

# IMF *in Focus*

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**SPECIAL FEATURE:**  
**Making a Difference  
in Low-Income Asia**

Guide to the  
**IMF**

## A QUICK GUIDE TO SOME KEY TERMS

### LEARNING THE LINGO

Economists and the IMF use a specialized language. Here's a quick reference to some of the terms used in this publication, and the page on which you will find them.

**Conditionality:** The policy conditions that countries have to meet in most cases when borrowing money from the IMF (see page 23).

**Contagion:** Refers to the spread of a financial crisis from one country to another (see page 17).

**Facilities:** Types of IMF loans available to members (see page 25).

**Governance:** Encompasses all aspects of the way a country or institution is run, including its regulatory framework and its accountability (see page 19).

**IMF surveillance:** Literally, oversight: under its Articles of Agreement, the IMF is responsible for overseeing the international monetary system and for exercising firm surveillance over the exchange rate policies of members. Surveillance is one of the core activities of the IMF—tracking economic developments, both globally and in individual countries, and letting policymakers know if things are going off course or if policies need to be corrected (see page 17).

**Macroeconomics:** *Macro* comes from the Greek word meaning “large.” Thus, macroeconomics is concerned with the functioning of an economy as a whole and with such variables as total wealth, money, income, unemployment, inflation, and exchange rates (the value of currencies vis-à-vis other currencies). In contrast, microeconomics is concerned with the behavior of individual economic units, such as households and firms, and the determination of relative prices (see page 16).

**Net present value (NPV):** A technique for assessing the worth of future payments by looking at the present value of those future cash flows discounted at today's cost of capital (see page 29).

**Special Drawing Rights (SDRs):** 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 quotas. The SDR also serves as the unit of account of the IMF. Its value is based on a basket of key international currencies (see page 14).

**Sustainability:** The IMF promotes policies that are designed to lead to sustainable growth—that is, lasting growth that is not interrupted by, for example, “booms and busts.” A country's debt is sustainable if it can be serviced and repaid without jeopardizing the health of the economy (see page 17).

**Transparency:** Refers to how open an institution is with the public. The more transparent an institution, the more it keeps the public informed about its activities and methods of operation (see page 19).

For further information, see the IMF's glossary of financial terms on its website ([www.imf.org](http://www.imf.org)).

Cover shows a woman paddling along the Mekong River, Long Xuyen, Vietnam. The country has made great strides in liberalizing its trade system (see page 3). (Steve Raymer/CORBIS)

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# Making a Difference



Chris Shewey/Prime Pictures

The port of Vietnam's Ho Chi Minh City bustles with activity.

**T**he Asia and Pacific region is the most economically dynamic and diverse in the world. It is an important driving force of growth in the global economy, featuring 4 of the world's 12 largest economies—Japan, China, India, and Korea—as well as several of the fastest-growing ones. Nevertheless, the Asia and Pacific region remains home to some of the poorest countries as well. And the region's low-income countries still need help adjusting to the new demands of globalization.

Across the region, the IMF is working closely with governments of Asia's low-income countries, a group comprising 17 countries, with an overall population in excess of 350 million, including a large number of people living in poverty—that is, on less than two dollars a day. It is a group that is itself diverse, including countries in transition to a market-based system (like Vietnam, Cambodia, and Mongolia), Pacific economies (like Papua New Guinea) disadvantaged by a limited market size, and countries vulnerable to natural disasters and other external shocks (like Bangladesh).

Although each country faces its own challenges, there are certain common features in their reform strategies: pursuing stable policies; strengthening institutional and human resource capacity; and fostering a business-friendly environment that can help attract foreign direct investment, create jobs, and reduce poverty. In all these areas, the IMF has been working with low-income countries, tapping into its ability to provide policy advice, technical assistance, and financial support. The five country snapshots that follow show the IMF in action.

### ■ **Liberalizing trade: Vietnam**

Vietnam has opened its economy as a way to achieve sustained, rapid growth and higher living standards. Since 1986, the country has made great strides in liberalizing its trade system. “Dismantling trade barriers has been a cornerstone of its *doi moi*—or renovation—policies, and the IMF has supported this strategy,” says Lazaros Molho, the IMF’s mission chief for Vietnam.

Between 1993 and 2004, Vietnam’s trade openness—as measured by the sum of exports and imports relative to GDP—more than doubled, and its share of world exports more than tripled. Propelled by its dynamic export sector and increasing foreign direct investment, Vietnam markedly improved its growth performance (with GDP growth averaging more than 7½ percent a year over 1993–2005) and sharply reduced poverty (from 58 percent in 1993 to less than 20 percent in 2004). In both regional and global terms, “this is an impressive performance,” says Molho.

Since 1993, Vietnam’s IMF-supported reform programs have all contained some components of trade liberalization, including simplifying import-licensing procedures, phasing out quotas, and liberalizing trading rights. Notable among Vietnam’s most recent efforts was the 2001–05 trade policy road map, which called for tariff reduction, the removal of quantitative restrictions, and other measures aimed at laying the basis for accession to the World Trade Organization (WTO). A bilateral trade agreement with the United States in 2001 gave further impetus to Vietnam’s efforts to liberalize its trade and investment regimes while also providing a useful framework for WTO accession. Regional commitments under the Association of Southeast Asian Nations Free Trade Area have also served as important anchors for liberalization and have contributed to a rapid increase in Vietnam’s trade flows over the past decade.

There is still considerable room, however, for Vietnam to dismantle its remaining nontariff barriers; further reduce the average level of its tariff rates, which remain among the highest in Asia; and continue to open up its trade and investment regimes. The ongoing WTO accession negotiations provide an important venue for the pursuit of progressive international integration. WTO accession will not only create more trade opportunities, it will also spur improvements in the legal and business environment, and should thus continue to improve Vietnam’s attractiveness as a destination for foreign direct investment.

The IMF supports the country’s efforts to join the WTO, and it provides complementary advice and technical assistance to help Vietnam develop a more open and efficient exchange system. In this latter connection, Vietnam took an important step in October 2005, when it removed remaining restrictions on its current international payments. Looking ahead, the IMF will continue to provide Vietnam with policy advice on macroeconomic management and related structural reforms in the context of its surveillance operations, and it will remain available to provide technical assistance to help the authorities develop a more efficient, market-oriented foreign exchange market.

### ■ **Adjusting to shocks: Bangladesh**

With the expiration of quotas under the WTO’s Multifiber Agreement at the end of 2004, a number of low-income countries in Asia, including Bangladesh, feared that intensifying competition, especially from China, would jeopardize textile and clothing markets that they had come to rely on for foreign exchange revenue and employment.

In recognition of these risks, the IMF introduced the Trade Integration Mechanism (TIM) in April 2004 (see page 19) to help member countries meet temporary shortfalls in their balance of payments. Two months later, the IMF lent Bangladesh—a major exporter of ready-made garments—\$78 million in financial support under the TIM to help the country cope with anticipated balance of payments pressures.

“The good news,” says Thomas Rumbaugh, IMF mission chief for Bangladesh, is that the country “has weathered the storm and is competing effectively in the sector.” Exports of ready-made garments have held up better than had been expected and have also benefited from the reintroduction of “safeguard” quotas on China’s textile and clothing exports.

However, significant challenges lie ahead, and prospects for its ready-made garment exports will depend on Bangladesh's ability to address infrastructure bottlenecks, cumbersome customs administration, still-onerous regulatory requirements, and governance and security concerns.

Greater exchange rate flexibility is another reason Bangladesh has proved resilient. By providing more effective price signaling, greater flexibility "not only helps allocate an economy's resources to their most productive use," explains Olin Liu, a member of the IMF's mission team; "it also improves the economy's ability to weather external shocks arising from a rapidly changing global environment, when coupled with prudent macroeconomic policies."

IMF policy advice and technical assistance helped prepare Bangladesh for the transition to a flexible exchange rate system. With IMF technical assistance, the central bank strengthened its capacity to support a flexible exchange rate and developed a more market-based monetary framework to control inflation. The authorities floated the taka at the end of May 2003 by withdrawing the official band for buying and selling rates against the dollar. "Since then, the system has been working relatively well," says Rumbaugh. "A commitment to the market-based exchange rate will continue to underpin the economy's ability to adjust to changes in the external environment." This will be important to support continued strong performance in exports and remittances—key ingredients in the government's growth and poverty reduction strategy. To that end, the IMF will continue to provide technical assistance and policy advice.

### Improving bank supervision: Papua New Guinea

When the IMF opened its office in Port Moresby in September 2000, Papua New Guinea's economy had been through a difficult period, in part because of governance issues, and economic activity and business confidence were deteriorating sharply. The government—committed to major economic and political re-

form with the objective of improving prospects for faster growth and poverty alleviation—set out to tackle a number of problems with the IMF's assistance. Among the government's chief priorities was developing a well-functioning financial system that could help bolster macroeconomic and financial stability and attract larger and more stable international capital flows.

