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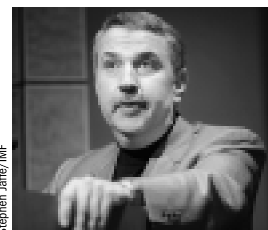
NEWS: New IMF evaluation chief named

Thomas A. Bernes will be the new director of the IMF's Independent Evaluation Office (IEO). Bernes, currently Executive Secretary of the joint IMF–World Bank Development Committee, succeeds Montek Singh Ahluwalia. The IEO, which provides objective analyses of various aspects of the IMF's work, has taken up, among other topics, capital account crises, technical assistance, and fiscal adjustment in IMF-supported programs.

123

BOOK NOTES: The flat new global playing field

Like it or not, everything truly is global now, say Thomas L. Friedman and Pietra Rivoli, whose new books use dramatically different approaches—the big picture and the very specific (the life of a T-shirt)—to examine how small and interconnected the world is becoming. Both authors argue that it is futile to try to erect barriers to slow down the seismic forces of globalization. The wiser course, they suggest, is targeted and skillful adaptation.


Stephen Jaffe/IMF

126

TECHNICAL ASSISTANCE: Bosnia's beacon of stability

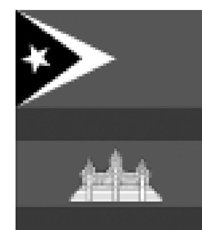
Under Peter Nicholl, the New Zealand economist appointed by the IMF to head the Central Bank of Bosnia and Herzegovina, the central bank masterminded the introduction of a new currency, spearheaded the consolidation of the banking sector, and put in place a modern payment system. Indeed, the bank has come to be seen as a beacon of stability in a country still recovering from conflict. Nicholl talks about his accomplishments and the outlook for Bosnia's economy.

Courtesy of CBBH

130

OUTREACH: Legislating change

Parliamentarians in developing countries have a key role to play in writing the laws that make progress possible and in monitoring budgets and expenditures to make sure that scarce resources are put to best use. Nowhere is the task more demanding than following conflicts, when critical institutions need to be created or rebuilt. In IMF-sponsored seminars in Timor-Leste and Cambodia, legislators debated their countries' priorities and explored how to boost growth and reduce poverty.



132

IN THIS ISSUE

122 What's on

122 At a glance

123 In the news
Bernes to head IEO
De Rato meets Chirac
Israel, Panama, Yemen, and Lithuania

126 Book notes
How flat is the world?

128 Research
Capital inflows to South Africa

130 Technical assistance
Peter Nicholl

132 Outreach
Timor-Leste, Cambodia

134 Forum
HIV/AIDS and aid

135 IMF lending
HIPC debt relief

136 Forum
ECOSOC

What's on

May

9 IMF First Deputy Managing Director Anne Krueger to speak at the Oxford Union, Oxford, United Kingdom

12–13 "Making Services Work for Poor People: From New Knowledge to Changed Practice?" World Bank, Washington, D.C.

16–25 World Health Organization World Health Assembly, Geneva, Switzerland

18–19 African Development Bank Annual Meeting, Abuja, Nigeria

18–20 IMF seminar for legislators and journalists, San José, Costa Rica

22–23 Annual Meeting, European Bank for Reconstruction and Development, Belgrade, Serbia

29–30 Economic Commission for Latin America and the Caribbean–IMF Seminar on Policies for Growth in Latin America and the Caribbean," Santiago, Chile

June

1–3 World Economic Forum–Africa Economic Summit, Cape Town, South Africa

1–3 InterAction Annual Conference, "Charting a Course -for Relief and Development," Washington, D.C.

2–3 APEC Meeting of Trade Ministers, Jeju, Korea

5–7 Organization of American States General Assembly, Fort Lauderdale, Florida

10–11 Group of Seven Finance Ministers' and Central Bank Governors' Meeting, London

13–17 IMF seminar on large taxpayer issues for tax officials in the Asia and the Pacific region, Bangkok, Thailand

15–16 IMF-Singapore Regional Training Institute conference, "Managing Fiscal Risks in Asia," Singapore

29–July 1 ECOSOC Substantive Session, High-Level Segment, New York

July

1–5 International Conference on AIDS in Asia and the Pacific, Kobe, Japan

5 IMF seminar for legislators, Lao P.D.R.

6–8 Group of Eight Summit, Gleneagles Hotel, Scotland

September

6–7 IMF High-Level Seminar, "Strengthening the Financial Stability Framework," Washington, D.C.

14–16 High-level plenary meeting, UN General Assembly, to review progress on UN Millennium Declaration commitments, New York

26–27 IMF and World Bank Annual Meetings, Washington, D.C.

IMF Executive Board

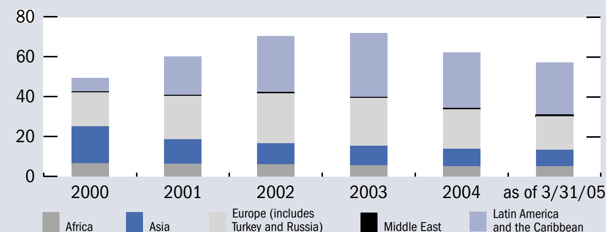
For an up-to-date listing of IMF Executive Board meetings, see *www.imf.org.external/np/sec/bc/eng/index.asp*.

At a glance

IMF financial data

Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)



IMF available resources

(one-year forward commitment capacity, billion SDRs)

Major currencies, rates per SDR

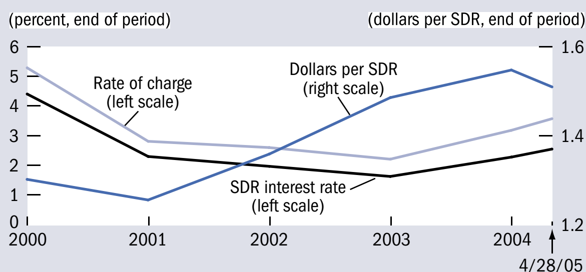
(end of period)

	April 2005	Year ago
Euro	1.171	1.215
Japanese yen	160.269	159.992
U.K. pound	0.793	0.819
U.S. dollar	1.517	1.452

Related rates

SDR interest rate, rate of charge on IMF nonconcessional loans outstanding, and dollars per SDR

(percent, end of period) (dollars per SDR, end of period)



Note on IMF Special Drawing Rights

Special Drawing Rights (SDRs) are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

Bernes named to head IMF's Independent Evaluation Office

Thomas A. Bernes, a Canadian national, accepted the IMF Executive Board's offer to head the Independent Evaluation Office (IEO) starting on June 6. The IEO, established by the Executive Board in July 2001, operates autonomously from IMF management and is designed to provide objective and independent assessments of various aspects of the IMF's work. Its reports have taken up a wide range of topics, including capital account crises, technical assistance, and fiscal adjustment in IMF-supported programs.

Bernes, who succeeds Montek Singh Ahluwalia of India, currently is Executive Secretary of the joint IMF–World Bank Development Committee, a forum to facilitate consensus-building among member country governments on development issues. In 1996–2001, prior to his appointment to the Development Committee Secretariat, Bernes served as IMF Executive Director of the constituency representing Canada, Ireland, and the Caribbean. From 1992 to 1996, he was Assistant Deputy Minister of Finance in Canada, which included representing Canada at high-level international meetings, such as those of the Group of Seven, the Organization for Economic Cooperation and Development (OECD), and the Asia Pacific Economic Cooperation Forum. In addition to holding various senior finance, foreign affairs, and trade policy positions within the Canadian government, Bernes served as head of the OECD's General Trade Policy Division in the mid-1980s.

