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The next issue of the *IMF Survey* will be published on September 20.

IEO review of poverty reduction strategy approach

IMF watchdog says poverty programs falling short of potential

In July, the IMF's Independent Evaluation Office (IEO) released the findings of its review of the IMF–World Bank's Poverty Reduction Strategy Paper (PRSP) process and the IMF's Poverty Reduction and Growth Facility (PRGF). The main aims of the wide-ranging evaluation were to determine whether these two initiatives have been implemented according to original expectations and whether the IMF has been sufficiently supportive of the broader PRSP process. David Goldsbrough, Acting Director of the IEO, spoke with Jacqueline Irving of the IMF Survey *about the report's findings.*

A local man in Mozambique reads to a group of school children. PRGF programs support increases in social spending.

IMF Survey: What prompted the IEO to review the PRSP process and PRGF at this time, and how did it go about carrying out its study?

Goldsbrough: We felt that it was important to conduct an external evaluation, given that this is such a critical new activity for the IMF. There had already been a number of internal reviews, but *(Please turn to the following page)*

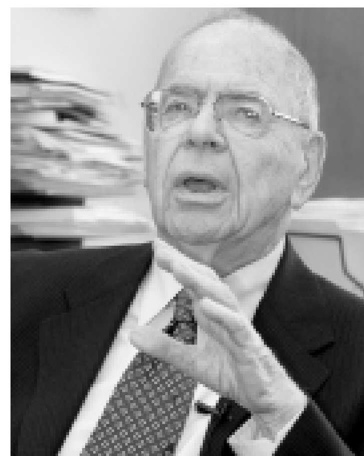
Interview with Jacques Polak

"If the Bretton Woods conference were to be held now, it would not succeed"

For 60 years now, the IMF's evolution and effectiveness have been matters of passionate concern to Jacques Polak. A participant in the Bretton Woods conference that gave birth to the organization, a staff member for 33 years (and the head of IMF's Research Department for 22 of those years), and an Executive Director from 1981 to 1986, Polak, a Dutch national, remains a keen commentator on the IMF and its global responsibilities. He speaks here with Sheila Meehan of the IMF Survey *about the dangers posed by an eroding commitment to internationalism.*

IMF Survey: Ken Rogoff—one of your successors as head of the IMF's Research Department—recently suggested that the IMF "would serve better if it made no loans." In his view, the organization has enough resources to create moral hazard problems but too few to deal effectively with a deep global financial crisis. He also termed the IMF "just too politicized to be a consistently effective lender of last resort." Is he right?

Polak: He is right in one aspect only. The Fund has too few resources to deal effectively with a deep global financial crisis, and that's a matter that it should be concerned about. On all the rest, he's wrong. He overlooks the fact that, of the IMF's approximately 55 financial arrangements, close *(Please turn to page 249)*



Polak: "There is no longer the international political cohesion among member governments that makes it possible to negotiate difficult arrangements."

PRSP and PRGF have not met expectations

(Continued from front page) the "mold" of the overall approach had never been questioned. Given that the PRSP is a joint IMF–World Bank product, we did the evaluation in parallel with our sister institution, the Operations Evaluation Department (OED) of the World Bank. "In parallel with the World Bank" effectively meant that, although we each wrote reports to our respective Executive Boards, looking at the roles of the IMF and the World Bank separately—and each not attempting to evaluate the other institution—we did coordinate a great deal on the inputs. We didn't want separate teams going to the same country and asking overlapping questions. We had, for example, a single team and a single country case report for those country case studies that we were both looking at. We also conducted a single survey of stakeholders along with the Bank's OED.

Goldsbrough: "Many countries have essentially perceived these procedures as a means to an end—that is, debt relief and higher aid flows."

IMF Survey: Did you look at all of the countries that have PRSPs?

Goldsbrough: We decided early on to look at countries that have completed full PRSPs. This decision was taken to keep the size of the evaluation manageable. It did mean, however, that there was a specific set of issues that we didn't examine. This includes, for instance, those countries that get stuck in the process and never reach a full PRSP—either because they have very severe capacity problems after having recently emerged from conflict or because other serious political economy problems have prevented them from formulating an overall strategy. We felt that, in order to learn about what the poverty reduction strategy approach is doing and what the IMF's role has been in the process so far, it would be better to focus on those countries that have at least a full PRSP.

IMF Survey: The report concludes that the achievements of the poverty reduction strategy approach so far have fallen considerably short of potential. Can you elaborate on how and why they have fallen short?

Goldsbrough: They have fallen short in several ways. There has not been enough clear delineation of what the intermediate objectives are—what the approach is trying to achieve in terms of changes in domestic policy processes, for instance. We know that the ultimate objectives are poverty reduction and growth, but what are the benchmarks against which to measure progress in terms of changes in domestic policy processes in each country?

The key problems we identified are the de facto incentives built into the system. These are oriented toward the wrong things—not so much in the original design as in implementation. There is some flexibility for country-specific differences, but essentially the approach is significantly oriented toward procedural aspects, with the main incentives for countries being the production of documents—called PRSPs—following particular procedures, including the holding of participatory sessions. Many countries have essentially perceived these procedures as a means to an end—that is, debt relief and higher aid flows. So they have complied, but without enough careful thinking about what the impact should be in terms of changes in domestic policy processes.

The second failing is more specific to the IMF, in that its way of doing business has not changed enough and has not really matched the very high expectations that the institution set for itself in the original policy documents mapping out the poverty reduction strategy approach. Indeed, these initial expectations may have been too high.

IMF Survey: The report does conclude that the poverty reduction strategy approach has had some success in improving country ownership, enhancing participation, and providing better-quality strategies. Can you elaborate on this?

Goldsbrough: Although we are critical of many things, we have two messages that are essentially optimistic. First, the poverty reduction strategy approach is relevant, and we are not really questioning the underlying principles. The PRSP principles are dealing with the right issues—including, for example, broadening the debate on public policy issues, bringing in poverty orientation more generally, and thinking about the results orientation in a longer-term context. Looking at the current country cases and the problems encountered with the previous approaches, this approach makes sense—even if it has not always been successfully implemented.

As for the second optimistic message: in those cases where the approach has started to have a posi-

Photo credits: Henrik de Gyor, Eugene Salazar, and Michael Spilotro for the IMF, pages 245–251 and 258–260; and Alexander Joe of AFP, pages 245 and 256.

tive effect—particularly in countries such as Tanzania and, to some extent, Mozambique, where it has begun to be embedded in the policymaking institutions—it has started to yield better results in terms of the broader policy debate. These are not cases where the initial strategy paper as a document was necessarily that good. In the case of Tanzania, the first PRSP document had huge gaps in it, but it did mesh with domestic institutions that were already in the process of being strengthened. We cannot claim that these improvements to the quality of institutions were all due to the PRSP process, however.

***IMF Survey*:** According to the IEO findings, the effectiveness of the IMF's contribution has varied considerably across different components of the poverty reduction strategy initiative and across countries. What accounts for this outcome, and what can be done to improve the IMF's effectiveness?

