benefit from using GDP valued at market exchange rates if that led to the renminbi revaluation to the US dollar.

It is worthwhile to mention the Indian attitude: the experts believe that only the PPP GDP element of the existing quota formula is appropriate to be further used. However, answering the next question about variables to be included in the new quota formula, they pointed to foreign trade volume—which is largely similar to the openness variable—and to the amount of international reserves as well.

It should also be noted that there is a consensus among BRICS' experts about further use of still another quota formula variable—amount of international reserves. 63 per cent favour it in Russia, 64 per cent in China and 40 per cent in Brazil and South Africa.

As for the openness variable, quite a few respondents (more than 40 per cent in Russia and China, and 60

per cent in Brazil and South Africa) think it appropriate to be used further. It indicates that BRICS experts recognize the importance of foreign trade in ensuring national financial stability.

A number of experts suggest that the existing quota formula be enlarged by including volume of capital flow in it (e.g. investment inflow and outflow). Among other variables it is a country's population that is mentioned more often (with weight of 10–15 per cent).

It may be concluded that the BRICS expert community do not as yet have a clear understanding what elements a new quota formula should embrace. Rejecting the existing formula, they actually do not offer variables that can be readily formalized, and come up with options like “contribution to world development” or “level of government intervention in the economy”. Also suggested are elements similar to those already in use (e.g. “contribution to world economy”, “share in the world trade”, or “export and import volume”).

The experts believe that the calculated quota formula should play a decisive role while determining IMF member country actual quota and vote share. 46 per cent are convinced that the actual quota should consist of the calculated quota by 90 (or more) per cent (Fig. 7). On the other hand, quite a few think that when determining a country's actual quo-

ta, factors that are difficult to formalize should be taken into account as well. There are more of those who believe that the actual quota should consist of the calculated quota by 70 per cent. And that is anyway higher than the IMF experts' 60 per cent of the calculated quota (the remaining 40 per cent are to be negotiated)¹⁶. Thus, the BRICS expert community

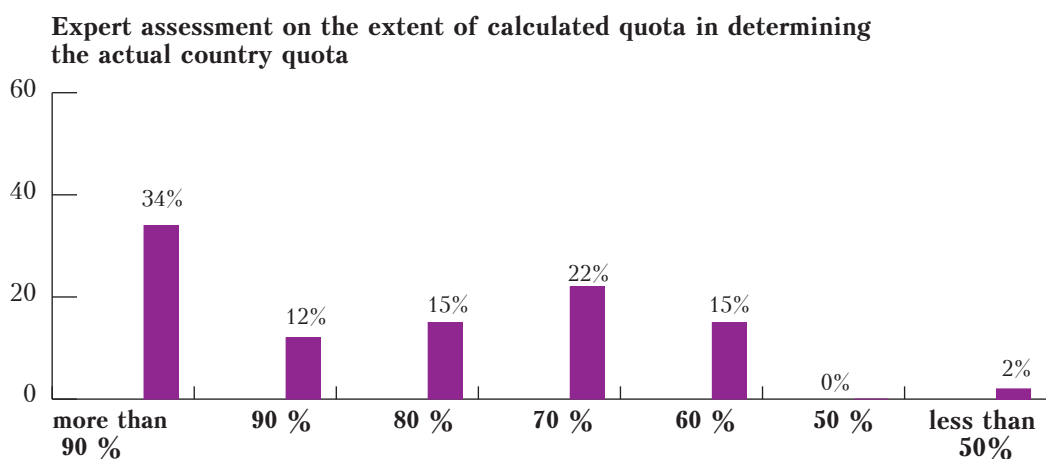


Fig. 7.

favour more transparent quota determination, besides quota formula review.

Evaluating the current level of the BRICS experts' cooperation

Questions on effectiveness of BRICS national expert communities' collaboration in forming a unified position towards global financial architecture reform were the final part of the Questionnaire. On the whole, the respondents did not rank it high, which was surprising (Fig. 8). While none of them chose the "very low" option, 50 per cent considered it to be "medium" or "low", with 60

per cent thinking that way in Russia, India, Brazil, and South Africa. It is only the Chinese experts who rank the efficiency "high" (43 per cent), or "very high" (24 per cent).