To strengthen on-site bank supervision and develop effective regulatory and supervisory practices, the IMF provided Papua New Guinea's central bank with considerable technical assistance. It helped the authorities craft important legislation—the new Central Banking Act 2000, the Banks and

Financial Institutions Act 2000, and the Superannuation and Life Insurance Acts 2000—early in the reform process. These laws, in turn, greatly enhanced the central bank's capacity to implement a number of IMF recommendations—notably, setting limits on lending to single borrowers; establishing more stringent internal audit and reporting requirements; adopting higher minimum capital requirements and a capital

adequacy rule that conforms to Basel standards; and using an internationally recognized framework to assess a bank's capital adequacy, asset quality, management, earnings, and liquidity.

The central bank, following best international practice, introduced stringent supervision of banks, finance companies, and other financial institutions. "This has led to prudent management of depositors' funds, members' contributions to superannuation funds, and premiums on life insurance policies held with these financial institutions," explains Ebrima Faal, the IMF's Resident Representative in Papua New Guinea. A greater focus on good governance and on assessing the qualifications of those who serve as directors and managers of these financial institutions is also important, he adds.

So far, the reforms have succeeded. Central bank staff members who trained with technical assistance experts now conduct their own on-site inspections. And a number of indicators suggest a more financially sound banking system. Nonperforming



Bangladeshi women stitch garments in a factory in Dhaka.

Mohammed Shahidul Reza/Reuters/Landow

loans as a percent of total loans, for example, dropped from 7.3 percent in 2002 to 3.6 percent in 2005. Return on assets—negative in 2002—topped 4.0 percent in 2005.

“A key challenge now,” says Faal, “is to ensure that the central bank’s supervisory capacity can be sustained and serve as the basis for ongoing prudential regulation and supervision.” The IMF’s ongoing technical assistance is focusing on these areas.

### **Strengthening public finances: Cambodia**

One of the government’s main challenges since the country emerged in 1991 from devastating civil conflict and international isolation has been to raise public revenues to meet expenditure requirements for reconstruction and basic public services and to enhance public financial management to use those resources effectively. IMF technical assistance, coupled with financial support and policy advice, has been instrumental in helping the government step up to that challenge.

When the country’s rehabilitation process began, public revenues were less than 5 percent of GDP, public spending was more than double the state’s receipts, and the current balance of the government’s budget was in deficit. The government embarked on a fiscal reform process in 1992. Only in 1999, however, with the introduction of a 10 percent value-added tax, did a simplified tax structure and widened coverage allow the government to boost revenue to 10 percent of GDP.

That effort was strengthened when the government launched a number of reforms in 2001 to improve tax and customs administration with the help of technical assistance under the Technical Cooperation Action Program (TCAP). The TCAP—designed jointly by the Cambodian authorities, the IMF, and other donors—sought to bolster the operational capacity of key institutions to mobilize more revenue, and to improve expenditure execution and cash management. Improvements in customs administration helped increase revenue to more than 11 percent of GDP in 2001–02. Nevertheless, the revenue-to-GDP ratio is very low by international standards, and is still insufficient to finance Cambodia’s critical infrastructure, rural development, and social spending needs. A key challenge is to raise government revenue further. The IMF continues to provide advice on policies and the macroeconomic framework for increasing revenues, as well as technical assistance to strengthen tax and customs administration.

On the other side, the government’s public expenditure policy has also improved during the past few years. Spending has been restructured toward priority areas, such as agriculture, rural development, health care, and education, although education and health care expenditures still lag behind the average of countries at a similar stage of development. However, despite progress to date, Cambodia still faces the daunting challenge of transforming its public financial management system into one that is capable of adequate service delivery. The country continues to receive extensive assistance from the IMF, together with the World Bank, to support the government’s priority program of addressing the weaknesses.

Cambodia’s recent improvements in overall macroeconomic performance, poverty reduction, and public expenditure management—from a very low starting point—helped pave the way for 100 percent cancellation, in January 2006, of its obligations to the IMF under the Multilateral Debt Relief Initiative (MDRI) (see page 29). As John Nelmes, the IMF’s Resident Representative in Cambodia explains, the country’s reforms “will help ensure that money made available under the MDRI will be used effectively.” The government intends to spend the debt-service savings—about \$82 million over a number of years—to finance rural irrigation infrastructure, which should raise agricultural productivity and directly improve the livelihoods of the poor.

### **Planning for the future: Mongolia**

Policymakers in Mongolia have faced a multitude of challenges since the early 1990s, when the country embarked on its transition to a market economy. In addition to establishing laws and building institutions conducive to private sector development, the authorities have had to address major weaknesses in the banking system and contend with large external shocks, including extended droughts, a series of extremely harsh winters, and volatility in the prices of Mongolia’s main export commodities (copper, gold, and cashmere).

Throughout this period, the IMF has supported the authorities’ reform efforts with loans from its concessional facilities and with extensive technical assistance in such areas as financial sector restructuring, banking supervision, tax policy and administration, and statistics. The government’s reforms were broadly successful in reducing inflation from very high rates,



strengthening budget revenue, and restoring confidence in the financial system. Nevertheless, economic growth generally remained lackluster during the decade through 2001, budget deficits remained fairly large, and there was a continued buildup in public debt.

The period since 2001 has witnessed a marked improvement in economic performance, as the benefits of the reforms of the 1990s began to take hold, weather conditions improved, and the prices of Mongolia's main export commodities moved sharply higher. Real GDP growth has averaged about 6½ percent a year since 2002, more than double the average growth rate of the preceding eight years. With buoyant economic activity and record-high export prices, the budget and balance of payments have strengthened significantly. Budget revenues have increased by an impressive 13 percentage points of GDP compared with the mid-1990s, and the budget deficit, which had averaged about 9½ percent of GDP in the second half of the 1990s, recorded its first-ever surplus (a substantial 3 percent of GDP) in 2005. The external current account has also been in surplus since 2004, and international reserves have been substantially rebuilt.

Despite these important achievements, major challenges remain to be addressed if Mongolia is to reduce its vulnerability to external shocks and make lasting inroads in reducing poverty, warns Roger Kronenberg, Advisor in the IMF's Asia and Pacific Department and Mission Chief for Mongolia. To plan for the longer term, policymakers need to help insulate the economy from revenue shocks that arise from volatile resource prices. "Despite the current favorable conditions, it doesn't take very sweeping assumptions to see that debt sustainability could still be an issue. Policies, therefore, need to be firmly grounded in a credible medium-term budget framework for the success of such a strategy," says Kronenberg.

The IMF staff is recommending that Mongolia save most of the windfall from exceptionally high commodity prices, remain alert to the risks of renewed inflationary pressures from rapid credit growth, and refrain from foreign borrowing on expensive commercial terms. The IMF is also encouraging Mongolia to improve the transparency of the central bank and other public sector institutions and to move ahead with civil service reforms. Kronenberg notes that discussions with the Mongolian government on a possible new program supported by the IMF's Poverty Reduction and Growth Facility were initiated earlier this year and are expected to

continue in the fall, when the authorities start drawing up the 2007 budget.

### ■ Different strategies, same objective

The different challenges faced by these countries and the various strategies they are pursuing indicate that there is more than one path to sustainable growth and poverty reduction. With this in mind, the IMF has also followed a flexible approach in supporting their efforts. Policy advice takes place through regular

country health checks, known as surveillance. Financial assistance is provided through a range of different instruments. And technical assistance supports the development of macroeconomic institutions in key areas, which vary with country circumstances and include the establishment of a foreign exchange market, a framework for monetary policy, bank regulations and supervision, anti-money laundering, tax policy and administration, public financial management, external debt management, and economic statistics. All of these countries have made some strides toward poverty reduction and are making progress toward other key Millennium Development Goals (see page 29), such as reducing child mortality and combating HIV/AIDS and other diseases. Much more remains to be done, however, and the IMF stands ready to continue to assist in this effort. ■

*Christine Ebrahim-zadeh  
IMF External Relations Department*



Workers walk through a plant that produces compressed copper at a state-owned mine in Erdenet, Mongolia.

Michael Reynolds/IFM/Landow



# Setting a New Course

**T**he IMF has drawn up a medium-term strategy to help address the latest challenges facing the institution's 184 members, particularly as they grapple with the adjustments needed to take advantage of 21<sup>st</sup> century globalization. The strategy covers the main fields of the IMF's work, including surveillance of the global, regional, and national economies; crisis prevention and lending; technical assistance for member countries; and governance of the institution, including the voice and representation of members.

Upon joining the IMF in June 2004, Managing Director Rodrigo de Rato launched a strategic review to consider how to best ensure that the IMF allocate its resources effectively and stay ahead of emerging challenges. An initial report was published in September 2005, sparking a lively internal—and public—discussion about the appropriate role of the IMF. A report on how the new approach would be implemented followed in April 2006 and was welcomed by the policy-setting International Monetary and Financial Committee (IMFC) of the Board of Governors. Key proposed changes in the work of the IMF include the following:

**Economic surveillance:** At the global level, stronger IMF surveillance means doing more to identify and promote effective responses to threats to economic stability, including expanding coverage of exchange rate assessments. At the country level, surveillance would also be bolstered through deeper analysis of financial systems; a stronger global perspective; more regional context; and more active outreach to build consensus, including at the regional level.