Goldsbrough: Among the key areas where the IMF has fallen short is the insufficient broadening of the policy debate on macroeconomic policy issues—with some exceptions, primarily in countries where macroeconomic instability is no longer a pressing issue. But, on the whole, the policy debate on macroeconomic issues has remained confined to a narrow official circle—the finance ministry, the central bank, and the IMF directly. In those few cases where there has been some opening up of the policy debate, we see positive results, in terms of a better debate leading to better policy choices. For example, in Tanzania, where, as I mentioned, there has been a strengthening of institutional arrangements for broadening the debate, substantial modification of policies—and better outcomes—followed a debate held within the framework of the macroeconomic program design supported by the PRGF. But our conclusion is that examples of good practices are still relatively infrequent.

***IMF Survey*:** You have mentioned that one of the problems with the poverty reduction strategy approach is its absence of clear benchmarks against which to monitor progress. At the same time, the report calls for greater flexibility in program design to allow individual countries to define their own benchmarks and objectives for improving policymaking processes. Wouldn't greater variability among countries impede the ability to monitor the progress?

Goldsbrough: There are a number of tensions built into this whole approach, and this is true of some of our recommendations, too. There is a tension between allowing countries to choose their own path to implement the basic, accepted principles of the approach and calling for uniformity of assessment, which would allow the World Bank, the IMF, and other donors to assess what countries are doing and making financing decisions on that basis. But there is no way to avoid the tension between these two aspects.

Our recommendation is essentially a call for transparency. Countries should choose their own paths to improve domestic processes, but benchmarks to monitor progress along these paths need to be clearer. Then, it's up to the Bretton Woods institutions to candidly assess both the plan and its implementation. This will inevitably imply less uniformity, but you cannot simultaneously have uniformity and great diversity in country approaches. If too much uniformity is imposed, the result will be uniformity of procedures, not substance, and that is the trap into which the approach has fallen so far.

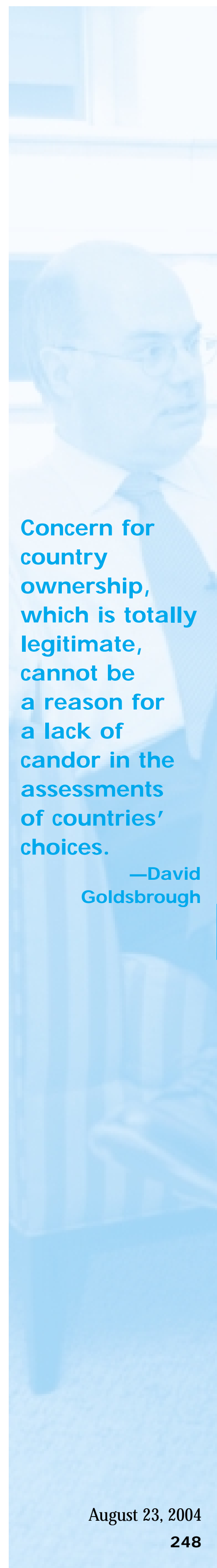
If too much uniformity is imposed, the result will be uniformity of procedures, not substance, and that is the trap into which the approach has fallen so far.
—David Goldsbrough

***IMF Survey*:** In their response to the IEO evaluation, IMF staff comment that the report does not clarify how the IMF and other donors should react in cases where they believe that a country could aim higher in setting its benchmarks and other criteria for the poverty reduction strategy approach. Can you clarify how the IMF and other donors should react in these cases?

Goldsbrough: First, there should be candid, transparent assessments and feedback. Concern for country ownership, which is totally legitimate, cannot be a reason for a lack of candor in the assessments of countries' choices. At the moment, that sort of candid feedback is not really given.

The Joint Staff Assessment (JSA)—a joint World Bank–IMF evaluation of the strengths and weaknesses of a country's poverty reduction goals and strategies—is supposed to do that. But the JSA has many objectives, none of which it is really meeting completely. There has been a tendency to just acknowledge the PRSP as the country's own strategy and conclude that the Bretton Woods institutions should be very careful about giving any feedback on it. Greater ownership and greater space for country choices do not mean that these choices are totally unbounded. Again, the best way to handle these sorts of tensions is to be transparent in an ongoing way, rather than somehow citing the rhetoric of ownership about the PRSP and then giving all of the feedback using traditional instruments, such as the PRGF, which is what is happening at the moment. The latter approach means that the criteria according to which such assessments are being made are less clear.

***IMF Survey*:** The report proposes that the IMF restructure its conditionality to fit within a broader



"partnership" approach to monitoring and assessing countries' progress in implementing the poverty reduction strategy approach. IMF staff have responded that the IEO has not discussed the associated operational modalities, however. Can you explain now how this should work in practice?

Goldsbrough: There's been some streamlining of conditionality, but the streamlining essentially seems to have been driven by concerns about division of labor with the World Bank rather than by country ownership concerns. There is a significant lack of clarity about what is happening to aggregate conditionality (IMF and World Bank conditionality). And, if the PRSP is going to provide the longer-term framework for the way the IMF operates in low-income countries, there needs to be more thinking about the signals and associated conditionality that the international community wants the IMF to give.

The conditionality and signals also need to be redesigned so that they are more in tune with the idea that donors are generally in for the long haul. \For example, if a particular IMF program fails to meet some short-term macroeconomic target, lending is not just going to be cut off.

My own view is that traditional approaches to IMF conditionality are unlikely to be fully satisfactory in this case. There is a role for the IMF in monitoring short-term macroeconomic policies and budget constraints, but it has to be adapted to this broader framework for the poverty reduction strategy approach.

Concern for country ownership, which is totally legitimate, cannot be a reason for a lack of candor in the assessments of countries' choices.

—David Goldsbrough

IMF Survey: What are the next steps for taking the evaluation's findings forward?

Goldsbrough: The evaluation was very timely, because there is currently a lot of thinking within the IMF about the institution's role in low-income countries, and there are many associated decisions that will have to be made. The evaluation's findings provide a lot of information and evidence to draw on in forming decisions on what the longer-term role of the IMF should be in low-income countries—in terms of how signaling and conditionality should work, and whether we need to take a look at program design in these countries. IMF management has set up a high-level committee on low-income country work, chaired by IMF First Deputy Managing Director Anne Krueger, that is looking at many of these issues. Our evaluation recommendations will feed into these discussions, and, ultimately, the IMF's Executive Board will need to make decisions about these key issues. ■

The full text of the IEO Report, "*Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)*," is available on the IMF's website at *http://www.imf.org/External?NP/ieo/2004/prspprgf/eng/index.htm*. For further information on the work of the Independent Evaluation Office, see *http://www.imf.org/external/np/ieo/index.htm*.