Michael Spilotro/IMF

Thomas A. Bernes

As head of the IEO, Bernes' first task will be to help carry out the office's work program for FY2005–06, which includes evaluations of the financial sector assessment program and financial sector stability assessments; the IMF's approach to capital account liberalization; the role of multilateral surveillance; and a country case study. ■

Further information on the objectives and activities of the IEO is available at *http://www.imf.org/external/np/ieo/index.htm*.

In Europe, de Rato urges policy action to stem downside risks

Although the global economic recovery has not fully recaptured the stamina lost late last year, activity could regain momentum later this year, IMF Managing Director Rodrigo de Rato said in Paris May 3, where he met with French President Jacques Chirac and attended the Ministerial Meeting of the Organization for Economic Cooperation and Development. De Rato said downside risks have increased for the global economy and urged the international community to address global imbalances. "But there is reason to believe that growth momentum could be recovered in the second half of this year," he told the press.

For the euro area, which has suffered from slow growth, de Rato did not rule out interest rate cuts given low inflationary pressures and inflation expectations, although the key to achieving lasting and strong growth in Europe is structural reform. He acknowledged that past reforms have made Europe's labor markets more robust and resilient but added that structural unemployment was still too high. In addition to structural reforms and long-term growth, de Rato said the euro area countries need more ambitious fiscal policies to meet the challenge of population aging.

Jack Guez/AFP/Getty Images

Rodrigo de Rato (left) greets French President Jacques Chirac.

France's economic growth continues to outperform the euro area as a whole, but not enough jobs are being created and the labor participation rate remains low. Although France's fiscal position improved last year, de Rato recommended stepping up the pace of fiscal adjustment to achieve structural balance over the medium term.

New deal with Turkey

Before Paris, de Rato visited Turkey on April 28–29 to meet with Prime Minister Tayyip Erdoğan and attend the Investment Advisory Council. In welcoming Turkey's new loan with the IMF, he said "Turkey and the IMF are entering an important new stage in their relationship." He said with the right policies in place, Turkey's economic prospects, including foreign direct investment, looked promising. The IMF Executive Board is expected to discuss Turkey's new arrangement on May 11. ■

In the news

Israel's economy emerges from lengthy recession

After a prolonged recession, Israel recorded strong economic growth in 2004, helped by prudent policies, a favorable external environment, and a better security situation, the IMF said in its annual economic review. The recovery is expected to continue in 2005, although at a slightly slower pace. The IMF Executive Board commended the authorities for improving policies and encouraged them to further strengthen the fiscal position, reduce the high level of public debt, and implement key structural reforms.

The government is committed to maintain future deficits below 3 percent of GDP and limit public expenditure growth. To that end, the Board urged the authorities to adopt a multi-year budgetary framework and a detailed spending plan to enhance credibility, ease political pressures, and reflect long-term priorities.

During 2004, monetary policy was loosened as inflationary pressures continued to ease. Subdued inflation amid sheqel appreciation against the U.S. dollar during the second half of the year prompted the Bank of Israel gradually to reduce interest rates. The Board commended the central bank for its policy course and encouraged the authorities to update the Bank of Israel law to reinforce the central bank's independence and enhance its transparency and accountability.

The authorities' structural reforms seek to boost competition and efficiency, including through privatization in key sectors and further labor market initiatives. The welfare reform has started to bear fruit, as declining unemployment and rising labor force participation rates attest. The Board welcomed the recent strengthening of existing active labor market programs and new pilot initiatives, but noted the scope for more targeted spending in this area. Most financial soundness indicators for the banking system have improved marginally, and the quality of bank loan portfolios is expected to improve further as the recovery takes hold. ■

Israel	2001	2002	2003	2004 Estimates	2005 Projections
			(percent change)		
Real GDP	–0.9	–0.7	1.3	4.3	3.7
			(percent of labor force)		
Unemployment	9.3	10.3	10.8	10.4	9.8
			(percent of GDP)		
General government balance	–4.1	–4.5	–6.4	–4.3	–3.6
General government debt	96.4	104.9	107.4	104.8	103.8

Data: IMF staff report, March 2005.

Panama's strong growth drives down unemployment

Panama maintained strong economic growth and low inflation in recent years, which helped to lower unemployment, and made progress in reducing extreme poverty, the IMF said in its annual economic review. However, growth is expected to slow in 2005 as activity in the construction and export-oriented service sectors decelerates slightly. The IMF Executive Board commended the authorities for their achievements and encouraged them to continue developing a well-targeted program to reduce rural poverty and achieve the Millennium Development Goals.

When Panama's nonfinancial public sector deficit increased slightly in 2004, the new administration took revenue and expenditure measures to contain the deficit. The Board concurred that reducing the fiscal deficit and improving public debt dynamics are key to sustaining economic growth and lowering poverty. The authorities' fiscal commitment is reflected in the budget for 2005 and the recently adopted fiscal reform. The main challenges are strengthening government finances and restoring the long-term viability of the public pension system, while enhancing the competitiveness of the private sector.

Panama remains focused on concluding free trade agreements to further integrate with the regional and global economy. The government's strategy to strengthen competitiveness, particularly in the export-oriented service sector, includes improving the business climate, streamlining business procedures, and enhancing the quality of human capital through sustained investment in education. The Board encouraged the authorities to foster a more efficient labor market by extending flexible employment practices from the special economic zones to other sectors.

Panama's banking system experienced a second year of recovery, and the financial system remains sound. Liquidity remains ample despite pressure on the National Bank of Panama resulting from increased credit to the government and reduced deposits from the social security fund. ■

Panama	2001	2002	2003	2004 Estimates	2005 Projections
			(percent change)		
Real GDP (1996 prices)	0.6	2.2	4.3	6.2	3.5
			(percent of labor force)		
Unemployment	14.0	13.5	13.1	11.8	N/A
			(percent of GDP)		
Nonfinancial public sector balance,					
excluding Canal Authority	–2.3	–3.3	–4.7	–5.0	–3.6
including Canal Authority	–1.8	–2.7	–3.8	–3.3	–2.1

Data: IMF Public Information Notice, April 2005.

Yemen faces long-term challenges as oil production declines

Economic growth in the Republic of Yemen slowed in 2004 because of a sharp decline in oil production, posing serious long-term challenges, the IMF said in its annual economic assessment. Oil output fell by 5.9 percent, reflecting diminishing recovery from aging large oil fields and the absence of significant new discoveries. With Yemen's economy at a crucial crossroads, the IMF Executive Board welcomed the authorities' plans to develop a comprehensive strategy for promoting growth and diversifying the productive base, and to include reform measures in the 2005 budget.

The 2004 fiscal deficit was larger than expected because of higher development spending and a larger petroleum subsidy. The Board warned that without policy adjustments, the long-term fiscal and external positions would be unsustainable and urged the government to strengthen fiscal consolidation, deepen structural reforms, and build up the non-oil sector. It expressed concern about the 2004 surge in prices—largely resulting from expansionary fiscal and monetary policies—and called for a tightening of monetary policy. The Board emphasized that any supplementary budget be subject to stringent discipline and designed to respond only to unforeseen developments or external shocks.