In an important evolution in its role, the IMF is also introducing a new multilateral consultation procedure. The consultations will provide a key vehicle for analysis and consensus building and should enable the IMF and its member countries to propose actions to address vulnerabilities that affect individual members and the global financial system. The first such consultation, on global imbalances, is under way with China, the Euro Area, Japan, Saudi Arabia, and the United States. The new consultations complement



IMF Managing Director Rodrigo de Rato.

the IMF's existing individual country consultations, enabling the IMF to take up issues simultaneously with systemically important members and, where relevant, with entities formed by groups of members, such as the European Union.

**Emerging markets:** The IMF plans to broaden its lending instruments to include a mechanism with high-access contingent liquidity support for countries with strong macroeconomic policies, sustainable debt, and transparent reporting, but still facing potential vulnerabilities. It also stands ready to support regional and other reserve-pooling arrangements, including by signaling sound policies.

**Low-income countries:** The IMF will help countries manage the macroeconomic challenges of meeting the Millennium Development Goals, especially those associated with stepped-up aid and managing debt in the wake of the recent round of debt relief. To do this, the IMF will focus more on the IMF's core areas of expertise while remaining engaged in the development problems these countries confront. The IMF will look carefully at how it cooperates with other development partners, especially the World Bank, in assisting its low-income members.

**Country representation and voice:** Another priority is to adjust member countries' quotas and representation in the governance of the institution to reflect changes in their weight and role in the global economy. This will boost members' sense of ownership and participation in the IMF and safeguard its legitimacy as a cooperative institution in the eyes of all members. ■

# 10 Events That Shaped the IMF

By James Boughton



Bettman/Corbis



Dorothea Lange/Corbis



Archive Photos



Bettman/Corbis



Aloin DeJean/Corbis

**T**he International Monetary Fund (IMF) was created toward the end of the Second World War as part of an attempt to build a new, more stable international economic system and avoid the costly mistakes of the previous decades. Over the past 60 years, it has continued to change and adapt. But since its inception, it has been shaped by history and molded by the economic and political ideas of the time.

When delegations from 44 countries met at Bretton Woods, New Hampshire, in July 1944, to establish institutions to govern international economic relations in the aftermath of the Second World War, avoiding a repeat of the failings of the Paris Peace Conference that had ended the First World War was very much on their minds. Creation of an International Bank for Reconstruction and Development would help restore economic activity, while creation of an IMF would help restore currency convertibility and multilateral trade. For both John Maynard Keynes, the economist who headed the British delegation, and Harry Dexter White, the chief drafter of the IMF charter for the U.S. delegation, the motivating principle for creating the IMF was to engender postwar economic growth by establishing an institution that would prevent a relapse into autarky and protectionism, not just to avoid a recurrence of the Great Depression.

This article looks at some of the key 20<sup>th</sup>-century events that had the greatest influence on the IMF and draws some general conclusions about the force of history on the international monetary system that now prevails.



Mark Henley/Panos Pictures



Larry Burrows/Time Life Pictures/Getty Images



Toru Yamakana/AFP Photo



Choo Youn-Kang/AFP



Jacques Langevin/Corbis

### 1. The Paris Peace Conference

The Paris conference of 1918 did consider a blueprint for restoring prosperity and world peace, in the form of U.S. President Woodrow Wilson’s 14 Points. But six months later, when delegates agreed on the terms of what became known as the Treaty of Versailles, key parts of the blueprint had been cast aside. Within a decade, prosperity was lost. In another decade, peace was gone as well. The most famous failure was Wilson’s inability to convince the U.S. Senate to confirm the country’s membership in the League of Nations. Arguably, the most disastrous, however, was the failure to lay the groundwork for economic cooperation among the world’s great trading nations.

### 2. The Great Depression

The Great Depression that began in 1929 amplified the negative consequences of Versailles, as an implosion of international trade interacted with domestic policy errors to deflate both output and prices around the world. It severely tested the confidence of analysts and voters in the efficacy of free markets and strengthened belief in an activist role for the public sector in economic life. It thus became easier and more natural to start discussions on a post–World War II framework from the assumption that an inter-governmental agency with substantive powers would be beneficial and even essential for the international financial system.

### 3. World War II

The Second World War provided both the impetus and the context for reforming the international system. When the United States entered the war in response to the bombing of Pearl Harbor in December 1941, Treasury Secretary Henry Morgenthau, Jr., put White in charge of international economic and financial policy and asked him to come up with a plan for remaking the system once the war was over. As it happened, White had already sketched out a rough plan for an international stabilization fund, and he was able to produce a first draft within a couple of months. On the other side of the Atlantic, Keynes was developing a plan for an international clearing union to be run jointly by Britain and the United States as “founder states.” Though less overtly multilateral than White’s scheme, and based on the British overdraft system rather than on White’s rather complicated proposal for currency swaps, Keynes’s scheme was similar in its essence to White’s. Over the next two years of discussion and negotiation, the two plans would meld into a draft for the IMF charter.

One major consequence of the war was that it left the United States in virtual control of the world economy. The financial structure of the IMF would thus be based on the U.S. dollar rather than on an international currency of its own making. Its lending power would be limited, and the IMF would lack most



of the powers of a central bank. Its headquarters would be neither in London nor even in New York, but in Washington, where the U.S. Treasury could exert a strong gravitational pull. For the next three decades, the IMF would be essentially a dollar-centric institution, with the United States providing most of its loanable resources and effectively controlling most of its lending decisions.

#### 4. The Cold War



Harry Dexter White had worked hard in 1944 to persuade the Soviet Union to join the IMF, in the belief that economic cooperation between the Soviet Union and the United States would be the key to postwar peace and prosperity. The Soviet delegation to Bretton Woods did sign the Articles and referendum, but Joseph Stalin eventually refused to ratify the agreement, apparently because he feared (not without justification) that IMF policies would be controlled largely by the West. When that tension segued into the Cold War, White's vision of universal membership was dashed. Poland withdrew from membership in 1950. Four years later, Czechoslovakia was forced to withdraw. Shortly after taking power in 1959, Fidel Castro pulled Cuba out. For more than three decades after Mao Zedong took control of China, the U.S. government blocked efforts by the People's Republic to be seated as China's representative on the IMF Executive Board. Most other countries in the Soviet or Chinese spheres of influence simply did not join. Not until the 1980s would the trend be reversed, with the seating of China and renewed membership for Poland.

The obvious effect of the Cold War on the IMF was this limitation on membership. In the terminology of the period, the IMF included the first world and much of the third, but the second was absent from the table. The IMF became largely a capitalist club that helped stabilize market-oriented economies.

#### 5. African independence



Only 3 of the IMF's 40 original members were in Africa: Egypt, Ethiopia, and South Africa. Of those, one was more closely connected to the Middle East, and one was minority controlled and more culturally linked to Europe. Most of the conti-

nent was still under colonial rule. That situation began to evolve in 1957, when the newly independent countries of Ghana and Sudan became IMF members. Applications then flooded in, and by 1969, 44 of the IMF's 115 members were in Africa. By 1990, all of Africa's 53 countries were in the IMF. They comprised nearly one-third of the member countries, though their average small size and mostly low incomes meant that they controlled less than 9 percent of the voting power and held only 3 of the 22 seats on the Executive Board.

The emergence of Africa as a continent of independent nations had a major effect on the size and diversity of the IMF, and it required a substantial intensification of the IMF's involvement with and oversight of its borrowers. Most of these countries, especially in sub-Saharan Africa, had very low per capita incomes and were among the least economically developed countries in the world—a picture that still holds true. Their economic problems tend to be structural even more than macroeconomic; rooted in the need for improvements in education, health care, infrastructure, and governance rather than finance; and more deeply ingrained and persistent than in other regions. Solving these problems requires lending on concessional terms and a wide range of technical expertise. Consequently, the IMF's role has expanded beyond its original boundaries, and close collaboration with the World Bank and other development agencies has become imperative.

#### 6. Rise of multiple economic centers



As the world economy—and world trade—began to recover after the Second World War, U.S. economic hegemony gradually eroded. The first to rise from the ashes was Western Europe. Through a combination of national drive, international support—from the U.S. Marshall Plan, the World Bank, and, eventually, the IMF—and homegrown multilateralism in the form of the Common Market and the European Payments Union, much of Europe was growing rapidly and was increasingly open to multilateral trade and currency exchange by the late 1950s. The Federal Republic of Germany joined the IMF in 1952 and quickly became one of the world's leading economies. Next came Asia. Japan also joined the IMF in 1952 and, by the 1960s, was on its way to joining the United States and Germany

on the top rung of the economic ladder. Then the 1970s saw the rise of economic power in Saudi Arabia and other oil-exporting countries in the Middle East. In 30 years, the U.S. share of world exports fell from 22 percent to 12 percent, while its share of official international reserves dropped even more dramatically, from 54 percent in 1948 to 12 percent in 1978.

