Source of extra IMF funds unclear

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The EU's backing at the weekend for a campaign by the International Monetary Fund to double its resources will have been welcomed at the institution's headquarters in Washington, where its limited resources are rapidly flowing out to troubled governments around the world.

The IMF is now undertaking what Ted Truman, senior fellow at the Peterson Institute in Washington, calls a "tin cup approach".

It is raising ad hoc contributions from member countries, such as the $100bn (€77bn, £70bn) it recently received from Japan, to supplement its existing $250bn or so in resources, of which $192bn remains available.

Simon Johnson, a former IMF chief economist at the Massachusetts Institute of Technology, says the fund would not have called for a doubling of resources had it not already received assurances they would arrive. But the precise sources remain unclear.

The US, for one, will find it difficult to make an ad hoc contribution as it would mean asking Congress for the money.

Another option would be to issue special drawing rights – the IMF's own basket "currency" – which could then be distributed to needy member states. But fund officials say the process is too cumbersome and that they need money more quickly.

Yet raising money from countries with big currency reserves such as China means exploring politically difficult questions such as voting power on the IMF's board and what it should be saying about its member countries' exchange rates.

The EU, and particularly smaller nations such as Belgium, the Netherlands and the Scandinavian countries, are heavily over-represented on the IMF's executive board relative to their size in the global economy.

But they have so far resisted giving up that privilege and reducing their number of directors and voting power.

"The Europeans are aware that something is expected from them and that they will have to move," says one former board member. But, the former director says, they are not yet ready for one obvious solution – to have the eurozone countries represented by just one seat on the board.

Emerging markets are pushing for the Group of 20 meeting in April to bring forward the next review of the IMF's "quotas" – the contributions that determine votes on the fund's board – from 2013 to 2010 or 2011. But last week Christine Lagarde, French finance minister, warned against an obsession with the IMF's internal governance.

"I don't think we should get distracted with belly-button [navel-gazing] exercises, because when you get an institution talking about its governance you can be there a long time," she told reporters in Washington.

And the issue is tied up not just with voting rights but with the fund's decisions.

Mr Johnson says: "The main Chinese concern is with exchange rate policy rather than voting weights". Beijing was unhappy that the fund sharpened its surveillance of member governments' currency policies in 2007, with Chinese officials saying it was a US-inspired move to put pressure on Beijing to float the renminbi.

Easing pressure on China would bring accusations that the IMF was selling out its independence for money. Yet former IMF officials say that EU countries have already flexed their muscles on their own countries' behalf in that area.

Eswar Prasad, former head of the China department at the fund, says that the IMF's management floated the idea of first undertaking an assessment of Latvia's fixed exchange rate to prevent the idea that it was singling out China for criticism. But the idea of a special investigation into the Latvian currency was swiftly scotched by European representatives at the fund.

Giving emerging markets more say over the fund before 2013 will also mean the IMF's management having to backtrack on its previous views.

As recently as November Dominique Strauss-Kahn, managing director, told the FT: “The voting power is determined by a very complex formula. I don’t propose at all to change this.”

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