The Board recommended the immediate implementation of critical measures, such as the revised General Sales Tax, the elimination of the petroleum subsidy, and the reduction in the wage bill through retrenchment rather than a wage freeze.It encouraged improvements in public expenditure management and tax and customs administration, and advised strengthening social protection mechanisms to mitigate the effects of policy adjustments on the poor.

Despite some progress, the pace of structural reforms has been slow. The business environment needs to improve, including by lowering costs for business startups, streamlining procedures to encourage private sector investment, and addressing governance issues and corruption. ■

Yemen	2000	2001	2002	2003	2004 Estimates
			(percent change)		
Real GDP	4.4	4.6	3.9	3.1	2.7
Real oil GDP	9.4	1.3	0.4	–1.8	–5.9
Average CPI	12.2	11.9	12.2	10.8	12.5
			(percent of GDP)		
Primary non-oil fiscal balance	–17.6	–20.5	–21.5	–26.9	–27.5

Data: IMF staff report, February 2005.

Lithuania continues remarkable growth on way to euro adoption

Lithuania's economy extended its impressive expansion in 2004, driven by vigorous private consumption and investment growth, the IMF said in its annual economic review. Lithuania acceded to the European Union (EU) in May 2004 and in June entered the Exchange Rate Mechanism II in preparation for possible euro adoption in 2007. The IMF Executive Board said that the authorities' sound macroeconomic policies and structural reforms contributed to rapid growth and low inflation, and that Lithuania is broadly on track to meet the Maastricht criteria.

Average inflation remained low in 2004, but higher excise taxes and energy prices, coupled with strong demand, caused inflation to accelerate later in the year. The current account deficit widened, owing to a deterioration of the trade balance. The budget deficit widened in 2004, representing an expansionary fiscal stance. With indicators suggesting that output will remain above potential in 2005, the Board warned that a lax fiscal stance could add to inflationary pressures and the current account deficit. The authorities should allow the automatic stabilizers to operate and build a safety margin to be used in the event of a slowdown. The Board supported the staff's proposal for enacting a Fiscal Responsibility Act, which together with the currency board and the convergence program, would provide a comprehensive fiscal policy framework for all levels of government.

Credit expanded rapidly in 2004. The Board stressed that the trend growth in consumer borrowing and the significant foreign currency exposure of the private sector require close monitoring of credit quality. Structural reforms continued in 2004, but deeper reforms will be necessary to keep Lithuania on a real convergence path with the EU. ■

Lithuania	2001	2002	2003	2004 Estimates	2005 Projections
			(percent change)		
Real GDP	6.4	6.8	9.7	6.6	7.0
Average CPI	1.3	0.3	–1.2	1.2	2.9
			(percent of labor force)		
Unemployment	17.4	13.8	12.4	11.3	11.3
			(percent of GDP)		
General government fiscal balance	–1.9	–0.8	–1.7	–2.2	–1.9

Data: IMF staff report, March 2005.

For more information, refer to IMF Public Information Notices No. 05/44 (Israel), No. 05/50 (Panama), No. 05/40 (Yemen), and No. 05/46 (Lithuania) on the IMF's website (*www.imf.org*).

Book notes

How flat is the world?

Georgetown University's Pietra Rivoli takes an oversized issue—whether globalization is a force for good—and shrinks it down to size by telling the story of a simple product, T-shirts, in a global market. At every stage, people try to mitigate the adverse effects of free markets by erecting barriers. But that's increasingly difficult, says *New York Times* columnist Thomas L. Friedman, because powerful forces are knocking down barriers to global competition and the world is becoming a flatter place.

Three forces are leveling the global playing field, argues Friedman in *The World Is Flat: A Brief History of the Twenty-First Century*. First, in the aftermath of the collapse of communism, its most potent alternative, market capitalism is spreading around the world. Second, new technologies now allow companies to create a virtual assembly line across the globe. "Bangalore, Beijing, and Bethesda are now next-door neighbors," he said in a recent talk at the IMF. And, third, global companies now have access to large, low-cost pools of labor as a result of China's and India's embrace of market reform.

How should governments cope with a flat world? Friedman advises the governments of advanced economies, such as the United States, to stay ahead of the competition by investing in education and by constantly upgrading workforce skills rather than by erecting protectionist barriers. He also advocates wage insurance to protect workers displaced by competition and benefits, such as universal health coverage, to provide a more "compassionate capitalism." Emerging markets, such as Mexico, should also eschew protection, he argues, insisting that their interests are better served by "retail reforms." Such micro-level reforms, he says, can spur growth by removing the legal and institutional impediments to doing business.

The comparative advantage enjoyed by U.S. cotton farmers lies in their skill at collecting government subsidies.

—Pietra Rivoli

Reality check

Of course, not all governments behave as Friedman advises. In *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade*, Rivoli shows that at nearly every stage, the people involved in producing and selling T-shirts try to mitigate the effects of free markets and free trade on their own fortunes, generally by appealing to politicians for help. The irony is that their pleas tend to be heeded in richer countries, while those in poorer countries are more likely to be at the mercy of the market.

Consider, for instance, the 200-year dominance of U.S. cotton producers in the global market. This, says Rivoli, is a testament not only to the "entrepreneurial creativity" of U.S. cotton farmers but also to the support provided by their government. Quoting an Oxfam report, she writes that "the comparative advantage enjoyed by U.S. cotton farmers lies in their skill at collecting government subsidies," the total value of which exceeds the income of a number of cotton-producing countries in Africa.

Left turn to China

Rivoli's story begins in places like Lubbock, Texas, where cotton is produced, and then "turns left toward China," where sweatshops in Shanghai and elsewhere turn the cotton into T-shirts. On the surface, Lubbock has little in common with Shanghai (Shanghai| has a Starbucks, while Lubbock does not). But, says Rivoli, the two cities "have been linked by cotton fiber for nearly a century." In Shanghai Number 36 Yarn Factory, the Texan cotton is turned to yarn, and in Shanghai Brightness Number 3 Garment Factory, the yarn into a T-shirt.

Conditions in these factories are far from pleasant, though generations of activists—the predecessors of today's anti-globalization protesters—have helped to make them better than they would be otherwise. Lan Jiang works in the Number 36 factory "fixing broken thread. She sits on a hard metal chair attached to tracks on the floor. By depressing the pedal at her foot, Lan glides left and right, stopping wherever she sees a flashing red light, the signal of broken thread."Lan does this eight hours a day, six days a week, and makes $100 a month, most of which she saves. And she likes her job because it beats back-breaking farm work.

What Lan would like from her politicians, but does not receive, is job protection. Factories are closing in Shanghai as producers traverse the globe in search of cheaper labor. Of the Shanghai yarn factories that "once numbered 1 through 40 only 6 remain." In fact, over the past decade, China has lost 10 times as many textile industry jobs as did the United States, "and textile job losses were the most severe of any industry in China."

Back to the U.S. of A.

Nevertheless, China is still a major player in textiles, and Rivoli's story follows the Shanghai-produced T-shirts as they are shipped back to the United States. Now the "T-shirts enter the most complex and challenging phase of their lives: trying to gain access to the U.S. market," writes Rivoli. The rules governing which foreign country gets to sell T-shirts and other textile products in the United States, and how many of each, are complex or, simply put, "nuts, as even the people who made them readily agree."