As the balance of economic and financial power became more widely dispersed, more and more currencies became fully convertible for current account and even capital transactions. Trading partners grew at different rates and with different mixes of financial policies. Pressures on fixed exchange rates and on the limited supply of gold and U.S. dollars became increasingly frequent and more severe. The IMF responded in 1969 by amending its Articles and creating Special Drawing Rights (SDRs) to supplement existing reserve assets, but that action was too limited to deal with the underlying problem of differential pressures. As a result, even before the first oil shock in 1973, the original Bretton Woods system of fixed but adjustable exchange rates was no longer viable.

## 7. The Vietnam War



The intensification of U.S. involvement in the Vietnam War in the 1960s and early 1970s would not by itself have had substantial effects on the IMF, other than the direct effect on Vietnam's membership. When the government of South Vietnam was about to fall in April 1975, its officials tried desperately to borrow as much as they could from the IMF. The IMF refused to go along, and, within a few months, it recognized the Socialist Republic of Viet Nam as the successor government. The larger effect, however, was on the U.S. economy and its external payments position. In combination with a sizable increase in domestic spending on President Lyndon Johnson's Great Society programs, the rise in external military spending gradually worsened the overvaluation of the U.S. dollar under the Bretton Woods system of fixed exchange rates. In a series of spasms, the system dissolved between 1968 and 1973. With the dollar no longer convertible into gold, the precious metal could no longer serve a central or even a useful function in the international monetary system. The Vietnam War was by no means the sole culprit in this decline, but its catalytic role was certainly substantial.

## 8. Globalization of financial markets



Private sector financial flows were of limited scope and importance when the IMF was founded. Trade flows were financed largely by trade credits, and most economists considered cross-border portfolio flows to be as much a potential destabilizing nuisance as a potential source of investment capital.

The range and importance of capital flows began to increase in the 1950s as European countries gradually reestablished convertibility. The first big increase, however, came in the 1970s, with the emergence of the Eurodollar and other offshore financial markets. It was driven further by the accumulation of "petrodollars" by oil-exporting countries in the 1970s and the recycling of those assets to oil-importing sovereign borrowers through large international banks. By the 1990s, cross-border flows had become an essential source of finance for both industrial and emerging market economies around the world, and the structure of international financial markets had become so complex that their size could no longer be measured, much less controlled.

One effect of financial globalization was that IMF financing became quantitatively marginalized for many potential borrowers. In the early days of the IMF, countries facing a financing gap in their balance of payments could often close it solely by borrowing from the IMF. By the 1980s, their object was more often to "catalyze" other capital inflows by borrowing relatively small amounts from the IMF to support an agreed package of policy reforms and thereby hoping to convince other creditors that the country was a good prospect. What mattered was not so much the quantity of money as the quality of the reforms. Globalization thus fundamentally altered the relationship between the IMF and its borrowing members and between the IMF and other official and private creditors.

Another effect was to weaken the "credit union" character of the IMF as a membership institution because, by the 1980s, the more advanced economies were able to finance their external payments with private flows and did not need to borrow from the IMF. Much of the membership of the IMF became divided into persistent creditor and debtor groups.

A third effect of financial globalization was that countries with emerging financial markets became reliant on private capital inflows that turned out to be volatile and unreliable when

economic conditions weakened, either globally or regionally. When those inflows suddenly went into reverse in the second half of the 1990s, several middle-income countries—Mexico in 1995; Thailand, Indonesia, and Korea in 1997; Russia in 1998; Brazil in 1999—turned to the IMF for financial assistance on a scale that was much larger than what the IMF had provided in earlier cases.

## 9. International debt crisis



In August 1982, a gradual two-year worsening of conditions in international debt markets suddenly accelerated and precipitated a major economic and financial crisis. A scattering of countries, including Hungary, Morocco, Poland, and Yugoslavia, had already seen their bank creditors turn their backs in 1981 and the first half of 1982. When the banks suddenly pulled out of Mexico, the crisis took on systemic proportions. Within a few months, Argentina, Brazil, and Chile were also in trouble, and the crisis was continuing to spread. Not until 1990, when world interest rates were settling down and the bank debts of the most heavily indebted developing countries were being replaced by Brady bonds, would it be possible to declare the crisis over. The debt crisis transformed the IMF, catapulting it into the role of international crisis manager. When a series of financial crises broke out in the 1990s, as mentioned above, the IMF was able to draw on this earlier experience, though it also had to try to find new solutions to what turned out to be ever-more complex country circumstances and more rapid and widespread contagion as crises spread around the world.

## 10. Collapse of communism



The fall of the Berlin Wall in 1989 and the dissolution of the Soviet Union in 1991 enabled the IMF at last to become a nearly universal institution. In three years, membership increased from 152 countries to 172, the most rapid increase since the influx of African members in the 1960s. (The IMF now has 184 members.) Many of the new members needed to borrow from the IMF, and almost all of them needed technical assistance

and regular consultations. Consequently, the size of the IMF staff increased by nearly 30 percent in six years. The Executive Board expanded from 22 seats to 24 to accommodate Directors from Russia and Switzerland, and some existing Directors saw their constituencies expand by several countries.

## Conclusions

The world economy and the IMF have changed greatly in the six decades since Bretton Woods. Much of the volume of IMF lending has become crisis-driven, and the IMF's involvement in crisis prevention and resolution has intensified correspondingly. Because more than half of the membership is now in a persistent creditor or debtor position with little prospect of switching sides, many states tend to view themselves as members of such a group more than as part of the global community. The membership has also become much larger, more diverse, and nearly universal, and the IMF's responsibilities in global economic governance have increased correspondingly. The breadth of its involvement in policymaking in member countries, especially borrowing countries, has vastly expanded.

The evolution of the IMF has been driven—and necessitated—by these shifts in world economic and political conditions. If the events chronicled here had not affected the IMF along these lines, the institution would have become marginalized and even irrelevant. The challenge for the IMF has always been to hold onto its vital center (the original narrow mandate to promote orderly payments adjustment and global financial stability) while adapting its activities to new circumstances and new ideas. The 60<sup>th</sup> anniversary of Bretton Woods in 2004 provided the impetus for the IMF to respond to this challenge by launching a strategic review (see page 7) aimed at positioning the institution to respond flexibly to the further changes that the world economy will go through in the decades to come.

Keynes and White created the IMF because they believed that the world needed an official institution to promote multilateral cooperation in place of autarkic economic policies and to compensate for the inherent limitations of private markets. As much as the world and the institution have changed, those goals remain at the core of the rationale for the role of the IMF. ■

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# Running the IMF

**A**lthough the IMF is a specialized agency of the United Nations and participates in the Economic and Social Council of the UN, it operates independently and has its own charter, governing structure, rules, and finances.

The IMF currently has 184 member countries, 7 fewer than the United Nations. The difference is accounted for by Cuba, the Democratic People's Republic of Korea, and five very small countries: Andorra, Liechtenstein, and Monaco in Europe, and the island countries of Nauru and Tuvalu in the Pacific Ocean. Cuba was an original member of the IMF but withdrew in 1964; the other six countries have not applied. To become a member, a country must apply and then be accepted by a majority of the existing members. Political oversight of the IMF is primarily the responsibility of the International Monetary and Financial Committee (IMFC), whose 24 members are finance ministers or central bank governors from the same countries and constituencies that are represented on the Executive Board (see organizational chart, page 33). The IMFC meets twice a year and advises the IMF on the broad direction of policies.

Most IMFC members are also members of the Board of Governors, on which every member country has a Governor. The Board of Governors meets once a year and votes on major institutional decisions, such as whether to increase the IMF's financial resources. The Development Committee, which, like the IMFC, also has 24 members of ministerial rank, advises the Board of Governors of the IMF and the World Bank about issues facing developing countries. It meets twice a year.

The chief executive of the IMF is the Managing Director, who is selected by the Executive Board (which he chairs) to serve a five-year term. The Managing Director (traditionally a European) is assisted by three deputies: the First Deputy Managing Director (always a U.S. national) and two other deputies (from various other countries). The Executive Board,

which sets policies and is responsible for most decisions, consists of 24 Executive Directors. The five countries with the largest quotas in the IMF—the United States, Japan, Germany, France, and the United Kingdom—appoint Directors. Three other countries—China, Russia, and Saudi Arabia—have large enough quotas to elect their own Executive Directors. The other 176 countries are organized into 16 constituencies, each of which elects an Executive Director. Constituencies are formed by countries with similar interests and usually from the same region, such as French-speaking countries in Africa (see table on page 15).

The IMF has about 2,700 employees from more than 140 countries, most of whom work at the IMF's headquarters in Washington, DC. A small number of staff members work at regional or local offices around the globe. The IMF staff is organized mainly into departments with regional (or area), functional, information and liaison, and support responsibilities. The staff tracks global, regional, and country-specific economic developments and conducts the analysis of economic developments and policies that forms a basis for the IMF's operational work of policy advice, lending, and technical assistance.