However, answering the question about most competent researchers in issues of the global financial system, the Chinese experts referred mainly to their fellow countrymen (33 researchers), they mentioned only two Brazilian names and one Russian as well. Besides, the researchers' names mentioned were different almost in each case, and all the Chinese researcher names, but one, pointed at by the Russian respondents were not mentioned by the Chinese respondents, and visa versa. That appar-

Expert assessment of BRICS expert communities' collaboration

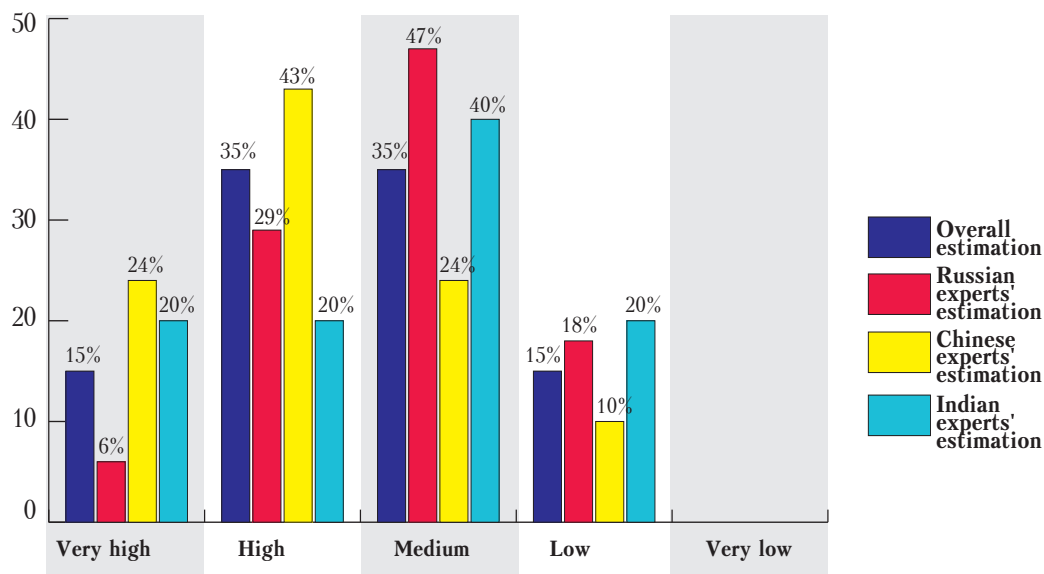


Fig. 8.

ently speaks for insufficiency of the current level of collaboration inside the BRICS expert community.

Among measures necessary to increase BRICS national expert communities' collaboration most respondents consider conducting joint research to be the most important: 8.3 points out of 10, with Indian, Chinese, and Russian ex-

perts putting it at the very top (Fig. 9). For Brazilian and South African experts it is a Number 2 thing; they consider intensifying researcher exchange programmes to be more important: 9 points out of 10. It is probably because the majority of the Brazilian and South African respondents represent their

Expert view of measures aimed at increasing efficiency of BRICS expert communities' collaboration