But the rules do serve two purposes: they provide jobs for the armies of bureaucrats and lobbyists in Washington and around the world, who interpret the rules or try to influence them in favor of their clients, and they give many smaller textile-producing countries a foothold in the U.S. market by restricting imports from large countries like China. "However unsuccessful the quota regime has been in protecting U.S. jobs," Rivoli notes, "it has been successful indeed as foreign aid . . . . The quotas given to Mauritius and Bangladesh not only opened sewing factories, but indirectly build roads, ports, and communications systems . . . ."

And then on to Africa

The final stage of the T-shirt's story begins in places like the Sumner Place Shopping Center in Bethesda, Maryland, where soccer moms donate the contents of "their closets to make room for new stuff." The castoff clothes end up with firms like Trans-America, a family firm run by the Stubins of Brooklyn, New York, for more than 50 years. In their warehouse, the clothing is placed on a conveyor belt, and, as in an *I Love Lucy* rerun, workers standing on either side of the belt sort them into bins or chutes. Then, along another belt, workers grade these T-shirts by quality.

Trans-America ultimately ships the T-shirts to Africa and elsewhere, where they end up in secondhand markets. In Dar es Salaam, Tanzania, the T-shirts with the highest expected resale value hang from trees in the commercial district, guarded all day long by a trader's helper until they are sold.

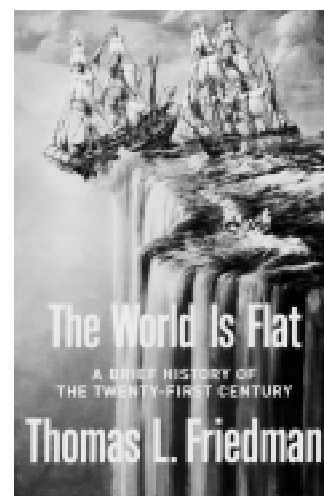
Advice to anti-globalizers

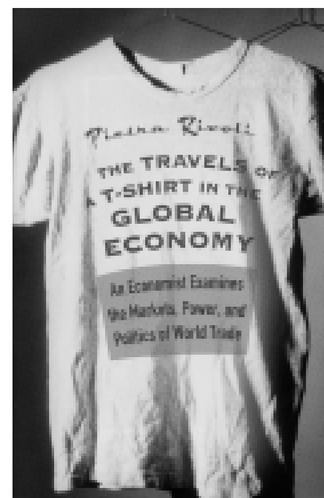
The T-shirt's tale, Rivoli concludes, is one "in which market forces on the one hand meet demands for protection on the other." Some players, such as cotton farmers and textile workers in the United States, receive protection; others, such as the Chinese garment workers, do not. Left out in the cold are the millions of small-scale producers, such as African cotton farmers, "who are granted neither political protection nor market opportunities."

Rivoli urges anti-globalizers to "appreciate what markets and trade have accomplished" for the poor who have managed to gain access to them. The energies of the anti-globalizers would be better spent, she argues, on working to gain access to market opportunities and political participation for those who do not enjoy it at present.

Friedman is far less sympathetic toward the anti-globalizers. At the IMF event, he accused them of "dining out on the carcass" of institutions like the IMF and the World Bank that champion globalization. "If populists really want to help the rural poor [in developing countries]," he writes, "the way to do it is not by burning down McDonald's and shutting down the IMF and trying to put up protectionist barriers that will unflatten the world. That will help the rural poor not one iota."

But Friedman also suggests that agencies such as the IMF "are going to become less important. In the future, globalization is going to be increasingly driven by the *individuals* who understand the flat world, adapt quickly to its processes and technologies, and start to march forward—without any treaties or advice from the IMF." ■





Prakash Loungani
IMF External Relations Department

Why is South Africa's capital inflows mix different?

Private capital inflows can bring substantial benefits to an economy, including by boosting private sector activity and enhancing economic growth prospects. In particular, foreign direct investment (FDI), generally considered the most resilient form of capital inflows, is also associated with the transfer of new technologies and skills and improved market access. Unlike most other emerging markets, however, capital flows to South Africa since the mid-1990s have been heavily biased toward portfolio flows. A new IMF cross-country study seeks to identify the main determinants of the level and composition of South Africa's capital inflows and suggests that further trade and capital account liberalization would increase the share of FDI. It also finds that exchange rate volatility tends to deter FDI but has little impact on foreign portfolio flows. Faisal Ahmed and Norbert Funke, of the IMF's Policy Development Review and African Departments, respectively, spoke with Jacqueline Irving of the IMF Survey.

IMF Survey: Why is the composition of capital flows to South Africa biased toward portfolio investment flows?

Funke: South Africa attracts as much or even more combined FDI and foreign portfolio flows taken together as do other comparator emerging market countries—on average 5 percent of GDP annually over 1994–2002. But the proportion of inbound FDI is much less than for comparator countries, and the share of foreign portfolio investment is much higher.

To understand why, our cross-country study looked at both common and specific determinants of FDI and foreign portfolio flows. Our findings suggest that during 1975–2002 South Africa scored lower than its major competitors for capital flows in growth and infrastructure—two important determinants of FDI. Exchange rate volatility also was substantially higher than for comparator countries. Moreover, although South Africa has gradually relaxed capital controls over the past 10 years, it retains some controls, including a requirement that exporters repatriate their export proceeds within six months. And because South Africa is the largest financial market in Africa, it is very attractive to portfolio investors seeking to diversify their portfolios regionally.

Michael Spilotro/IMF

Funke: "South Africa scored lower than its major competitors for capital flows in growth and infrastructure—two important determinants of FDI."

IMF Survey: Over the past six years or so, a number of primary listings have left the Johannesburg Securities Exchange (JSE), many for the London Stock Exchange. Indeed, the total number of listed companies fell from nearly 700 in 1999 to 420 by early 2004. Do you see this as a worrying trend?

Ahmed: The migration of primary listings to overseas markets reflects mainly the removal of exchange controls and a decision of some South African firms to compete globally for capital. Listings on overseas exchanges offer firms additional ways to raise capital on international markets and broaden their investor bases. The South African economy could therefore benefit from such developments.

Funke: We must put these developments in an international perspective. There has been a global trend of companies tapping overseas markets. Moreover, some of the delistings in South Africa occurred because of the stock exchange's decision to remove companies that no longer met its listing requirements. Enforcing existing rules is important for credibility and corporate governance. And, recently, the JSE's market capitalization has risen substantially, which is another indication that the stock exchange has not lost its attractiveness.

IMF Survey: What effect would the JSE's proposed "pan-African board"—whereby large companies could be traded on a virtual African exchange—have on the composition and quantity of foreign portfolio investment to South Africa?

Ahmed: The proposed pan-African board aims to integrate all the participating countries' exchanges, thus enabling brokers from member countries to trade any stock from any member country. A rigorous and broad-based implementation of a regional exchange or other forms of effective cooperation may reduce transaction costs and increase liquidity. This may lead to some increase in capital inflows, particularly equity inflows. It could also serve a catalytic role in improving the accounting and disclosure rules of other countries' exchanges in the region.