Main findings of the IEO's evaluation

- The poverty reduction strategy approach has significant potential, but achievements so far have fallen short.
- Program design under the Poverty Reduction and Growth Facility (PRGF) has not been truly embedded in overall growth and poverty reduction strategies, partly because of shortcomings in Poverty Reduction Strategy Papers (PRSPs).
- The IMF's contribution varies greatly across countries and issues but has generally fallen short of ambitious original intentions.
- Participatory processes within countries have generally become more broadly based since the PRSP's introduction, but most have not yet been integrated with preexisting institutions and political processes.
- Policy discussions on macroeconomic issues remain largely unaffected by these participatory processes.
- The PRSP process has become more country-driven, but results in terms of country ownership are mixed.
- Most PRSPs do not provide a strategic road map for policymaking, especially in macroeconomic and related structural areas.
- The PRSP is often just a document, with little impact on domestic processes for policy formulation, implementation, monitoring, and feedback.
- The PRSP process so far has not been effective in enhancing capacity.
- PRGF programs incorporate greater fiscal flexibility than the Enhanced Structural Adjustment Facility (ESAF), the concessional lending facility replaced by the PRGF, and support increases in social spending.
- Accusations that PRGF-supported programs suffer from systematic aid pessimism or excessive bias toward disinflation are not justified.
- While IMF structural conditionality has been streamlined, it is difficult to judge what has happened to World Bank–IMF aggregate conditionality.
- Program implementation under the PRGF has improved only modestly from the ESAF.

Polak sees declining scope for fundamental change

(Continued from front page) to 40 are currently with low-income countries that have no access to capital markets. And they borrow from the Fund to deal with current account, not capital account, problems. For them, and for the system, it makes a lot of sense for the Fund to have financial resources that can serve as a carrot to match the stick of its conditionality to improve their policies.

Ken also seems to ignore that there is great merit in having a lender of last resort in the system. I agree with [former IMF First Deputy Managing Director] Stan Fischer—one needs a lender of last resort to mitigate the effects of instability in the system. That is not to say the IMF has always done a good job on that score. It's also fair to say that, in handling that job, the IMF is, to a considerable extent, politicized, and the result of that has been, on the whole, a willingness to lend in difficult cases for too long and, therefore, to lend too much. The obvious examples are Argentina and Russia. But, in the end, the IMF did say no to both countries, and their creditors suffered very considerable consequences.

IMF Survey: One of the IMF's key functions—surveillance over its member countries' economic policies—is to provide confidential advice to member governments. The IMF is increasingly being prodded to take on greater "signaling" duties—that is, alerting markets to potential problems. Do you see any inherent conflicts between these two tasks?

Polak: The IMF, in the normal course of its business, gives quite a few signals to the market. When a member comes to borrow from the IMF, that's a signal that it has difficulties. The IMF decision to lend conveys some degree of satisfaction with the measures the member is taking to get out of its difficulties. Similarly, the inclusion of a country's currency among those used in IMF transactions must mean that the IMF has a good opinion of that member's reserve and balance of payments positions. And, of course, the Fund nowadays releases a lot of its opinions on countries to the public in the form of summaries of Executive Board decisions to lend, Letters of Intent, and so on.

To go beyond that is none of the Fund's business. It shouldn't think up special signals just to tell the market what it thinks about a country.

IMF Survey: The IMF's surveillance over its largest member countries is often perceived as ineffective. Can it do anything to gain greater leverage?

Polak: The accepted doctrine in the Fund is that if its surveillance of the major economies is not effective, we should improve it. In my opinion, we should also contemplate the opposite reaction: curtail it. These countries don't need the IMF's advice. They get the same advice from all over the world, and they themselves know very well what needs to be done. Plus, IMF advice is expensive in terms of staff resources. Surveillance could be slimmed down to allow the IMF to shift more resources to other regions that badly need additional high-quality staff.

Executive Directors (from left) Jeroen Kremers and Abbas Mirakor listen as Polak delivers remarks at a special Executive Board seminar on April 27 in honor of Polak's 90th birthday.

IMF Survey: The IMF's founding fathers couldn't possibly have foreseen the power that financial markets would assume in the international financial system, and their blueprint for the institution doesn't really spell out the IMF's relationship with the markets.

Polak: The IMF doesn't have a relationship with financial markets or, for that matter, with commodity markets. But it has to be fully aware of how these markets function—and, of course, they function much more efficiently and much more broadly than anybody could have predicted 60 years ago. The IMF's key relationship is with its member countries. So when the IMF advises a country to raise interest rates or to impose restrictions on capital movements, it has to be fully aware of how the markets will respond.

IMF Survey: Presumably, participants at the Bretton Woods conference didn't foresee a role for the IMF in low-income countries either. How can the organization contribute to the growth and prosperity of its poorest members?

Polak: More than half of the 40 or so countries at the conference were what you would now call low-income countries. Their opinions were taken into account, and the manner in which the IMF could help those countries was also taken into account. There wasn't, perhaps, full awareness of the fact that industrial countries impoverished by the war and countries in Latin America, Africa, or Asia were poor for different reasons.

Now the situation is clearly different. The IMF has no lending business with the rich countries. But it still has a contribution to make in poor countries in terms of helping them strengthen their overall economic policies, which, as everybody now realizes, is an essential precondition for development and growth.

The accepted doctrine in the Fund is that if its surveillance of the major economies is not effective, we should improve it. In my opinion, we should also contemplate the opposite reaction: curtail it.
—Jacques Polak

IMF SURVEY: Is there a role today for the SDR—the international reserve asset that you had a principal role in creating in 1969?

POLAK: A modest role. The original role—to take care of a possible shortage of international liquidity that could curtail the expansion of the world economy—has completely disappeared. Now countries that want more reserves can get them—if they're willing to pay for them—without depriving other countries of reserves.

At the same time, there is still a potentially important role for the SDR. All countries are required to hold reserves, and the IMF insists on their holding enough reserves to deal with most balance of payments problems, leaving access to the IMF solely for more serious balance of payments problems.

But there is a cost to holding reserves. Rich countries can borrow dollars or euros on the market and hold them in banks at about the same rate of interest. For them, holding reserves is virtually costless. Poor countries that have some access to capital markets can borrow there, too, but at high interest rates. So there's a big margin between what they have to pay for their reserves and what they can earn if they keep them. For poor countries without access to capital markets, getting reserves is even more costly: it involves forgoing consumption or investment.

An annual, regular allocation of SDRs to all members, or perhaps only to those members that would really benefit from them, would help solve that problem or at least make it less serious. And it wouldn't cost anything. The world is willing to hold more SDRs in its reserves than the SDR 20 billion now outstanding, a mere 1 percent of the SDR 2 trillion or so of total reserves. It would be perfectly possible to put SDR 10–15 billion a year more into circulation, perhaps even two to three times as much, without any risk or cost.

IMF SURVEY: How should the changing balance of economic power in the world best be accommodated in the IMF? Should there be, for example, new procedures for selecting the managing director?

POLAK: The way the managing director was selected on this occasion was a whole lot better than the time before. When the French and the Germans tried to quickly move their own man in place, the effort was blocked. Ultimately, of course, the decision on the managing director cannot but be a political one, but it's important that all members of the IMF have a real feeling that they've participated. In that respect, things were handled better this time.

IMF SURVEY: On the broader question of shifting political and economic power in the world, are you optimistic that these changes will be reflected, in a timely fashion, in the Executive Board and the IMF's decision making?

POLAK: No, I am not. The steadily increasing role of the G-7 [Group of Seven] prevents any such shift. The G-7 countries hold almost half the votes on the IMF's Executive Board, and they can, if they agree, push or block just about anything.

IMF SURVEY: After you left the staff of the IMF, you served as the Executive Director for a constituency of small European countries. Do you support the idea of a single chair for the European Union?