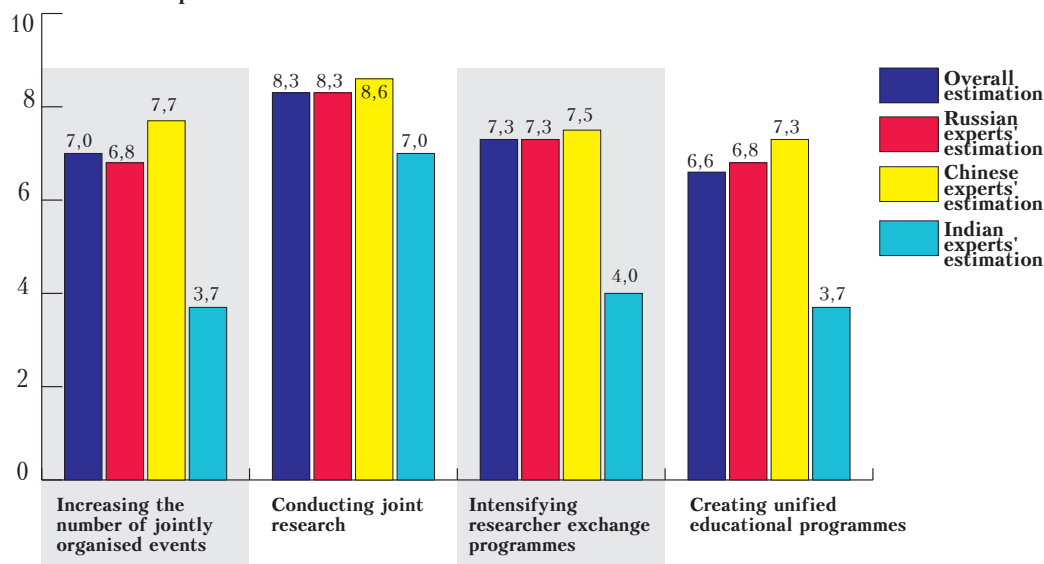


Fig. 9.

national institutions on BRICS research.

The experts do not see much difference between traditional forms of interaction (conferences, etc.) and researcher exchange programmes as factors to improve collaboration effectiveness. The Chinese experts ranked increasing the number of jointly organized events (conferences, etc.) second, their Russian and Indian counterparts ranked it third, assessing researcher exchange programmes higher.

Creating unified educational programmes got the lowest rating (on average 6.8). All the experts, but for Russian, ranked it last. The Russian experts ranked creating unified educational programmes the same as increasing the number of jointly organized events (6.8 out of 10).

The vast majority of the experts think it necessary to organize joint BRICS research on the basis of a single expert centre. Only 17 per cent think the existing cooperation is enough.

63 per cent believe that a single expert centre will contribute to a unified position and spreading of the BRICS views worldwide. The Indian experts are more cautious in their ranking, although 50 per cent agree that conducting joint research on the basis of a single expert centre makes sense. On the other hand, 50 per cent of the Brazilian and South African experts do not think the centre is needed.

Conclusion

Most significant aspects of the experts' views could be summarized in the following way.

1. It is important for the BRICS countries to play an active role in further reform of international fi-

nancial institutions. Almost everybody highlighted common vision for IMF reform as necessity. IMF executive bodies' ineffectiveness, as well as lack of openness in IMF decision-making process, are named as most worrying.

2. It is not easy to define clear preference in expert view as for BRICS priorities in further IMF reform. Three out of four options (quotas review, quota formula revision, IMF governance system reform) got approximately equal expert attention. Besides, a coordinated position on the following issues has been revealed:

- PPP GDP should be the main element to be used for a new quota formula;
- difference between actual and calculated quotas should be less significant;
- the role of 15 per cent blocking package in IMF decision making should be reduced;
- a single BRICS candidate for IMF Managing Director post in elections to come is needed (the candidate should represent other developing countries as well);
- an increase of the BRICS and other developing economies share in the IMF through a decrease of the EU share could be insured in the long term.

3. The BRICS experts agree that there is a need to strengthen ties between the national expert communities. They do not rank the current collaboration level high, and conducting joint research was named as the most important measure to improve its effectiveness. The vast majority of the experts think it necessary to create a single expert centre which will allow to better coordinate joint research and help promote the BRICS views worldwide.

Footnotes

¹ Issing O., Asmussen J., Krahn J., Regling K., Weidmann J., White W. New Financial Order Recommendations by the Issing Committee Part II (March 2009) / O. Issing, J. Asmussen, J. Krahn, K. Regling, J. Weidmann, W. White / Frankfurt. Center for Financial Studies, Goethe-Universität. 2009. P. 7. URL: https://www.ifk-cfs.de/fileadmin/downloads/publications/white_paper/White_Paper_No_2_2009_Final.pdf (accessed 05.05.2016).

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³ Joint Statement of the BRIC Countries' Leaders / President of Russia: website. January 16. 2009. URL: <http://en.kremlin.ru/supplement/209> (accessed 04.05. 2016).

⁴ GDP at PPP rates

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