IMF Survey: Could this pan-African exchange lead to capital flight from within the subregion toward the JSE, as Botswana exchange officials fear?

Funke: I do not see a risk of capital flight. In fact, quite the opposite may happen. Capital flows to participating countries may increase. If designed appropriately, the proposed regional exchange could help the other participating countries and companies operating in them raise capital more easily, and this new capital could be used to increase investment in the private sectors and economies of these countries.

IMF Survey: You argue that exchange rate volatility does not have a statistically significant effect on foreign portfolio inflows. But wouldn't this volatility negatively affect foreign portfolio as well as foreign direct investment inflows, especially since sudden downward exchange rate movements could have a potentially negative impact on foreign portfolio investors' remittances of dividends, capital gains, and/or interest earnings?

Ahmed: It is necessary to distinguish between depreciation and currency volatility. A depreciating currency over a longer period is very often associated with weak economic fundamentals, which makes a country less attractive for foreign portfolio and direct investment.

Funke: Exchange rate volatility tends to reduce a country's attractiveness for FDI but, according to our results, does not have a significant effect on portfolio flows. Exchange rate volatility is associated with a lower share of FDI in total flows. One reason that portfolio flows are less affected by exchange rate volatility is that, because of the shorter investment horizon, portfolio investors may find it easier than FDI investors to hedge against currency risk. At the same time, some portfolio investors are comfortable with currency volatility because of the implied pickup in yield.

Michael Spilotro/IMF

Ahmed: "Additional trade liberalization would tend to attract more foreign direct investment."

IMF Survey: Hedging can be costly. Isn't this limited to the very large players who can afford to use hedging instruments?

Funke: Hedging may become expensive when nonstandardized instruments are used to hedge foreign exchange risk over long horizons. The cost of hedging is hardly a factor, however, when we're talking about using more standard hedging products. And, yes, it is easier and less costly for larger investors to hedge risk.

Ahmed: For South Africa and a lot of other emerging markets, portfolio investment often comes from institutional investors who have access to various hedging tools.

IMF Survey: What policies could enable South Africa to attract more FDI in the future?

Funke: The South African authorities have, or are putting in place, a number of policies that should be conducive to increasing FDI inflows. For example, over the past few years, the central bank has increased international reserves substantially, which should help reduce exchange rate volatility. Macroeconomic developments are favorable, and the economy is growing at a brisk pace. These developments should help increase South Africa's attractiveness as a destination for FDI.

Ahmed: South Africa has liberalized trade extensively since the early 1990s, and the Department of Trade and Industry is currently reviewing the trade regime with an eye to further liberalization. Additional trade liberalization would tend to attract more FDI.

Funke: Further liberalization of some remaining capital controls—notably, requirements that firms repatriate export proceeds within a prespecified time period— would also be a positive signal for foreign direct investors. And other policies not explicitly considered in our study, such as an acceleration of privatization, could be instrumental in increasing the share of FDI.

Ahmed: There are clear signs that foreign investors are increasingly interested in exploring opportunities in South Africa. For example, foreign banks have been expressing growing interest in gaining access to South Africa's market. In recent months, Barclays has been in talks to acquire a majority stake in South Africa's largest retail bank, ABSA.

IMF Survey: What impact, if any, do you see from South Africa's membership in regional organizations—such as the Southern African Development Community (SADC) and the Southern African Customs Union (SACU)—and trade agreements negotiated with the European Union and other countries?

Funke: South Africa plays a key role in the region and is obviously very integrated with it. The government is currently reviewing or negotiating bilateral and regional trade agreements. Together with the review of the tariff regime, this should provide a very positive signal to foreign investors. Our findings suggest that trade openness is one of the most robust determinants of FDI. ■

Copies of IMF Working Paper No. 05/40, "The Composition of Capital Flows: Is South Africa Different?" are available for $15.00 each from IMF Publication Services. See page 136 for ordering information. The full text of the paper is also available on the IMF's website (*www.imf.org*).

Creating a beacon of stability in Bosnia

Almost ten years after the Dayton agreement heralded peace in the Balkans, Bosnia and Herzegovina (BiH) has made big strides toward economic recovery. Infrastructure has been rebuilt, many refugees have returned home, output has revived, and inflation has stabilized at industrial country levels. However, many other problems remain in a country still marked by the scars of conflict—GDP is well below prewar levels, unemployment is high, the large current account deficit is a source of uncertainty, and the private sector remains weak. One bright spot is the central bank, established in 1997 with backing from the IMF. Jeremy Clift interviews Peter Nicholl, a New Zealander appointed by the IMF to be governor of the Central Bank of Bosnia and Herzegovina (CBBH).

"We started with foreign exchange reserves covering just one week of imports," recalls Nicholl. "Today they cover five months worth of import payments, inflation is stable, and we have a sound banking system." Under Nicholl, the central bank masterminded the introduction of a new currency, spearheaded the consolidation of the banking sector, and put in place a modern payment system. Indeed, it has come to be seen as a beacon of stability in a country still recovering from conflict. Part of the credit for this strong performance goes to Nicholl, a 61-year-old New Zealand-born economist who headed the CBBH for seven years until he stepped aside at the end of 2004.

The authorities have been very slow in closing weak or nonperforming banks. This needs to accelerate.

—Peter Nicholl

Under the terms of the Dayton accord, the IMF was charged with appointing the governor of the new central bank. To minimize ethnic rivalries among Bosniacs, Croats, and Serbs, the law establishing the bank specified that for the first six years the governor should not be a citizen of Bosnia and Herzegovina or a neighboring country. Nicholl, an Executive Director of the World Bank with 22 years' experience at the Reserve Bank of New Zealand, was chosen to succeed Serge Robert of France who served briefly as the first governor in 1996–97.

"I was offered Bosnian citizenship in order for me to stay on as Governor beyond the first six years, as after that time governors had to be citizens of Bosnia and Herzegovina. I was honored to accept it," Nicholl told the *IMF Survey*. "I saw it as a clear sign that they appreciated the job I had done and wanted me to stay." He has continued in Sarajevo as an Advisor to Kemal Kozarić, a career banker who took over as the first local governor of the CBBH.

Law underpinned success

Nicholl says that the key to later success was the drafting of a solid central bank law that was approved by the parliament and enabled him to stand up to opposition. "Without that sound, strong law, I do not think I would have succeeded in establishing an efficient and effective central bank in Bosnia and Herzegovina," says Nicholl. "The CBBH law made the central bank independent. But establishing that independence in practice, both within the central bank and outside, was one of my first key challenges."

Nicholl, described by colleagues as a good listener who is also tough and sometimes blunt, had to deal with the legacy of ethnic tensions while establishing trust in the new bank. "Another challenge was first understanding and then trying to do something about the complicated accounting relationships between the new central bank, the old National Bank of BiH, and the government-controlled payment system that had a monopoly on domestic noncash payments. These relationships led in the first few months to several breaches of the currency board requirements specified in the central bank law and it took a year to resolve them. Until they were resolved, certain ethnic groups in BiH did not trust the CBBH," he says.

Internally, Nicholl—who was chief economist at the Reserve Bank of New Zealand for five years before becoming Deputy Governor—borrowed from his home experience. "I have put in place internal mechanisms and systems that are as close as possible to those I had seen work well in New Zealand, including annual plans, annual budgets, formal monitoring systems, a management committee, and an investment committee. I think the CBBH shows that if you put in place sensible legal and administrative systems, you will get sensible and predictable behavior and performance. But there are few other institutions in Bosnia and Herzegovina that have been set up on this logical basis," adds the silver-haired central banker.