POLAK: From a European point of view, I think it would be an effective solution. Europe now speaks with eight voices. A single Executive Director for Europe would be sort of the equivalent of the single executive director for the 50 United States. And it would, in a sense, end the awkward hegemony of the G-7.

IMF SURVEY: Could this also allow some of the rising economies—China, perhaps India soon—to have a growing influence in the IMF?

POLAK: Not necessarily. The voting power in terms of numbers isn't all that important in the IMF. But the IMF's preference for consensus doesn't hide the fact

Polak supports a single chair for the European Union in the IMF's Executive Board.

that some have more power than others. If the European vote were to be reduced from the present approximately 30 percent to approximately 17 percent—which is what the United States has now—there would be room to distribute additional votes among a whole raft of countries. But while, paradoxically, that might strengthen the position of Europe, I don't see it as necessarily raising the influence of, say, the Asian countries.

IMF Survey: Is there still a role for the IMF's staff and management in proactively addressing major economic and financial issues? The creation of the SDR was, by all accounts, an idea that had its origins in the work of the IMF's staff.

Polak: I have been retired from the staff for 25 years and left the Board nearly 20 year ago. But having said that, I think that the staff is less able to generate new ideas and get them adopted than it was in the high days of the IMF. And it's not only a question of staff and management and their relationship to the Board. There is no longer the international political cohesion among member governments that makes it possible to negotiate difficult arrangements.

If the Bretton Woods conference were to be held now, it would not succeed. If the SDR discussions were to take place now, they wouldn't get anywhere. If one tried to introduce IDA [International Development Association] now, it wouldn't work. The general agreement at Monterrey to do something more in terms of foreign aid isn't anywhere comparable to the creation of IDA 44 years ago. And we haven't been able to negotiate comprehensive arrangements to deal with countries that can no longer service their international debt.

IMF Survey: Are the idealism and the dynamism that came out of the post–World War II era now diminishing?

Polak: Oh, they have diminished. Definitely. The ability in the early years after the war—and I would include the Marshall Plan in that—to create really fundamental improvements in the system has declined. Big projects mean heavy commitments of money and political capital by member countries.

IMF Survey: Is there a lack of generosity? Of vision?

Polak: A sort of isolationism has emerged, and not only on the part of the United States. When countries gathered in 1944 for the Bretton Woods conference, there was a realization that financial matters had been grossly mishandled over the previous 20 years and had to be different from now on. The conferees were so convinced of this that they were willing to make considerable concessions on how things would be done to create a body for this purpose. That kind of commitment isn't here anymore.

IMF Survey: As it looks forward to the next decade or two, what should the IMF be most concerned about?

Polak: Since the crises of the second half of the 1990s, the Fund has done much to reduce the probability of new crises, with better data and, for emerging markets, floating exchange rates—perhaps the two most important improvements it has pushed for in the world financial architecture.

But we must remain alert to the fact that the IMF is not particularly good at foreseeing crises. We didn't foresee the debt crisis in the 1980s and its implications. We didn't know that the Berlin Wall would fall and that we'd get 25 new members. We didn't foresee the size and speed of the capital account crises. Thus, while we keep working on improving the system, we cannot forget that we're also the firemen of the system.

IMF Survey: Can we be better firemen?

Polak: Yes. We talked in the beginning about Rogoff saying that we were too politicized as firemen and we could be better. There is a very important question of governance. Will the large members—and that's a euphemism for the largest member—be willing to consider the IMF in a long-run perspective? That will mean, for the short run, a willingness to be overruled on certain issues because the United States is very keen on the organization's becoming strong. That was the strength of Frank Southard—first as U.S. Executive Director [1949–62] and later as the IMF's Deputy Managing Director [1962–74]. To make sure that the IMF is strong, it is important that the United States not attempt to micromanage it. ■

To make sure that the IMF is strong, it is important that the United States not attempt to micromanage it.
—Jacques Polak

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
August 9	1.91	1.91	2.94
August 16	1.90	1.90	2.93

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website *(www.imf.org/cgi-shl/bur.pl?2004)*.

General information on IMF finances, including rates, may be accessed at *www.imf.org/external/fin.htm.*

Data: IMF Finance Department

Policy choices to stabilize inflation: Is there space for political opportunism?

In the late twentieth century, many developing countries, especially in Latin America, experienced chronically high inflation. Policymakers responded with one of two possible strategies: exchange-rate-based stabilization, which involves pegging the country's currency to that of a low-inflation country, or a money-based approach, which involves aiming for intermediate targets for monetary growth. In a new IMF Working Paper, Ari Aisen, of the IMF's Western Hemisphere Department, examines the extent to which the policy choice is determined by political, rather than economic, motives.

Timing of stabilization programs provides evidence of political opportunism

Stabilization program[1]	Beginning date	Type	Elections before	Elections after
Argentina (Austral I)	Jun-85	ERBS	Oct-83	Oct-85
Argentina (Austral II)	Oct-87	ERBS	Oct-85	Oct-87
Argentina (BONEX)	Dec-89	MBS	May-89	Oct-91
Argentina (Convertibility plan)	Apr-91	ERBS	May-89	Oct-91
Brazil (Cruzado plan)	Feb-86	ERBS	Nov-82	Nov-86
Brazil (Collor plan)	Mar-90	MBS	Nov-89	Oct-94
Brazil (Real plan)	Jul-94	ERBS	Nov-89	Oct-94
Dominican Republic	Aug-90	MBS	May-90	May-94
Mexico	Dec-87	ERBS	Jul-85	Jul-88
Peru	Aug-90	MBS	Apr-90	Apr-95

Note: ERBS= exchange-rate-based stabilization; MBS = money-based stabilization.
[1]This table includes only a small sample of the stabilization programs examined in Ari Aisen's study.
Data: IMF Working Paper No. 04/94

Exchange-rate based and money-based stabilization strategies can have similar effects on an economy's welfare, but they tend to lead to different consumption cycles, and Aisen suggests that policymakers may be taking advantage of these differences to further their political careers. The most striking difference between the two approaches is in their effects on consumption and economic activity. Exchange-rate-based stabilization programs generate an initial consumption boom and, later, a recession in the economy, whereas money-based stabilizations generate an early consumption bust followed by a recovery.

Knowledge of these consumption patterns, Aisen believes, allows opportunistic politicians—who take into account the timing of elections when choosing a particular policy—to use the two anchors to their benefit. They are more likely to use exchange-rate-based stabilization prior to elections and a monetary anchor after elections. Aisen cautions, however, that while initial consumption booms make exchange-rate-based stabilizations more attractive than money-based approaches, "the former often lead to balance of payments crises, loss of international reserves, and major devaluations. Therefore, it is not always a simple task to decide which stabilization strategy to pursue. This might be especially true if the economy is in a recession prior to the launching of the stabilization program."

Does the policy choice really matter?

Do the different consumption and activity cycles associated with the two stabilization strategies compel policymakers to choose exchange-rate-based stabilization before elections and money-based stabilization after elections? Some researchers have suggested that the only difference between them is when the stabilization costs will be paid—earlier in the case of a money-based stabilization and later in the case of an exchange-rate-based stabilization.