## **Where does the IMF get its money?**

The IMF is a financial cooperative, in some ways like a credit union. On joining, each member country pays in a subscription, called its "quota." A country's quota is broadly determined by its economic position relative to other members and takes into account the size of members' GDP, external current account transactions, and official reserves. Quotas determine members' capital subscriptions to the IMF and the limits on how much they can borrow. Quotas also help determine members' voting power.

The combined capital subscriptions of the IMF's members form a pool of resources, which the IMF uses to provide temporary assistance to countries experiencing financial difficulties. These resources allow the IMF to provide balance of payments financing to support members implementing economic adjustment and reform programs.

At regular intervals of not more than five years, the IMF's Executive Board reviews members' quotas and decides—in light of developments in the global economy and changes in members' economic positions relative to other members—whether to propose an adjustment of their quotas to the Board of Governors. To ensure fair voice and representation of all member countries, the distribution of quotas is currently under review to reflect important changes in the weight and role of countries in the world economy. The Managing Director is working with the IMFC and Executive Board to come forward with concrete proposals for agreement at the 2006 Annual Meetings in Singapore.

Countries pay 25 percent of their quota subscriptions in reserve assets, defined as Special Drawing Rights (SDRs, the IMF's unit of account), or the major currencies (U.S. dollars, euros, Japanese yen, or pounds sterling); the IMF can call on the remainder,

payable in the member's own currency, to be made available for lending as needed. The IMF's total quotas are equivalent to SDR 213.5 billion (about \$324 billion). Each country's voting power is the sum of its "basic votes" and its quota-based votes. Each IMF member has 250 basic votes (which were set in the Articles of Agreement as equal for all countries) plus one additional vote for each SDR 100,000 of quota.

If necessary, the IMF may borrow to supplement the resources available from its quotas. The IMF has two sets of standing arrangements to borrow from member countries, if necessary, to cope with any threat to the international monetary system. Under the two arrangements combined, the IMF has up to SDR 34 billion (about \$49 billion) available to borrow.

Concessional loans and debt relief for low-income countries come from trust funds administered by the IMF.

## The IMF and the World Bank—what's the difference?

The IMF and the World Bank were conceived at the Bretton Woods conference in July 1944 to strengthen international economic cooperation and to help create a more stable and prosperous global economy. Although these goals have remained central to both institutions, their mandates and functions differ, and their work has evolved in response to new economic developments and challenges.

The IMF promotes international monetary cooperation and provides member countries with policy advice, temporary loans, and technical assistance so they can establish and maintain financial stability and external viability, and build and maintain strong economies. The IMF's loans are provided in support of policy programs designed to solve balance of payments problems—that is, situations in which a country cannot obtain sufficient financing on affordable terms to meet international payment obligations. Some IMF loans are relatively short term and funded by the pool of quota contributions provided by its members. Others are for longer periods, including concessional loans provided to low-income members on the basis of subsidies financed by past IMF gold sales and members' contributions. In its work in low-income countries, the IMF's main focus is on how macroeconomic and financial policies can contribute to laying a basis for sustainable growth and poverty reduction. Most IMF professional staff are economists.

The World Bank promotes long-term economic development and poverty reduction by providing technical and financial support, including by helping countries reform particular sectors or implement specific projects—for example, building schools and health centers, providing water and electricity, fighting disease, and protecting the environment. World Bank financial assistance is generally long term and is funded both by member country contributions and through bond issuance. World Bank staff have qualifications that embrace a broader range of disciplines than those of IMF staff.

The IMF and the World Bank collaborate in a variety of areas, particularly in supporting governments in implementing poverty reduction strategies in low-income countries, providing debt relief for the poorest countries, and assessing the financial sectors of countries. The two institutions hold joint meetings twice a year.

## Paying for the IMF

The IMF, like other financial institutions, earns income from the interest charges and fees levied on its loans and uses the income to meet funding costs, pay for administrative expenses, and build up precautionary balances. In the financial year 2006, interest and charges received from borrowing countries and other income totaled \$2.5 billion, while interest payments on the portion of members' quota subscriptions used in IMF operations amounted to \$1.2 billion. Administrative expenditures (including staff salaries, pensions, travel, and supplies) totaled \$1 billion. The remainder of \$0.3 billion was added to the IMF's reserves.

The current income framework relies heavily on income from lending. A priority for the IMF in the period ahead will be to establish a new framework that generates other steady and reliable long-term sources of income. As an initial move, the IMF Executive Board approved the creation of an \$8.7 billion investment account that is expected to boost the IMF's income over the medium term. In May 2006, the IMF appointed an external committee of "eminent persons" to provide the IMF with an independent assessment of the options available to finance its running costs in the future. ■

## Country representation and votes on IMF Executive Board (as of June 16, 2006)

The Executive Board comprises 24 Directors who represent individual countries or groups of countries. Each Director's name appears in bold-face, and the Alternate Director's name appears in italics. The voting power of each country is shown in parentheses. For each constituency, total votes and voting power appear below the list of countries. Totals may not add because of rounding.