Still, old ways died hard for the staff of the new bank. "The initial staff tended to work in cliques based on which institution they had come from. This often had an ethnic element as well. It took time to get them working together as a single institution. They initially took over the personnel systems and policies from old Yugoslavia, which tended to be very detailed and prescriptive."

New currency: an early priority

Creating a new currency for the new country was one of the early priorities. Agreeing on a name and design for the new currency were initially hotly contested issues. But the new banknotes, printed in France, were eventually issued on June 15, 1998, and the previous BiH dinars were demonetized just two weeks later. The new currency, called the convertible marka (KM), was fully backed by a strict currency board arrangement that tied the KM initially to the deutsche mark (DM) and then the euro. Despite some early hiccups, the currency board has been very effective. "I do not think there is any type of monetary policy—other than the adoption of the deutsche mark as the currency of Bosnia and Herzegovina from the beginning—that could have given this country a stable currency and low inflation so quickly. Where there is little capacity to exercise discretionary policies, it is best to set up institutions that eliminate discretion. They are the only ones the citizens will trust and use," says Nicholl.

The currency board model has worked well in several transition economies. "The experiences of the Baltic states, Bulgaria, and now Bosnia and Herzegovina have shown that the currency board model is very successful in Eastern Europe," says Nicholl. He identifies three reasons for this:

- citizens in these countries trusted the base currency (initially the DM and later the euro) much more than they trusted their own institutions and currencies;
- there were strong trade and economic links to the base currency; and
- eventually joining the European Currency Union provides a natural exit strategy from their currency board arrangements.

Another priority has been the banking system. When Nicholl arrived, there were 76 banks for a population of 4 million, and not one of them operated over the whole country. Now there are 33 registered banks, but 80 percent of the deposits are in 8 banks. "I think the system will consolidate on around 12–16 banks. Most of the big steps have actually already been taken," Nicholl states, although he adds that "the authorities (governments and banking agencies) have been very slow in closing weak or nonperforming banks. This needs to accelerate."

Other outstanding challenges, according to Nicholl, are developing the capital markets (currently very small) and attracting more foreign direct investment to develop the private sector.

Need to speed up reform

What's the economic outlook for the country? "There are two things that make it difficult to predict the economic outlook in Bosnia and Herzegovina with precision," says Nicholl. "First, the country is going through so many transitions simultaneously that the economic numbers can, and do, move through very large ranges. Second, and more important, the economic outlook depends crucially on an acceleration of the economic, regulatory, and legal reforms and faster privatization. Forecasts based on the status quo as compared with those based on an accelerated reform path will be very different. Indeed, unless the reform process is accelerated, Bosnia and Herzegovina will have a very difficult future.

"But I am an optimist. I believe we will see a combination of continued macroeconomic stability and accelerated microeconomic and legal reform and privatization. On this basis, I predict economic growth rates can be around 6–7 percent per annum, inflation will remain subdued at around the current rate of 1 percent, and the current account imbalance will gradually improve."

Courtesy of CBBH

Nicholl: "Where there is little capacity to exercise discretionary policies, it is best to set up institutions that eliminate discretion."

Many close shaves

Has Nicholl ever felt in personal danger during his time in BiH? "I have never had special security and have never felt the need for it," he says. "There were some threats made during the process of closing the payments bureaus, but nothing occurred. The only time I feel at risk here is when driving on the roads—poor roads, poor driving, and frequent poor weather make a dangerous combination. I have not had any accidents—but many close shaves." ■

Jeremy Clift
IMF External Relations Department

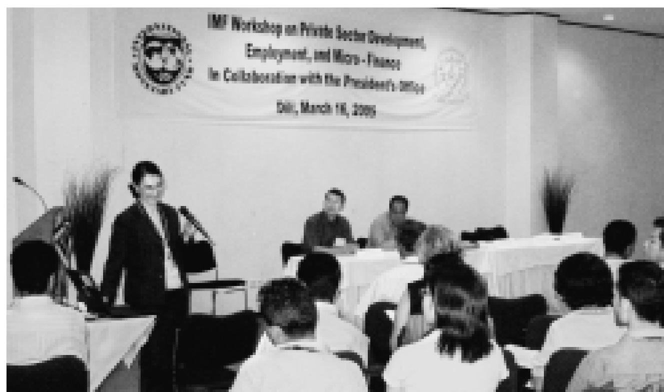
Timor-Leste and Cambodia: In search of growth and prosperity

As Timor-Leste and Cambodia continue to rebuild their economies after long periods of social and political conflict, both countries are searching for ways to improve policies and institutions, stimulate economic growth, and reduce poverty. Legislators have critical roles in these processes—both as lawmakers and as monitors acting on the public's behalf. Recently, the IMF sponsored parliamentary seminars in Dili, on March 17–18, and in Phnom Penh, on March 24–25, that took a closer look at what can be done to involve legislators more actively in the development process. The two sessions—which drew 40–50 legislators in each country, as well as parliamentary staff and civil society and donor representatives—spotlighted the need to create jobs and make wise use of oil and gas resources in Timor-Leste and to strengthen governance and intensify efforts to reduce poverty in Cambodia.

Timor-Leste: building from scratch

In Dili, the two-day parliamentary seminar and a half-day workshop with representatives of civil society organizations focused on ways to spur economic growth and fight poverty. Newly independent in 2002, Timor-Leste shares challenges similar to many very low-income countries—but with a few twists. First, in the violence that swept the country after its independence referendum in 1999, Timor-Leste lost much of its physical and human capital. It had to start from scratch in building such key institutions as a finance ministry, monetary authority, and judiciary. Initially administered under a UN mandate, the country is now self-governed, and the IMF continues to play a key role, through technical assistance and policy advice, in helping the country build up its fiscal and monetary policy institutions. Another twist—and a potentially positive one—has been the discovery of significant oil and gas resources. The challenge for the authorities now is to manage this newfound wealth wisely and to avoid the pitfalls that have plagued other resource-rich countries.

One of Timor-Leste's top priorities is reducing unemployment—currently estimated at more than 20 percent—and ensuring that its economy is positioned to create new jobs for its population—50 percent of which is under 16 years of age. The government's prudent policies have helped achieve macroeconomic stability, but other key conditions for strong growth remain absent—notably improved infrastructure and a clear and predictable legal and regulatory structure. Enhanced skills development and training are also needed.



Patrick Cirillo/IMF

Valeria Fichera of the IMF's Asia and Pacific Department addresses participants at a workshop in Dili, Timor-Leste, on ways to spur economic growth.

On the question of how to provide more financing for economic activity, particularly in rural areas, participants emphasized small finance schemes, such as microcredit and rural cooperatives. As one private sector participant remarked, "a serious challenge facing our young country is that credit is largely limited to the capital city and other large population areas." In addition, Manuel Tilman, Chair of the National Assembly's Economy and Finance Committee, encouraged the IMF to continue to bolster the capacity of the country's monetary authority as one step toward paving the way for a national currency.