Other studies dispute whether distinctive empirical regularities do, indeed, follow exchange-rate-based and money-based stabilization. One study, for example, concludes that the consumption and output cycles that appear to have followed exchange-rate-based stabilization have occurred because exchange-rate-based stabilizations have generally been launched when the world economy has been booming and the country has experienced positive terms-of-trade shocks. Consumption booms after exchange-rate-based stabilization have therefore been more the result of positive macroeconomic shocks than of the choice of nominal anchor. Others argue that boom and bust cycles are determined by an economy's initial conditions, such as the level of GDP and international reserves, and bear no relation to the choice of anchor for stabilizing inflation.

What Latin America did

Nevertheless, says Aisen, empirical evidence suggests that the political dimension plays an important role in the choice of stabilization strategy. In several Latin American countries, for example, policymakers chose exchange-rate-based stabilization before an election. In Brazil, for instance, voting intentions in the 1994 presidential campaign changed in favor of the candidate who launched the Real Plan (an exchange-rate-based stabilization) in July of the same year. The December 1987 Mexican exchange-rate-based stabilization is another case where the plan came before elections occurred. A few months later, in July 1988, Carlos Salinas was elected as president of Mexico, and voters—enthusiastic about the ongoing

consumption boom—praised his party's chosen strategy to stabilize the economy. Other exchange-rate-based strategies—such as Argentina's 1985 Austral and 1991 Convertibility plans, and Brazil's 1986 Cruzado plan—seem to have been related more to congressional elections.

Money-based stabilization, in contrast, seems to have occurred after elections. The BONEX plan in Argentina, for example, was launched in 1989 by the newly elected government headed by Carlos Menem. The Collor plan in Brazil was launched in March 1990, right after Fernando Collor de Melo was elected president. Other money-based programs, such as those introduced in Peru in 1990 and the Dominican Republic in 1990, also came after elections. Aisen points out that "the consumption busts that follow money-based stabilization represent a great political cost to be avoided before important elections; rather, the incumbent would prefer the cost to be paid as soon as the new government is in charge so that the economic recovery can take place later in the same presidential term. Furthermore, money-based stabilization launched soon after elections may serve the purpose of blaming the past administration for the harsh recession that inevitably follows."

The choice of stabilization strategy, adds Aisen, might also be related to the level of support enjoyed by the politicians. Money-based programs were usually launched right after the newly elected governments took power and had a very high stock of political capital. This allowed the government to adopt a short-run strict strategy to stabilize inflation, even at a cost of a deep recession. Conversely, exchange-rate-based stabilizations could be thought of as an instrument to increase political capital prior to elections.

Looking at the relationship between GDP growth and the timing of the stabilization attempts and elections in Argentina and Brazil, Aisen finds that Argentina's 1985 Austral plan and Brazil's 1986 Cruzado plan succeeded in promoting growth at least up to when the elections occurred in October 1985 in Argentina and in November 1986 in Brazil. Evidence also shows that two typical money-based stabilization programs—Argentina's 1989 BONEX plan and Brazil's 1990 Collor plan—that were launched soon after elections generated strong recessions. They were evidence, again, notes Aisen, that the type of stabilization program may have been opportunistically selected.

Evidence of political opportunism

With the help of an econometric model, Aisen looks more formally for evidence of political opportunism in the choice of a stabilization policy. Using data on 34 full-fledged stabilization episodes—mostly in Latin America, but also in Israel and Turkey—he finds that the timing of elections affects the choice of anchor for stabilization. In particular, policymakers assess how distant the next elections are before making their choice of nominal anchor in the inflation stabilization program that they have decided to embark on. The probability that policymakers adopt an exchange-rate-based stabilization is higher when they are closer to the date set for future elections. The probability of adopting a money-based stabilization, on the other hand, is higher when elections have been recently held.

Moreover, Aisen's results show that a relatively large stock of international reserves, a high degree of openness, and high political fragmentation not only increase the probability of adoption of an exchange-rate-based stabilization but also affect the degree of political opportunism behind the choice of nominal anchor for stabilization. For example, different policymakers who decide to launch a stabilization program at different stages of the election cycle will have, respectively, a 45 percent probability of choosing the exchange rate as the anchor three years before elections, 78 percent two years before elections, and 99 percent one year prior to elections, for the case where reserves cover 10 percent of a country's broad money supply.

Improving the quality of economic policy

Aisen's study aims to contribute to the understanding of the interaction between political and economic forces. He suggests that a similar methodology could be used to study the extent to which political opportunism plays a role in a whole range of economic policy choices. An interesting assessment would also be whether the impact of electoral politics on economic policy varies between developed and developing countries. If so, Aisen suggests, "strengthening the institutions that oversee politicians in developing countries might reduce the degree of political opportunism, which, in turn, may improve the quality of economic policy in these countries." In Aisen's view, the study also has important implications for the IMF's work. "We must be aware of the political incentives behind economic policies," he says, "so as to avoid supporting a particular political agenda instead of the best economic agenda." ■

Copies of IMF Working Paper No. 04/94, "Money-Based Versus Exchange-Rate-Based Stabilization: Is There Space for Political Opportunism?" by Ari Aisen, are available for $15.00 each from IMF Publication Services. See page 254 for ordering information. The full text of the paper is also available on the IMF's website (*www.imf.org*).

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FSSA = Financial System Stability Assessment
HIPC = Heavily Indebted Poor Countries
PRGF = Poverty Reduction and Growth Facility
PRSP = Poverty Reduction Strategy Paper
ROSC = Report on the Observance of Standards and Codes

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Do we need a HIPC Initiative for domestic debt?

Unsustainability of domestic debt may be as big a threat to sub-Saharan Africa as unsustainability of foreign debt, according to research based on new data. Although domestic debt in most sub-Saharan countries is much smaller than external debt, interest rates are often higher, and the debt must be rolled over frequently—on average four times a year—adding further to the cost of servicing. This means that some countries spend as much money servicing their domestic debt as they do servicing their external debt. Camilla Andersen of the *IMF Survey* spoke to Jakob Christensen, an Economist in the African Department, about his new Working Paper, "Domestic Debt Markets in Sub-Saharan Africa."

With all the attention external debt sustainability in poor countries has received in recent years, it may seem strange that the problem of domestic debt has gone largely undiagnosed until now. According to Christensen, this oversight is due mainly to a lack of data. "When I started my investigation of the problem, I quickly realized that very few data were available, so I literally had to go into old IMF documents and even old central bank annual reports in the library to find out what the debt was," he says. Another reason for underestimating the problem may be that economists have generally assumed that poor countries have not been able to accumulate a lot of domestic debt because their financial sectors are relatively undeveloped.

A growing problem

Christensen found that the average ratio of domestic debt to GDP increased from 11 percent in the 1980s to 15 percent in the 1990s in the 27 sub-Saharan African countries he studied. Countries that qualify for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative generally had less domestic debt—8 percent of GDP on average—because they have relied heavily on foreign loans provided to them on concessional terms. But while this figure increased only slightly during the 1990s, it masks some significant differences (see table, this page). For instance, Ghana and The Gambia saw their domestic debt rise significantly as a ratio to GDP, while Ethiopia and Zambia experienced marked declines. Countries that were not eligible for HIPC debt relief saw their domestic debt as a ratio to GDP increase from 14 percent in the 1980s to 23 percent in the late 1990s.

