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THE WALL STREET JOURNAL.

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APRIL 27, 2009

Developing Nations Try to Build Long-Term Leverage at the IMF

By BOB DAVIS

WASHINGTON -- A push by Brazil, Russia, India and China to have the International Monetary Fund issue its first bonds has become part of a strategy by developing nations to gain a bigger say at the IMF.

At the fund's annual spring meeting, the four countries said they were willing to contribute to a previously announced quadrupling of IMF resources to \$1 trillion, mostly by purchasing bonds. The bonds would be denominated in the IMF's quasicurrency, called special drawing rights, have a maturity of a year or so, and be sold only to central banks. If the so-called BRIC countries have their way, the bonds could also be sold on secondary markets to make the instruments more liquid.

The proposed purchase is meant to send a double message, said Eswar Prasad, a former IMF official who remains close with the Chinese and Indian officials: The BRIC countries are willing to contribute to the IMF, but they won't contribute heavily to longer-term fund resources until the IMF increases their voting shares substantially. "They don't want to get locked into providing more money until they get their [shares] increased," Mr. Prasad said.

The issue of voting rights and IMF bonds were at the forefront of the IMF meetings, where discussions also explored the state of the global economy and providing support for low-income countries.

In a statement Saturday to the IMF's main advisory committee, Brazilian Finance Minister Guido Mantega said the IMF "still has to address its original sin: its democratic deficit." Egyptian Finance Minister Youssef Boutros-Ghali, the chairman of the advisory group, said in an interview that he wants to get national leaders involved in remaking the IMF voting system. IMF voting shares are supposed to generally reflect global economic power but now give far greater weight to countries that were powerful after World War II, especially smaller European ones.

In March 2008, after lengthy negotiations, the IMF announced that developing nations' voting shares would increase by 5.4 percentage points and said it would look again at the subject in 2013. For Brazil, that meant its voting share increased by 0.3 point to 1.7%. China's voting share was boosted 0.9 percentage point to 3.8%. Even those increases haven't yet gone into effect. (The voting rights for Belgium and the Netherlands equal China's, even though China is a much larger economy.)

The IMF now is committed to revisiting the issue in 2011. But the BRIC countries believe the IMF's need for funds gives them additional leverage. At the summit of leaders of the Group of 20 industrialized and developing nations early this month, British Prime Minister Gordon Brown said China was ready to lend the IMF \$40 billion. But China never committed to that amount and is now balking, said IMF and other finance officials.

Instead, the Chinese are looking at contributing perhaps half that much, which would be in line with its voting share, and providing additional money through bond purchases. The latter are seen as less significant by the IMF because they are for a limited time. Brazil, India and Russia also are pushing bond purchases.

The U.S. generally backs the BRICs' effort to get greater representation. But some U.S. officials believe the BRIC bond strategy could backfire because they would be seen to have played politics rather than contributing fully to the IMF during an economic crisis. Indeed, Western European countries, which have pledged \$100 billion to the IMF, are now considering boosting that amount to \$160 billion, one official said, in part to help justify Europe's bigger stake in the IMF.

Nearly every IMF plan to revamp the voting structure foresees a smaller role for European countries, especially smaller ones like Belgium and the Netherlands. In an interview with Reuters, Belgian Finance Minister Didier Reynders said that the country should keep its seat on the IMF's 24-member governing board because European countries contribute heavily to the IMF.

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Printed in The Wall Street Journal, page A2

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