|  |          |  |         |   |         |   |         |
|--|----------|--|---------|---|---------|---|---------|
| <b>NANCY P. JACKLIN</b><br><i>Meg Lundsager</i><br>United States<br>371,743 votes  | (17.08%) | Albania (0.03%)<br>Greece (0.39%)<br>Italy (3.26%)<br>Malta (0.06%)<br>Portugal (0.41%)<br>San Marino (0.02%)<br>Timor-Leste (0.02%)<br>90,968 votes   | (4.18%) | <b>SULAIMAN M. AL-TURKI</b><br><i>Abdallah S. Alazzaz</i><br>Saudi Arabia<br>70,105 votes   | (3.22%) | Afghanistan, Islamic Republic of (0.09%)<br>Algeria (0.59%)<br>Ghana (0.18%)<br>Iran, Islamic Republic of (0.70%)<br>Morocco (0.28%)<br>Pakistan (0.49%)<br>Tunisia (0.14%)<br>53,662 votes   | (2.47%) |
| <b>SHIGEO KASHIWAGI</b><br><i>Michio Kitahara</i><br>Japan<br>133,378 votes  | (6.13%)  | <b>JONATHAN FRIED</b> (CANADA)<br><i>Peter Charleton</i> (Ireland)   |         | <b>HOOI ENG PHANG</b> (MALAYSIA)<br><i>Made Sukada</i> (Indonesia)  |         | <b>EDUARDO LOYO</b> (BRAZIL)<br><i>Roberto Steiner</i> (Colombia)   |         |
| <b>KARLHEINZ BISCHOFBERGER</b><br><i>Gert Meissner</i><br>Germany<br>130,332 votes   | (5.99%)  | Antigua and Barbuda (0.02%)<br>Bahamas, The (0.07%)<br>Barbados (0.04%)<br>Belize (0.02%)<br>Canada (2.95%)<br>Dominica (0.02%)<br>Grenada (0.02%)<br>Ireland (0.40%)<br>Jamaica (0.14%)<br>St. Kitts and Nevis (0.02%)<br>St. Lucia (0.02%)<br>St. Vincent and the Grenadines (0.02%)<br>80,636 votes       | (3.71%) | Brunei Darussalam (0.11%)<br>Cambodia (0.05%)<br>Fiji (0.04%)<br>Indonesia (0.97%)<br>Lao People's Democratic Republic (0.04%)<br>Malaysia (0.70%)<br>Myanmar (0.13%)<br>Nepal (0.04%)<br>Singapore (0.41%)<br>Thailand (0.51%)<br>Tonga (0.01%)<br>Vietnam (0.16%)<br>69,019 votes   | (3.17%) | Brazil (1.41%)<br>Colombia (0.37%)<br>Dominican Republic (0.11%)<br>Ecuador (0.15%)<br>Guyana (0.05%)<br>Haiti (0.05%)<br>Panama (0.11%)<br>Suriname (0.05%)<br>Trinidad and Tobago (0.17%)<br>53,634 votes   | (2.46%) |
| <b>PIERRE DUQUESNE</b><br><i>Olivier Cuny</i><br>France<br>107,635 votes   | (4.95%)  | <b>TOM SCHOLAR</b><br><i>Andrew Hauser</i><br>United Kingdom<br>107,635 votes  | (4.95%) | <b>PETER J. NGUMBULLU</b> (TANZANIA)<br><i>Peter Gakunu</i> (Kenya)   |         | <b>B.P. MISRA</b> (INDIA)<br><i>Amal Uthum Herat</i> (Sri Lanka)  |         |
| <b>WILLY KIEKENS</b> (BELGIUM)<br><i>Johann Prader</i> (Austria)   |          | <b>TUOMAS SAARENHEIMO</b> (FINLAND)<br><i>Jon Thorvardur Sigurgeirsson</i> (Iceland)   |         | Angola (0.14%)<br>Botswana (0.04%)<br>Burundi (0.05%)<br>Eritrea (0.02%)<br>Ethiopia (0.07%)<br>Gambia, The (0.03%)<br>Kenya (0.14%)<br>Lesotho (0.03%)<br>Malawi (0.04%)<br>Mozambique (0.06%)<br>Namibia (0.07%)<br>Nigeria (0.82%)<br>Sierra Leone (0.06%)<br>South Africa (0.87%)<br>Sudan (0.09%)<br>Swaziland (0.03%)<br>Tanzania (0.10%)<br>Uganda (0.09%)<br>Zambia (0.24%)<br>65,221 votes | (3.00%) | Bangladesh (0.26%)<br>Bhutan (0.01%)<br>India (1.93%)<br>Sri Lanka (0.20%)<br>52,112 votes  | (2.39%) |
| Austria (0.87%)<br>Belarus (0.19%)<br>Belgium (2.13%)<br>Czech Republic (0.39%)<br>Hungary (0.49%)<br>Kazakhstan (0.18%)<br>Luxembourg (0.14%)<br>Slovak Republic (0.18%)<br>Slovenia (0.12%)<br>Turkey (0.46%)<br>111,696 votes   | (5.13%)  | Denmark (0.77%)<br>Estonia (0.04%)<br>Finland (0.59%)<br>Iceland (0.07%)<br>Latvia (0.07%)<br>Lithuania (0.08%)<br>Norway (0.78%)<br>Sweden (1.12%)<br>76,276 votes  | (3.51%) | <b>WANG XIAOYI</b><br><i>G.E. Huayong</i><br>China<br>63,942 votes  | (2.94%) | <b>HÉCTOR R. TORRES</b> (ARGENTINA)<br><i>Javier Silva-Ruete</i> (Peru)   |         |
| <b>JEROEN KREMERS</b> (NETHERLANDS)<br><i>Yuriy G. Yakusha</i> (Ukraine)   |          | <b>JONG NAM OH</b> (KOREA)<br><i>Richard Murray</i> (Australia)  |         | Australia (1.50%)<br>Kiribati (0.01%)<br>Korea (0.76%)<br>Marshall Islands (0.01%)<br>Micronesia, Federated States of (0.01%)<br>Mongolia (0.04%)<br>New Zealand (0.42%)<br>Palau (0.01%)<br>Papua New Guinea (0.07%)<br>Philippines (0.42%)<br>Samoa (0.02%)<br>Seychelles (0.02%)<br>Solomon Islands (0.02%)<br>Vanuatu (0.02%)<br>72,423 votes   | (3.33%) | Argentina (0.99%)<br>Bolivia (0.09%)<br>Chile (0.41%)<br>Paraguay (0.06%)<br>Peru (0.31%)<br>Uruguay (0.15%)<br>43,395 votes  | (1.99%) |
| Armenia (0.05%)<br>Bosnia and Herzegovina (0.09%)<br>Bulgaria (0.31%)<br>Croatia (0.18%)<br>Cyprus (0.08%)<br>Georgia (0.08%)<br>Israel (0.44%)<br>Macedonia, former Yugoslav Republic of (0.04%)<br>Moldova (0.07%)<br>Netherlands (2.39%)<br>Romania (0.49%)<br>Ukraine (0.64%)<br>105,412 votes | (4.84%)  | <b>A. SHAKOUR SHAALAN</b> (EGYPT)<br><i>Samir El-Khoury</i> (Lebanon)  |         | <b>THOMAS MOSER</b> (SWITZERLAND)<br><i>Andrzej Raczko</i> (Poland)   |         | <b>DAMIAN ONDO MAÑE</b> (EQUATORIAL GUINEA)<br><i>Laurean W. Rutayisire</i> (Rwanda)  |         |
| <b>MOISÉS SCHWARTZ</b> (MEXICO)<br><i>Mary Dager</i> (Venezuela)   |          | Bahrain (0.07%)<br>Egypt (0.45%)<br>Iraq (0.56%)<br>Jordan (0.09%)<br>Kuwait (0.65%)<br>Lebanon (0.11%)<br>Libyan Arab Jamahiriya (0.53%)<br>Maldives (0.02%)<br>Oman (0.10%)<br>Qatar (0.13%)<br>Syrian Arab Republic (0.15%)<br>United Arab Emirates (0.29%)<br>Yemen, Republic of (0.12%)<br>70,852 votes | (3.26%) | Azerbaijan (0.09%)<br>Kyrgyz Republic (0.05%)<br>Poland (0.64%)<br>Serbia and Montenegro (0.23%)<br>Switzerland (1.61%)<br>Tajikistan (0.05%)<br>Turkmenistan (0.05%)<br>Uzbekistan (0.14%)<br>61,827 votes   | (2.84%) | Benin (0.04%)<br>Burkina Faso (0.04%)<br>Cameroon (0.10%)<br>Cape Verde (0.02%)<br>Central African Republic (0.04%)<br>Chad (0.04%)<br>Comoros (0.02%)<br>Congo, Democratic Republic of (0.26%)<br>Congo, Republic of (0.05%)<br>Côte d'Ivoire (0.16%)<br>Djibouti (0.02%)<br>Equatorial Guinea (0.03%)<br>Gabon (0.08%)<br>Guinea (0.06%)<br>Guinea-Bissau (0.02%)<br>Madagascar (0.07%)<br>Mali (0.05%)<br>Mauritania (0.04%)<br>Mauritius (0.06%)<br>Niger (0.04%)<br>Rwanda (0.05%)<br>São Tomé and Príncipe (0.01%)<br>Senegal (0.09%)<br>Togo (0.05%)<br>30,749 votes | (1.41%) |
| <b>ARRIGO SADUN</b> (ITALY)<br><i>Miranda Xafa</i> (Greece)  |          |  |         | <b>ALEKSEI V. MOZHIN</b><br><i>Andrei Lushin</i><br>Russian Federation<br>59,704 votes  | (2.74%) |   |         |
|  |          |  |         | <b>ABBAS MIRAKHOR</b><br>(ISLAMIC REPUBLIC OF IRAN)<br><i>Mohammed Dairi</i> (Morocco)  |         |   |         |

Does not include the votes of Liberia, Somalia, and Zimbabwe; their representation has been suspended because of protracted arrears to the IMF



# Promoting Healthy Economies

**T**he main job of the IMF is to promote international monetary cooperation and economic and financial stability in member countries and at the global level as a basis for sustained economic growth, which is essential for raising living standards and reducing poverty. Promoting macroeconomic and financial stability is partly a matter of avoiding economic and financial crisis, which can destroy jobs, slash incomes, and cause great human suffering. But it is also a matter of avoiding large swings in economic activity, high inflation, and excessive volatility in exchange rates and financial markets. Any of these types of instability can increase uncertainty and discourage investment, impede economic growth, and erode living standards.

A dynamic market economy necessarily involves some degree of instability, as well as gradual structural change. The challenge for policymakers is to minimize instability without hampering the ability of the economic system to raise living standards through higher productivity, efficiency, and employment.

New shopping malls, similar to this one in Andhra Pradesh, are sprouting up across India.

Experience has shown that the countries with the strongest growth and employment rates and the least economic instability are those that follow sound macroeconomic (fiscal, monetary, and exchange rate) policies; allow markets to function, with appropriate regulatory, structural, and social safety net policies; are open to international trade; build strong economic policymaking and regulatory institutions; foster the development of strong financial systems; collect, monitor, and disseminate high-quality data; and embrace good governance.

The IMF promotes the stability of the international financial system through its three primary functions:

**Surveillance.** The IMF is responsible for overseeing the international monetary system and the compliance of each member country with its obligations to pursue policies conducive to orderly growth and price stability, help promote stable exchange arrangements and avoid exchange rate manipulation, and provide the IMF with data about its economy. The IMF exercises this responsibility by tracking economic and financial conditions around the world and examining whether policies in member countries are appropriate from the international as well as the national point of view. It alerts member countries to impending dangers, enabling governments to take preventive action.

**Lending.** The IMF lends to countries with balance of payments difficulties. The primary objectives of its lending to low-income countries are economic growth and poverty reduction.

**Technical assistance and training.** The IMF helps member governments develop strong policymaking institutions and economic policy instruments.

### **Surveillance in action**

With its nearly universal membership, the IMF serves as an international forum where members can discuss developments in their respective economies and in the global economy. In recent decades, a major challenge to economic and financial stability has come from the growth in the size and sophistication of international capital markets. In many ways, financial globalization is a welcome development. It provides opportunities to channel private capital flows to finance investment and growth in countries where this capital can be used most productively. Capital market integration, in principle, enables countries to adjust to external shocks without having to rely on official funds.

But capital flows are also a potential source of volatility, especially in many emerging market countries. A new breed of crisis—arising from sudden capital outflows—has proved harder to manage than the current account imbalances that the IMF traditionally dealt with in its lending activities. Arresting an outflow of capital requires measures that restore investor confidence, including, in some cases, financial help from international institutions.

Financial globalization has also increased the risk of contagion by introducing new channels—in addition to the traditional trade links—through which one country's problems can affect others and even spread through the global economic system.

Current trends suggest that economic and financial globalization will continue to intensify, and emerging markets are likely to represent a growing share of the world economy. The nascent emerging market giants, India and China, are of particular systemic importance. And the aging of industrial country populations, by shifting saving-investment balances internationally, may stimulate larger cross-border capital flows.