But even though domestic debt in most HIPCs appears to be modest, Christensen found that some countries spend as much money servicing their domestic debt as they do their foreign debt. In fact, domestic interest payments exceeded foreign interest payments in five HIPC as well as five non-HIPC countries. And almost all HIPC countries spend a significant part of their budgetary revenues servicing domestic debt.

Interest rates on domestic debt have increased during the past two decades as many sub-Saharan African countries have eliminated interest rate controls and pursued tighter monetary policies, which have helped bring down inflation. In earlier years, governments borrowed at below-market rates,

Domestic debt in sub-Saharan Africa is a serious problem
(domestic and external debt 1995–2000, in percent of GDP)

Country	Domestic debt	External debt	Domestic/total debt
Angola	0	81	0
Botswana	0	10	0
Burundi	6	138	4
Cape Verde	34	40	46
Congo, Democratic Republic of	0	254	0
Ethiopia	10	109	9
Gambia, The	23	104	18
Ghana	24	83	22
Guinea	...	91	...
Kenya	22	52	29
Lesotho	5	58	8
Madagascar	3	110	2
Malawi	9	126	7
Mauritius	33	15	69
Mozambique	0	121	0
Namibia	19	2	89
Nigeria	16	80	17
Rwanda	5	70	7
São Tomé and Príncipe	0	643	0
Seychelles	68	20	77
Sierra Leone	7	143	5
South Africa	45	0	100
Swaziland	1	16	7
Tanzania	12	100	11
Uganda	2	57	4
Zambia	6	196	3
Zimbabwe	37	48	44
Average	15	103	22
HIPC[1]	8	156	6
Non-HIPC[2]	23	35	40

[1]HIPC here includes Ethiopia, The Gambia, Ghana, Guinea, Madagascar, Malawi, Mozambique, Rwanda, São Tomé and Príncipe, Sierra Leone, Tanzania, and Uganda, all of which have reached the decision point, and Burundi and the Democratic Republic of Congo, both of which are eligible for HIPC debt relief.
[2]Includes Angola, Botswana, Cape Verde, Kenya, Lesotho, Mauritius, Namibia, Nigeria, Seychelles, South Africa, Swaziland, and Zimbabwe.
Data: IMF staff reports; and selected central bank statistics

Ethiopian women collect firewood. Their country's domestic debt stands at about 10 percent of GDP.

which represented an implicit tax on banks. In the current, more liberalized environment, interest rates on domestic debt more closely reflect the opportunity cost of government borrowing in the region, leading to higher interest rates and, thus, to higher debt payments.

Crowding out private investment

Domestic debt is not necessarily a bad thing. If the borrowed money is invested wisely, it can help lift countries' growth potential. But in many of the countries in Christensen's study, domestic debt has had onerous consequences, both economically and politically. Christensen found significant evidence that even modest levels of domestic debt may crowd out investment in the private sector and thereby deter economic development.

Because African countries have a very large need for public expenditures, it might not be possible to achieve the fiscal tightening needed to reduce domestic debt.
—Jakob Christensen

In much of Africa, there are no corporate debt markets to speak of, and companies have to rely either on retained earnings or on borrowing from commercial banks to finance their investments. Faced with a choice of either holding relatively safe government debt that pays high returns or issuing loans to companies in a weak judicial setting, most bankers opt to hold government debt, thereby starving the private sector of much-needed cash. On average, Christensen found that a 1 percent expansion of domestic debt (relative to broad money) caused the ratio of lending to the private sector (again as a ratio to broad money) to decline by 0.15 percent.

Other problems are associated with domestic debt as well. "Poor countries often have a very narrow investor base consisting mainly of commercial banks. With no institutional investors and very few foreign investors, governments can become captive to the interests of two to three major banks," Christensen says. This problem is magnified by the fact that domestic debt must be rolled over frequently—short-term paper dominates debt markets in Africa, with three-month bills accounting for almost 50 percent of outstanding debt.

No quick fix

Unfortunately, Christensen points out, solving the problem of domestic debt "is not as easy and straightforward as forgiving external debt." First, a government owes the money to domestic agents, not to foreign creditors, and it may be unreasonable to expect the domestic agents to forgive part of the debt, as was done with foreign debt under the HIPC Initiative. Second, paying down domestic debt would result in a significant liquidity expansion, which could destabilize the economy. Any debt reduction scheme would have to take this effect into consideration.

For these reasons, "the first best solution would be for governments to reduce fiscal deficits and eliminate the need for domestic borrowing, or even to pay down domestic debt," Christensen says. "But because African countries have a very large need for public expenditures, it might not be possible to achieve the fiscal tightening needed to reduce domestic debt." Donor support, provided through a trust fund that swaps domestic debt for claims on the fund, could be a solution. Such a fund could reduce the cost of the debt because it would be backed by foreign currency assets. Cape Verde is currently pursuing this solution. Domestic debt has been swapped for lower interest rate claims on a fund set up by international donors, thereby avoiding an undesirable increase in liquidity.

Short of such donor-supported action, governments could also seek to strengthen their financial sectors, which would help them diversify the debt and lengthen its maturity profile. "Strengthening the institutional investor base in these countries is needed," Christensen says, "but there is no quick fix in terms of dealing with this problem." The best governments can do is try to find room in the budget to reduce domestic debt, restrain current spending, and raise domestic revenues. ■

Copies of IMF Working Paper No. 04/46, "Domestic Debt Markets in Sub-Saharan Africa," by Jakob Christensen, are available for $15.00 each. See page 254 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