Legislators also looked at the National Assembly's contribution to the country's development. President of the National Assembly Francisco Guterres "Lú-Olo" observed that the parliament "plays a critical role" in examining and approving the state budget, and overseeing its execution so as to ensure a balanced contribution of fiscal policy to development. It also has an important and continuing role in drafting and passing quality legislation.

Legislators were particularly interested in policies that would encourage the sound management of the country's new oil revenue. The government plans to follow best practices by establishing a Norwegian-style oil fund and adopting a savings policy to safeguard Timor-Leste's oil and gas resources for future generations. Parliament will monitor the operations of this oil fund and help ensure that oil and gas wealth is spent wisely in the government's budgets.

Finally, legislators took particular interest in ways to promote good governance, which is a key element in ensuring pro-poor economic development. They placed a special emphasis on the key role national legislatures can play in carefully monitoring national budgets.

Cambodia: tackling poverty reduction

In Phnom Penh, participants focused on disappointing progress in reducing poverty and on governance, trade opportunities, and dollarization. IMF advice and support have helped the country achieve financial stability, they said, but this and high levels of aid have yet to translate into lower poverty rates.

Going forward, there was broad agreement that, with most of the poor living in the countryside, greater emphasis should be placed on rural development. But Cambodia's needs are many. As Than Sina of the National Assembly emphasized, reconstruction of the country's infrastructure, which sustained massive damage during the civil war, remains a high—but neglected—priority. Other parliamentarians also pointed to the need to promote small and medium-sized enterprises.

What is holding back poverty reduction? Participants agreed that weak governance is one of the most important obstacles. They welcomed the IMF's help in promoting good governance and reducing corruption, particularly its insistence on greater transparency. As the IMF staff emphasized, good governance is an essential ingredient in the more effective use of public resources, increased economic activity, better tax collection, and improved poverty reduction. And with their significant budgetary oversight responsibilities, parliamentarians are, the IMF staff stressed, essentially the board of directors of "Cambodia, Inc." They should hold the government to account in delivering "value for the public's money" —especially given that Cambodia has one of the lowest revenue-to-GDP ratios in the world.

Trade can also play a key role in Cambodia's development. Dr. Sok Siphana (Secretary of State, Ministry of Commerce) drove home the point that Cambodia's recent accession to the World Trade Organization (WTO) presents a huge opportunity and opens vast new markets. Accession should also help accelerate the passage of laws required of WTO members. More generally, open trade, together with improved governance (especially reduced unofficial fees), should speed up diversification of the Cambodian economy—an urgently needed step if Cambodia is to achieve the UN Millennium Development Goals.

Cambodia's highly dollarized economy also surfaced as a prime concern. Indeed, memory of the overnight destruction of the domestic currency and banking system by the Khmer Rouge remains vivid. Participants broadly agreed on the need to increase the use of the Cambodian riel, but they recognized that this would take time. Still, as So Victor of the National Assembly stressed, measures can be taken to rebuild confidence in the riel, confidence that has already been helped very much by the stability of the riel's exchange value since 1999. In the financial sector, legislators can do their part in helping to build a sound financial sector by enacting the necessary laws for commercial activities, financial transactions, and bankruptcy.

Patrick Cirillo/IMF

Left to right: Robert Hagemann (IMF Resident Representative in Cambodia), Dr. Sok Siphana (Secretary of State, Cambodian Ministry of Commerce), and Kanitta Meesook (Assistant Director, IMF External Relations Department).

Strengthened legislative outreach

The IMF has in recent years increasingly reached out to legislators. Parliamentarians can play a key role in their societies both as representatives with firsthand knowledge of their constituents' needs and interests, and as lawmakers whose awareness of the importance of prudent fiscal, monetary, and structural policies can hasten the development of a stable macroeconomy and a vibrant private sector. The sessions in Timor-Leste and Cambodia also reflect the IMF's considerable work in postconflict situations and its own deepening appreciation of the special challenges these countries face in creating or substantively rebuilding the institutions needed to underpin a functioning economy.

Participants in both seminars appreciated the IMF's efforts to engage them in open and informal forums and to listen to their concerns. Maria Da Costa, a member of the Timorese National Assembly, welcomed the "useful and interesting discussions," and Cheam Yeap, Chair of the Commission on Economy, Finance, Banking, and Audit of the Cambodian National Assembly, cited the value of a "meaningful dialogue" in facilitating common understanding of the issues. Legislators from both countries encouraged the IMF to build on these outreach efforts with follow-up seminars and workshops. ■

Robert Hagemann, IMF Resident Representative in Cambodia;
Susan Creane, IMF Asia and Pacific Department; and
Patrick Cirillo, IMF External Relations Department

HIV/AIDS: Money, bottlenecks, and the future

The extraordinary nature of the HIV/AIDS epidemic requires exceptional measures. What these measures should be, however, remains a subject of ongoing debate. The general consensus is that massive resources are needed, but sharply higher funding may complicate macroeconomic and fiscal management in hard-hit countries.

What can be done? An April 18 panel discussion in Washington, D.C., sponsored by the Center for Global Development (CGD), drew on the views of African finance ministers, members of the advocacy community, and senior IMF and World Bank officials to explore how the aid absorption dilemma could be addressed.

The discussion, moderated by Nancy Birdsall, Founding President of the CGD, examined both the urgent need for resources and the risks posed by sudden and massive new funding. With Zambia's funding for AIDS having risen about 700 percent between 2001 and 2003, and Lesotho's and Swaziland's about 1,000 percent, there is no question that this new money is swamping health budgets, Maureen Lewis (CGD) said. Clearly, bottlenecks pose a real worry for both donors and recipients. Lewis, citing a global survey of perceptions of HIV/AIDS bottlenecks, said that 74 percent of respondents favored suspending or downplaying macroeconomic and fiscal constraints to accommodate higher HIV/AIDS spending. But only a tiny number (1 percent) blamed IMF-suggested caps. Of greater concern was a lack of political will (29 percent), poor national coordination (28 percent), and shortcomings in health care delivery (14 percent).

Henrik Gschwindt/IMF

Left to right: Finance Ministers of Uganda and Rwanda, Ezra Suruma and Donald Kaberuka, and Nancy Birdsall of the CGD.

Staggering health care needs

The need for more resources is not in question. As Ugandan Finance Minister Ezra Suruma underscored, medicine is urgently needed to treat HIV/AIDS patients. Something is wrong, he argued, if a country cannot absorb the money it receives for HIV/AIDS treatment. It is the "job of the technical people, the macroeconomic experts, to solve the problem so that suffering can end," he said. Finance Minister Donald Kaberuka from Rwanda said a recent IMF paper on fiscal space (Peter S. Heller's "Understanding Fiscal Space," IMF Policy Discussion Paper No. 05/4) "may provide a way of technically managing the increased resources." If there is a macroeconomic breakdown, it is the very poor who suffer, he said.

Holly Burkhalter (Physicians for Human Rights) pointed out that, unlike other epidemics, HIV/AIDS attacks the "core of adults in their productive and reproductive years" who typically keep a country going. She suggested that the huge economic cost of HIV/AIDS calls for a more radical approach to finding solutions. "Too much money," she said, "is not Africa's biggest problem." One possible solution raised by participants is "importing" a health care sector to expand the delivery of services while minimizing the macroeconomic impact on prices and the exchange rate. Another option could be to establish an AIDS fund similar to oil funds. This would allow money to be used over time and thus help keep AIDS programs going.