To keep a close watch on these developments, the IMF is continuing to strengthen its analysis and advice through more tightly focused surveillance, deeper scrutiny of exchange rate issues, and better analysis of financial sectors, debt sustainability, and regional and global spillovers. To strengthen its financial and capital market work, the IMF has taken a number of steps (see box on page 18), including the merging of its activities in these areas in a new department that will be a center of excellence for all aspects of financial, capital market, and monetary work at the IMF. The increased attention to financial sector work and its closer integration with the IMF's macroeconomic analysis is a cornerstone of the Managing Director's Medium-Term Strategy (see page 7).

### **Types of surveillance**

**Country.** The IMF holds consultations, normally once a year, with each member country about its economic policies. These "Article IV consultations," which are required under the IMF's Articles of Agreement, focus on the member's exchange rate, fiscal, and monetary policies; developments in its balance of payments and external debt; the influence of the country's policies on its external accounts; the international and regional implications of its policies; and the identification of potential vulnerabilities.

As financial markets around the world have become more integrated, IMF surveillance has become increasingly focused on capital account, financial, and banking sector issues. Institutional issues, such as central bank independence, financial sector regulation, corporate governance, and policy transparency and accountability, have also become more important to IMF surveillance in the wake of financial crises in emerging market countries and in the context of member countries making the transition from planned to market economies.

**Regional.** To supplement country consultations, the IMF examines policies pursued under regional arrangements, such as in the Central African Monetary and Economic Union, the Eastern Caribbean Currency Union, the Euro Area, and the West African Economic and Monetary Union. In addition, the IMF is paying more attention to issues of common interest to countries in given regions (for example, in Central America, the Middle East, Pacific Island countries, and sub-Saharan Africa). The discussions of staff reports on these topics allow not only consideration of policies decided at the regional level but also comparative analysis of developments and policies across a region, and analysis of the regional transmission of shocks. Over the past few years, the IMF has also begun to publish its main findings on regional surveillance in semiannual *Regional Economic Outlook* reports.

**Global.** In addition to country and regional surveillance, the IMF monitors global economic conditions, countries' economic policies in the global context, and developments in international capital markets. In this surveillance work, the IMF also assesses the global effects of major economic and financial developments, including in such areas as oil markets and trade. Its main findings are published twice a year in the *World Economic Outlook* and the *Global Financial Stability Report*, which serve as documentation for the discussions of the IMFC.

The April 2006 *World Economic Outlook* report welcomed a continued strong expansion of the global economy, noting that the expansion had exceeded expectations and become more broad based. The April 2006

*Global Financial Stability Report*, meanwhile, cited the increased resilience of the global financial system but also underscored that larger global imbalances posed continuing risks, as did higher debt levels, notably in the household sector.

In addition to these semiannual reviews, the Executive Board holds frequent informal discussions of world economic and market developments. IMF management and senior staff also take part in discussions on the economic outlook and policies among finance ministers, central bank governors, their deputies, and other officials in a variety of groups and forums, such as the Group of Eight (G8) major industrial countries, the Group of 24 (G24) developing countries, and the Financial Stability Forum.

### Taking early action

Early warning of an impending crisis is not enough to prevent the crisis; prompt preventive action is also necessary. Moreover, with increasing economic and financial integration and the risk of contagion and spillovers, surveillance must focus not just on crisis-prone countries but also on the system as a whole. The IMF, as the impartial voice of the international community, has a particularly important role to play in highlighting major economic challenges that the world has to tackle. It was in recognition of this unique role that the IMF was called upon at the 2006 spring

## Promoting financial system soundness

The IMF's main channels for promoting financial system soundness in member countries are its ongoing multilateral and bilateral surveillance, the design of its lending programs, and technical assistance. The *Financial Sector Assessment Handbook*, published by the IMF and the World Bank in September 2005, provides information on key issues and sound practices in assessing financial systems and designing policy responses.

The IMF has been working to improve the surveillance process by deepening its coverage of financial system issues to better identify financial system strengths and weaknesses, and thereby lessen the frequency and diminish the intensity of potential financial system problems.

**IMF-supported programs** often include measures to strengthen member countries' financial systems. In addition to providing financial assistance, the IMF helps members in identifying and diagnosing financial system problems; designing strategies for systemic reforms and bank restructuring; and ensuring that such strategies are consistent with, and supported by, appropriate macroeconomic and other structural policies.

**Technical assistance** provided by the IMF helps member countries implement specific measures that will strengthen their financial infrastructure. This assistance may include advice and training on improving monetary and fiscal management; foreign exchange and capital market development; the design of payment systems and deposit insurance arrangements; the development of the legal framework for banking, as well as prudential regulations and supervisory capabilities; and strategies for systemic bank restructuring.



meeting of the IMFC, to take new steps, including multilateral consultations, to encourage actions to redress global imbalances. The IMF Managing Director said that this would mean the IMF would provide a framework in which governments would engage in an active consultation process on the consequences of actions and inactions.

Lessons from crises in the 1990s had earlier prompted the IMF to take significant steps to sharpen the focus of its surveillance on crisis prevention. These measures included bolstering its regional and global surveillance and advising its members to incorporate more “shock absorbers” into their policies—such as fiscal policies that achieve consolidation during good times and provide room for easing in difficult times, adequate reserve levels, efficient and diversified financial systems, exchange rate flexibility, and more effective social safety nets. And it has introduced several specific initiatives that seek to make countries less vulnerable to crisis:

- In 1999, partly in response to the Asian crisis, the IMF and the World Bank introduced the Financial Sector Assessment Program (FSAP), which provides comprehensive evaluations of countries’ financial sectors. FSAP reports help countries identify the strengths, risks, and vulnerabilities of their financial systems and formulate appropriate policy responses. The IMF also assesses offshore financial centers, which account for a sizable portion of the world’s financial flows and thus are potentially important for global financial stability. In addition, the IMF is involved in international efforts to combat money laundering and the financing of terrorism.

- The IMF has developed and actively promotes standards and codes of good practice in economic policymaking. In the area of data standards, it has designed initiatives to enhance public availability of reliable, timely, and comprehensive statistics on member countries, helping market participants make well-informed investment decisions and reducing the likelihood of shocks that can precipitate crises.

- The IMF has improved its analytical framework for identifying countries’ vulnerabilities to crisis, including through assessments of balance sheet vulnerabilities, debt sustainability, and liquidity management, and the monitoring of financial soundness indicators. These analyses aim to strengthen the IMF’s policy advice to member countries on how to make their economies more resilient to shocks and to help countries judge whether they can service their external and public debts over

time without an unrealistically large correction to the balance of income and expenditure.

- The IMF has increased efforts to promote good governance, which is essential for strong economic performance. Particular areas of emphasis include improving the efficiency and accountability of public sectors and financial systems.

- The IMF has stepped up its attention to trade-related vulnerabilities, which remain a pressing issue for the poorest countries with IMF-supported programs. To help developing countries address the short-term effects on their balance of payments of multilateral trade liberalization, the IMF’s Trade Integration Mechanism makes resources more predictably available to qualifying member countries under existing IMF facilities.

- To support low-income countries that do not want—or need—IMF financial assistance, the IMF introduced, in October 2005, the Policy Support Instrument (PSI). The PSI helps countries design effective economic programs and allows them to demonstrate their commitment to sound policies either for domestic purposes or as a signal to international creditors and donors.

- Also under consideration—to help the IMF respond to the new challenges and needs of emerging market members—is a new instrument to provide high-access contingent financing for countries that have strong macroeconomic policies, sustainable debt, and transparent reporting, but remain vulnerable to shocks.

### **Transparency at the IMF**

The IMF has also focused on improving its own accountability by establishing in 2001 the Independent Evaluation Office (see page 32) and by increasing over the past decade the transparency of its operations and decision making. The IMF has become a more open and accountable institution and a major source of information for the general public and capital market participants while preserving its role as confidential advisor to its member countries.

The IMF now publishes most policy papers written for the Executive Board and posts financial and operational information on its website. It also makes available more information about its oversight of members’ policies and their IMF-supported programs. Although publication of documents related to member countries requires the consent of the relevant member country, there is, in most cases, a presumption of publication, and the large majority of staff reports are published. ■

# Helping When Things Go Wrong

**H**owever good the IMF's surveillance process and the economic policies governments implement, it is unrealistic to expect that crises will never occur. Indeed, a dynamic market economy will tend to face occasional crises. The IMF's role is to help mitigate their impact and shorten their duration through its policy advice and financial support. Containing crises has sometimes required the commitment of substantial resources by the IMF. In most cases, this investment has paid off. For example, the IMF's loan of \$21 billion to Korea in December 1997 was very large by any standards, but it helped restore financial stability by early 1998 and strong growth the following year. And Korea repaid the IMF ahead of schedule. That was a case where large-scale support was appropriate and successful. The IMF played a similar role in Brazil in 1998 and Turkey in 2001.

Traders on the floor of the Futures and Commodities Market, São Paulo, Brazil.