Stand-By, EFF, and PRGF arrangements as of July 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By				
Argentina	September 20, 2003	September 19, 2006	8981.00	4810.00
Bolivia	April 2, 2003	December 31, 2004	128.64	53.60
Brazil	September 6, 2002	March 31, 2005	27,375.12	10,175.48
Colombia	January 15, 2003	January 14, 2005	1,548.00	1,548.00
Dominican Republic	August 29, 2003	August 28, 2005	437.80	306.46
Gabon	May 28, 2004	June 30, 2005	69.44	55.55
Macedonia FYR	April 30, 2003	August 15, 2004	20.00	8.00
Paraguay	December 15, 2003	March 31, 2005	50.00	50.00
Peru	June 9, 2004	August 16, 2006	287.28	287.28
Romania	July 7, 2004	July 6, 2006	250.00	250.00
Turkey	February 4, 2002	February 3, 2005	1,2821.20	1,360.80
Ukraine	March 29, 2004	March 28, 2005	411.60	411.60
Uruguay	April 1, 2002	March 31, 2005	2,128.30	559.20
Total			**54,508.38**	**19,875.97**
EFF				
Serbia and Montenegro	May 14, 2002	May 13, 2005	650.00	250.00
Sri Lanka	April 18, 2003	April 17, 2006	144.40	123.73
Total			**794.40**	**373.73**
PRGF				
Albania	June 21, 2002	June 20, 2005	28.00	8.00
Armenia	May 23, 2001	December 31, 2004	69.00	9.00
Azerbaijan	July 6, 2001	March 31, 2005	80.45	38.61
Bangladesh	June 20, 2003	June 19, 2006	400.33	301.33
Burkina Faso	June 11, 2003	June 10, 2006	24.08	17.20
Burundi	January 23, 2004	January 22, 2007	69.30	42.90
Cameroon	December 21, 2000	December 20, 2004	111.42	31.83
Cape Verde	April 10, 2002	April 9, 2005	8.64	3.72
Congo, Democratic Republic of	June 12, 2002	June 11, 2005	580.00	53.23
Côte d'Ivoire	March 29, 2002	March 28, 2005	292.68	234.14
Dominica	December 29, 2003	December 28, 2006	7.69	5.02
Ethiopia	March 22, 2001	October 31, 2004	100.28	10.43
Gambia, The	July 18, 2002	July 17, 2005	20.22	17.33
Georgia	June 4, 2004	June 3, 2007	98.00	84.00
Ghana	May 9, 2003	May 8, 2006	184.50	105.45
Guyana	September 20, 2002	March 19, 2006	54.55	43.03
Honduras	February 27, 2004	February 26, 2007	71.20	61.03
Kenya	November 21, 2003	November 20, 2006	175.00	150.00
Kyrgyz Republic	December 6, 2001	December 5, 2004	73.40	9.56
Lao People's Democratic Republic	April 25, 2001	April 24, 2005	31.70	13.58
Lesotho	March 9, 2001	October 31, 2004	24.50	3.50
Madagascar	March 1, 2001	March 1, 2005	91.65	22.70
Malawi	December 21, 2000	December 20, 2004	45.11	32.23
Mali	June 23, 2004	June 22, 2007	9.33	8.00
Mauritania	July 18, 2003	July 17, 2006	6.44	5.52
Mongolia	September 28, 2001	July 31, 2005	28.49	16.28
Mozambique	July 6, 2004	July 5, 2007	11.36	9.74
Nepal	November 19, 2003	November 18, 2006	49.91	42.78
Nicaragua	December 13, 2002	December 12, 2005	97.50	55.71
Pakistan	December 6, 2001	December 5, 2004	1,033.70	172.28
Rwanda	August 12, 2002	August 11, 2005	4.00	1.71
Senegal	April 28, 2003	April 27, 2006	24.27	17.33
Sierra Leone	September 26, 2001	March 25, 2005	130.84	28.00
Sri Lanka	April 18, 2003	April 17, 2006	269.00	230.61
Tajikistan	December 11, 2002	December 10, 2005	65.00	39.20
Tanzania	August 16, 2003	August 15, 2006	19.60	14.00
Uganda	September 13, 2002	September 12, 2005	13.50	8.00
Zambia	June 16, 2004	June 15, 2007	220.10	137.56
Total			**4,624.73**	**2,084.54**

EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.
Data: IMF Finance Department

Members drawing on the IMF "purchase" other members' currencies, or SDRs, with an equivalent amount of their own currency.

De Rato pledges to help Africa boost growth, cut poverty, and improve health and education

IMF Managing Director Rodrigo de Rato wrapped up his trip to Africa on August 6 in Uganda, promising that the IMF will help Africa sharply raise economic growth to attain the UN Millennium Development Goals. During his week-long visit, which included stops in Nigeria (see *IMF Survey*, August 9) and Gabon, he met with African leaders, parliamentarians, and representatives of civil society, and he visited an AIDS clinic in Gabon and an elementary school in Uganda—the main purpose being to listen and learn. He discussed issues ranging from increasing Africa's voice and representation in the IMF to improving governance in the oil sector. At the end of the trip, Malawi's President Bingu wa Mutharika told reporters that he and President Yoweri Museveni of Uganda and President Mwai Kibaki of Kenya "found the Managing Director very receptive, very responsive but also sympathetic to the problems we have."

Before visiting Uganda, de Rato met with Gabon's President El-Hadj Omar Bongo and other heads of state of the Central African Economic and Monetary Community (CEMAC) in Libreville. On August 4, he told a group of leaders there that the CEMAC region, in particular, would benefit from the recent rise in oil prices and a substantial expansion in production in some countries. "The key priority, supported by all leaders, is to harness the revenue from oil production for development and poverty alleviation," de Rato said. "This will require continued sound macroeconomic policies, including fiscal policies that deal prudently with the windfall gains from current high oil prices."

De Rato welcomed Gabon's decision to adhere to the Extractive Industries Transparency Initiative, which aims to increase transparency of payments by companies and revenues to governments in the extractive industries. He also emphasized, in his conversations with many of the other African leaders, the need for more transparency of oil production (see box, this page).

De Rato said that Africa's desire to accelerate regional integration "can play a substantial role in sustaining growth." Establishing a truly unified regional market by eliminating all trade barriers between CEMAC members could help boost the region's economic potential. But, he said, "it will be important to ensure that regional integration does not become inward-looking."

At the same time, de Rato urged advanced countries to provide more and better coordinated development assistance, mostly in the form of grants, and to improve market access to their economies. The Doha trade round "is a critical opportunity to make a significant advance in multilateral trade liberalization that will truly benefit the poorest countries," he said.

At the end of his visit to Gabon, de Rato told African leaders that "you can rest assured that the IMF will remain on your side, through continued policy advice, technical assistance, and, when appropriate, the provision of financial assistance—and also as an advocate of your cause within the international community."

Brighter growth picture

In Entebbe, de Rato told a regional summit—including President Yoweri Museveni of Uganda, President Mwai Kibaki of Kenya, and President

Also on de Rato's Gabon agenda

While in Gabon, de Rato met with heads of state and finance ministers from other Central African Economic and Monetary Community countries.

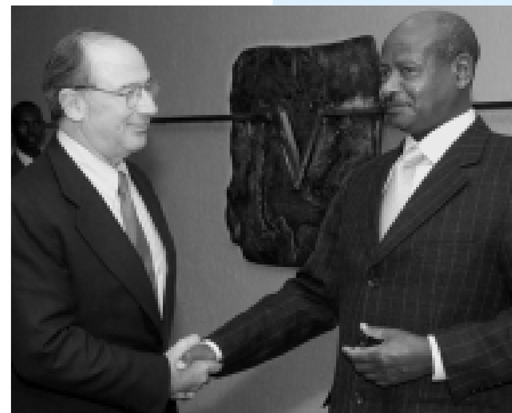
- He discussed with *Chad*'s Minister of Finance, Ahmat Awat Sakine, the IMF's concern about the humanitarian situation in Darfur in neighboring Sudan. In August, an IMF mission will visit Chad, which has experienced an influx of refugees from the region, to discuss a possible arrangement under the Poverty Reduction and Growth Facility (PRGF).
- In his meeting with the Prime Minister of *Cameroon*, Peter Mafany Musonge, de Rato said the IMF recognized the country's better growth and inflation performance and urged them to continue, including through strong fiscal management.
- During his meeting with President François Bozizé of the *Central African Republic*, the Managing Director praised the government's efforts to address political instability, weak governance, and a difficult social and economic environment and said the IMF would assist the government in any way it could.
- De Rato congratulated President Denis Sassou-Nguesso of the *Republic of Congo* for his efforts to increase the transparency of the oil sector. An IMF mission will visit Brazzaville in August to discuss the possibility of a PRGF program.
- During his talks with President Fradique de Menezes of *São Tomé and Príncipe*, de Rato welcomed the decision to increase transparency in the oil sector, which he said would help improve the fiscal situation.