Hard choices

As Peter S. Heller (IMF Fiscal Affairs Department) explained, countries that are struggling to absorb large increases in aid are facing real macroeconomic challenges. Addressing these challenges will require not just technical solutions but hard policy choices. The IMF can advise countries, he said, "however, it has to be the ministry of finance, the government as a whole, that has to make the ultimate decisions as to which tradeoffs they're willing to accept." IMF economist David Andrews (African Department, mission chief for Zambia) said since Zambia reached the HIPC decision point, annual debt-service payments have fallen from about 4 percent of GDP to 2 percent of GDP, refuting claims that wage payments had been limited to finance debt-service payments to the IMF. Zambia's domestically financed annual health expenditures are about 2 percent of GDP, and it receives at least 8 percent of GDP a year in new external aid monies.

In the end, Jean-Louis Sarbib (World Bank) was hopeful that "we're going to find a solution that respects both the urgency and the good economic management" that Africa needs. ■

Jennifer Bisping
IMF External Relations Department

A taped webcast of the event can be found at *http://www.cgdev.org.*

HIPC debt relief (status as of April 21, 2005)

IMF member	Decision point	Completion point	Amount committed	Amount disbursed[1]
			(million SDRs)	
Heavily Indebted Poor Countries (HIPC) Initiative				
Under original 1996 Initiative				
Bolivia	September 1997	September 1998	21.2	21.2
Burkina Faso	September 1997	July 2000	16.3	16.3
Côte d'Ivoire	March 1998	–	16.7[2]	–
Guyana	December 1997	May 1999	25.6	25.6
Mali	September 1998	September 2000	10.8	10.8
Mozambique	April 1998	June 1999	93.2	93.2
Uganda	April 1997	April 1998	51.5	51.5
Total original HIPC			**235.3**	**218.6**
Under the 1999 Enhanced HIPC Initiative				
Benin	July 2000	March 2003	18.4	20.1
Bolivia	February 2000	June 2001	41.1	44.2
Burkina Faso	July 2000	April 2002	27.7	29.7
Cameroon	October 2000	Floating	28.5	5.5
Chad	May 2001	Floating	14.3	8.6
Congo, Democratic Republic of	July 2003	Floating	228.3[3]	2.3
Ethiopia	November 2001	April 2004	45.1	46.3
Gambia, The	December 2000	Floating	1.8	0.1
Ghana	February 2002	July 2004	90.1	94.3
Guinea	December 2000	Floating	24.2	5.2
Guinea-Bissau	December 2000	Floating	9.2	0.5
Guyana	November 2000	December 2003	31.1	34.0
Honduras	June 2000	April 2005	22.7	22.7
Madagascar	December 2000	October 2004	14.7	16.4
Malawi	December 2000	Floating	23.1	6.9
Mali	September 2000	March 2003	34.7	38.5
Mauritania	February 2000	June 2002	34.8	38.4
Mozambique	April 2000	September 2001	13.7	14.8
Nicaragua	December 2000	January 2004	63.5	71.2
Niger	December 2000	April 2004	31.2	33.8
Rwanda	December 2000	April 2005	33.8[4]	33.8
São Tomé and Príncipe	December 2000	Floating	–	–
Senegal	June 2000	April 2004	33.8	38.4
Sierra Leone	March 2002	Floating	98.5	62.0
Tanzania	April 2000	November 2001	89.0	96.4
Uganda	February 2000	May 2000	68.1	70.2
Zambia	December 2000	April 2005	468.8	468.8
Total Enhanced HIPC			**1,590.3**	**1,303.0**
Combined total for 28 members			**1,825.5**	**1,521.6**

Definitions

Decision point: Point at which the IMF decides whether a member qualifies for assistance under the HIPC Initiative (normally at the end of the initial three-year performance period) and decides on the amount of assistance to be committed.

Completion point: Point at which the country receives the bulk of its assistance under the HIPC Initiative, without any further policy conditions. Under the Enhanced HIPC Initiative, the timing of the completion point is linked to the implementation of pre-agreed key structural reforms (that is, floating completion point).

[1]Includes interest on amounts committed under the Enhanced HIPC Initiative.

[2]Equivalent to the committed amount of $22.5 million at decision point exchange rates for March 17, 1998.

[3]Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a loan under the Poverty Reduction and Growth Facility following the Democratic Republic of the Congo's clearance of arrears to the IMF on June 12, 2002.

[4]Excludes commitment of additional enhanced HIPC assistance of SDR 12.98 million subject to receipt of satisfactory financing assurances from other creditors.

Data: IMF Finance Department.

Forum

"If not now, when?"

Amid rising concerns that many of the Millennium Development Goals (MDGs) remain out of reach for too many countries, high-level representatives of the IMF, the World Bank, the World Trade Organization (WTO), and the UN Conference on Trade and Development met on April 18 in New York for the first in a series of events that will set the stage for a world summit on the MDGs. The September 14–17 gathering of world leaders will take stock of progress and seek to reinvigorate global commitment to meeting the ambitious goals of halving poverty and substantially improving the quality of life in the world's poorest countries that were spelled out in the September 2000 Millennium Declaration.

UN Secretary-General Kofi Annan addressed the New York session, held under the auspices of the UN Economic and Social Council (ECOSOC), and told participants that the coming months offer a unique opportunity to make real changes in the international system to help promote freedom, equality, and security for all. The most pressing needs, he said, are a successful completion of the Doha Round leading to improved market access for developing country exports, and more specific commitments to addressing the special needs of sub-Saharan Africa. At the five-year mark in the MDG countdown to 2015 and with commitments not yet fully met, Annan challenged country officials, "If not now, when?"

IMF Deputy Managing Director Agustín Carstens stressed that poverty reduction must remain atop the international agenda. The key challenge, he said, remains to strengthen the investment environment and foster private sector–led growth. The global community must also increase and better coordinate its financial and technical assistance, provide further debt relief, and open its markets to developing country products.

What it will take

Although the meeting was meant to be a dialogue and there were no negotiated outcomes, participants did highlight the following:

Eskinder Debebe/UN

Agustín Carstens (front row, right) addresses the ECOSOC meeting. To his right are President of ECOSOC Munir Akram, UN Secretary-General Kofi Annan, Development Committee Chair Trevor Manuel, and President of UNCTAD's Trade and Development Board Mary Whelan.

Policies and strategies. Countries must develop their own long-term country-specific strategies for achieving the MDGs. Poverty reduction efforts must lead to the creation of more jobs, and more domestic resources must be mobilized. Greater investment in capacity-building will also be needed to support institutional development and increase absorptive capacity.

Aid, innovative financing, and debt relief. Donors should commit to timetables to reach 0.7 percent of gross national income—the longstanding target for official development assistance. The least developed countries and most fragile states will require the most attention. The ongoing search for innovative financing, including creating an international financing facility and a globally coordinated tax on airline tickets, was also discussed. While there were calls for additional debt relief, most participants emphasized the importance of adopting policies that ensure long-term debt sustainability.

Trade, investment, and private flows. Political will must translate into concrete actions in the lead up to the WTO meeting in Hong Kong in December. Expanded markets and reduced agricultural subsidies in industrial countries can play essential roles in boosting and sustaining growth. Also, with remittance flows becoming increasingly important as a source of capital, transaction costs need to be reduced. ■

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