Mutharika—that sub-Saharan Africa could grow by more than 5 percent in 2005. This bright forecast was thanks to the global economic recovery, better macroeconomic stability in many countries, rising commodity prices, and a recovery in agricultural production following severe droughts in 2003. "Macroeconomic stabilization has borne fruit," de Rato said. "Uganda and Tanzania, for example, are now reaping the benefits of sustained, sound policies and have seen economic growth rates averaging over 5 percent a year for the past five years." But he warned that Africa still faced many risks, including "an unsteady policy environment." And, although growth is improving, "even higher rates of growth are needed to make decisive advances in reducing poverty."

De Rato called on African leaders to persevere with efforts to integrate their countries into the global economy. While there is "no single measure that can lift economic growth to the next level," he said, there are some common building blocks that must be in place. These include reducing vulnerability and laying the foundation for reduced dependence on foreign assistance through sound macroeconomic policies; raising the productive capacity of the region's economies, especially by promoting foreign direct investment; and creating more effective institutions that are able to enforce property rights and the rule of law.

How the IMF can help

As for the IMF, de Rato said the institution can and will do more to help its low-income members raise living standards and fight poverty. Replying to critics who charge that the IMF has forced governments to cut budgets, in the process squeezing outlays on health care, education, and other social programs, he said that "the IMF will ensure that its programs and policy advice are supportive of higher levels of aid, including for the fight against HIV/AIDS and for strengthening much-needed public infrastructure."



Ugandan President Museveni (right) greets de Rato.

De Rato noted that a new study by the Independent Evaluation Office of the IMF's concessional loan facility for poor countries will help the institution decide how it can become more effective

Available on the web (www.imf.org)

Speech

"The Challenges Facing the IMF," Agustín Carstens, IMF Deputy Managing Director, Canberra, Australia, July 27

Public Information Notices

04/71: IMF Concludes 2004 Article IV Consultation with Niger, July 19
04/72: IMF Concludes 2004 Article IV Consultation with the Republic of Congo, July 22
04/73: IMF Concludes 2004 Article IV Consultation with Maldives, July 23
04/74: IMF Concludes 2004 Article IV Consultation with the Republic of Poland, July 26
04/75: IMF Concludes 2004 Article IV Consultation with Romania, July 27
04/76: IMF Concludes 2004 Article IV Consultation with Tonga, July 29
04/77: IMF Concludes 2004 Article IV Consultation with the United States, July 30
04/78: IMF Concludes 2003 Article IV Consultation with Botswana, July 30

Press Releases

04/164: IMF Completes Third Review Under Uganda's PRGF Arrangement and Reviews Noncomplying Disbursement, July 30
04/165: IMF Executive Board Completes Second Review Under Paraguay's Stand-By Arrangement, August 2
04/166: IMF Managing Director Rodrigo de Rato's Statement at the Conclusion of His Visit to Nigeria, August 3
04/167: IMF Executive Board Completes Final Review Under Stand-By Arrangement with the Former Yugoslav Republic of Macedonia and Approves $11.7 Million Disbursement, August 3
04/168: IMF Managing Director Rodrigo de Rato's Statement at the Conclusion of his Visit to Gabon, August 4
04/169: IMF Executive Board Approves 20-Month Stand-By Arrangement for the Republic of Croatia, August 4
04/170: Annual Meetings of the Boards of Governors of the IMF and World Bank, and Related Meetings and Events, to Be Held October 2–3, 2004, August 5
04/171: IMF Managing Director Rodrigo de Rato's Statement at the Conclusion of His Visit to Uganda, August 6
04/172: IMF Completes Second Review Under Tanzania's PRGF Arrangement and Approves $4 Million Disbursement, August 6
04/173: Statement by IMF Managing Director Rodrigo de Rato on Turkey, August 6
04/174: IMF Completes Second Review Under Dominica's PRGF Arrangement and Reviews Noncomplying Purchases and Disbursement, August 6
04/175: IMF Executive Board Approves Stand-By Arrangement for Bulgaria, August 6
04/176: IMF Executive Board Grants Waiver on Noncomplying Disbursement to Uruguay, August 13

PRGF = Poverty Reduction and Growth Facility

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(see article, page 245). Work is also under way to assess the Heavily Indebted Poor Countries (HIPC) Initiative, which nongovernmental organizations have criticized for doing too little to reduce debt burdens. De Rato said he believed that "the dual objective must be to ensure effective debt relief in those countries where it has not yet been achieved while avoiding a further buildup of unsustainable debt in the future." He also noted that the IMF was

- making the IMF's assistance more flexible to help countries emerge from conflict, deal with emergencies, and address future trade shocks;
- providing additional relief to countries whose debt remains unsustainable by topping up existing debt relief;
- supporting regional integration initiatives in Africa through better analysis and other assistance;
- helping to improve aid flows by strengthening the IMF's collaboration with the World Bank, other multilateral organizations, and donors; and
- boosting the IMF's internal effectiveness by restructuring its African Department, including by adding more staff and making management of that department more efficient.

De Rato said the IMF would help capacity building by opening three more regional technical assistance centers in Africa to supplement the ones in Mali and Tanzania.

Africa asks for greater say

After the summit, the three eastern African presidents released a statement saying that discussions with the IMF's Managing Director had been very fruitful. They asked him to consider strengthening Africa's relationship with the IMF by

- ***introducing more flexibility in the relationship*** to ensure that "we are true partners in the development process;"
- ***giving Africa more say in the design of IMF-supported economic programs***, which "will enhance country ownership of the economic reform programs;"
- ***being more open about mistakes.*** "When programs fail or do not work out as expected, countries have, in the past, taken all the blame. However, the IMF, of course, also makes mistakes;"

Clockwise from top: de Rato in discussion with President Sassou-Nguesso of the Republic of Congo; in a classroom in an elementary school in Uganda; and talking to AIDS patients at a clinic in Gabon.

- ***strengthening Africa's voice and representation within the IMF.*** "The allocation of quotas should be reviewed to give Africa more representation," and "more Africans should be given more senior positions of responsibility in the IMF";
- ***reviewing debt issues.*** Despite the HIPC Initiative, some countries are "sinking under a heavy debt burden." The IMF should review its debt sustainability analysis to take into account alternative measures of debt sustainability. It should also develop a framework to analyze the domestic debt burden of many African countries (see also page 255);
- ***making judicious use of the IMF's influence.*** All IMF staff should "be careful and responsible in the way they pronounce themselves on country performance. Where there are differences of view, the IMF should not seek to isolate countries from development partners and investors";
- ***reducing transfers to the IMF.*** Some countries in the region are paying more money to the IMF than they are receiving in new loans and debt relief. The IMF should examine ways to alleviate this problem; and
- ***relieving bottlenecks to growth and regional cooperation.*** The IMF should help find ways to finance infrastructure and support regional cooperation. ■