Mauricio Lima/AFP/Getty Images

### **Why do economic crises occur?**

Bad luck, bad policies, or a combination of the two may create balance of payments difficulties in a country—that is, a situation when the country cannot obtain sufficient financing on affordable terms to meet net international payments. In the worst case, the difficulties can build into a crisis. The country's currency may depreciate at a rate that destroys confidence in its value, with disruptive and destructive consequences for the domestic economy, and the problems may spread to other countries.

The causes of such difficulties are often varied and complex. But key factors have included weak domestic financial systems, large and persistent fiscal deficits, high levels of external debt, exchange rates fixed at inappropriate levels, natural disasters, and armed conflicts.

Some of these factors can directly affect a country's trade account—reducing exports or increasing imports. Others may reduce the financing available for international transactions—for example, by causing investors to lose confidence in their investments in a country, leading to massive asset sales and a sudden departure of capital overseas, or “capital flight.”

### **How IMF lending helps**

IMF lending seeks to give countries breathing room while they implement policies of adjustment and reform aimed at resolving their balance of payments problems and restoring conditions for strong economic growth. These policies will vary depending on the country's circumstances, especially the root causes of the problems. For instance, a country facing a sudden drop in the price of a key export may simply need financial assistance to tide it over until prices recover and to help ease the pain of an otherwise sudden and sharp adjustment. A country suffering from capital flight needs to address whatever problems led to the loss of investor confidence: perhaps interest rates that are too low, an overvalued exchange rate, a large government budget deficit, a debt stock that appears to be growing too fast, or an inefficient and poorly regulated domestic banking system.

Before a member country—whether or not it is facing a crisis—can receive a loan, the country's authorities and the IMF must agree on an appropriate program of economic policies (see Lending and Conditionality, page 22). In the absence

of IMF financing, the adjustment process would be more difficult. For example, if investors do not want to buy any more of a country's government bonds, its government has no choice but to reduce the amount of financing it uses—by cutting its spending or increasing its revenues—or to finance its deficit by printing money. The “belt tightening” involved in the first case would be greater without an IMF loan. And, in the second case, the result would be inflation, which hurts the poor most of all. IMF financing can facilitate a more gradual and carefully considered adjustment.

### **Resolving external debt crises**

Some balance of payments difficulties arise because countries amass debts that are not sustainable—that is, they cannot be serviced under any feasible set of policies. In these circumstances, a way must be found for a country and its creditors to restructure the debt. This may involve some easing of the repayment terms, like an extension of maturities and/or an agreed reduction in the face value of the debt.

Together with the World Bank, the IMF has been working to reduce to sustainable levels the large debt burdens of low-income countries under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (see page 29) and has continued to promote mechanisms aimed at the orderly resolution of debt crises between countries and their private creditors. It has taken an active role in encouraging sovereign issuers to include collective action clauses (CACs)—which prevent small minorities of creditors from blocking restructuring deals to which large majorities agree—in international bond issues in all markets. Partly as a result, the use of CACs has become the market standard in international sovereign bonds issued under New York law. Consequently, the share of issues with CACs from emerging market countries has grown considerably since early 2004.

In other developments outside the IMF, progress has been made on a monitoring process for the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets, a private sector–led initiative that outlines standards of engagement and responsibilities for sovereign debtors and their private creditors in the prevention and resolution of financial crises. ■



# Getting Back on Track

**T**he IMF provides financial assistance to members with balance of payments problems to support policies of adjustment and reform, including concessional assistance to low-income countries. The financing is for general balance of payments support, rather than for specific purposes or projects like the financing provided by development banks. All financial assistance by the IMF is approved by its Executive Board.

The volume of IMF lending has fluctuated significantly, reaching an all-time high in the early 2000s, in response to exceptional access to IMF resources by large emerging market economies facing capital account crises. Total IMF credit outstanding has declined sharply since then, owing to the benign global environment that has allowed large users of IMF resources to repay their obligations to the IMF.

Over the years, the IMF has developed a number of loan instruments, or “facilities,” that are tailored to address the specific circumstances of its diverse membership.

Pedestrians in Sofia, Bulgaria. Structural reforms in Bulgaria aim at improving the business climate.

Dmitry Shtromov/Alamy News/Amor

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Много възможности. Един избор.



Nonconcessional loans are provided through four main facilities: Stand-By Arrangements (SBAs), the Extended Fund Facility, the Supplemental Reserve Facility, and the Compensatory Financing Facility (see page 25). Low-income countries may borrow at a concessional interest rate through the Poverty Reduction and Growth Facility (PRGF) and, if hit by a shock beyond their control, through the Exogenous Shocks Facility (ESF). The ESF is designed for countries without a PRGF-supported program or with a Policy Support Instrument (PSI) program (see page 19). An on-track PSI could provide the basis for rapid access to ESF financing if a shock occurs, although access would not be automatic. Members recovering from natural disasters and armed conflicts can also request emergency assistance from the IMF—possibly at concessional rates for low-income countries.

When a member does not face a pressing balance of payments need, it may treat an IMF arrangement as precautionary, which provides the right—conditional on implementation of specific policies—to make drawings should the need arise.

In recent years, the largest number of loans has been made through the PRGF. The largest amount of funds is provided through SBAs, however. In the context of the IMF's medium-term strategy (see page 7) endorsed by the policy-setting International Monetary and Financial Committee of the Board of Governors at the 2006 spring meetings, further consideration is being given to a possible new instrument to provide high-access contingent financing for emerging market economies that have strong macroeconomic policies, sustainable debt, and transparent reporting but remain vulnerable to shocks.

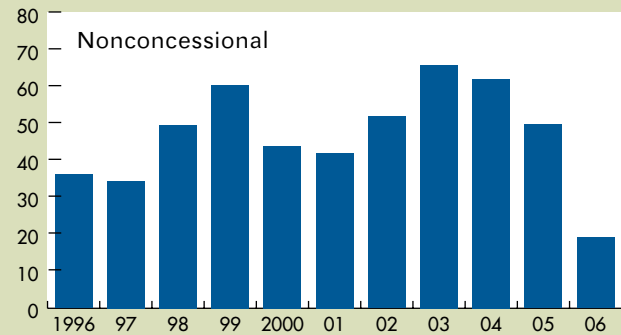
Nonconcessional facilities are subject to the IMF's market-related interest rate, known as the "basic rate of charge." This rate of charge is based on the Special Drawing Right (SDR) interest rate, which is revised weekly to take into account changes in short-term interest rates in the major international money markets. Large loans carry an interest rate premium, or "surcharge."

The amount that a country can borrow varies with the type of loan and is expressed as a multiple of the country's IMF quota. To finance an exceptional balance of payments need, the IMF may also lend beyond the access limits. The IMF encourages early repayment of loans. Although it has a standard repayment obligations schedule, members are expected to repay according to a faster schedule when possible.

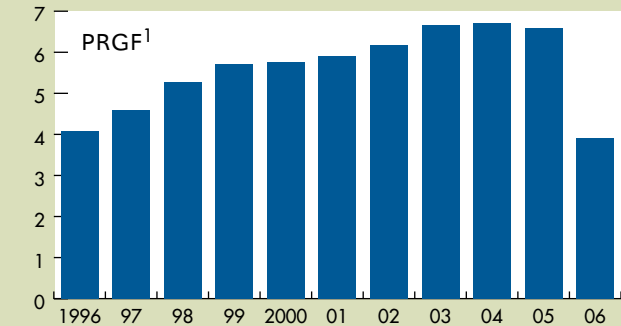
## Diverging trends in credit outstanding

Outstanding credit from nonconcessional IMF loans has declined . . .

(billion SDRs)



. . . whereas it has increased from concessional loans for low-income countries in recent years.



Note: Data as of the end of the financial year (April 30). The decrease in FY2006 is due to delivery of multilateral debt relief on January 6 and April 28.

<sup>1</sup>Poverty Reduction and Growth Facility.

Data: IMF Finance Department.

## Conditionality in IMF lending

When a country borrows from the IMF, its government commits to strengthening its economic and financial policies—a requirement known as conditionality. Conditionality provides assurance to the IMF that the borrower will use the loan to resolve its economic difficulties and be able to repay promptly, so that the funds become available to other members in need.

In recent years, the IMF has streamlined the conditions attached to its financing. The IMF's Board adopted revised guidelines in September 2002 emphasizing the need to focus conditionality on the key macroeconomic objectives and policy



David Brown/Reuters/Redux Pictures

On the outskirts of Kabul, Afghanistan, rebuilding efforts proceed.

instruments and to promote stronger national ownership of policy programs. A recent review suggested that conditionality has indeed become more focused and that fewer programs now stop prematurely.

The policies to be adopted by users of IMF resources should not only resolve the immediate balance of payments problem but also lay the basis for sustainable economic growth over the longer term by achieving broader economic stability—for example, measures to contain inflation, reduce public debt, or strengthen financial systems. Policies may also address structural impediments to healthy growth—such as price and trade liberalization or improvements in governance.

Together, these policies constitute a member country's "policy program," which is described in a letter of intent or a memorandum of economic and financial policies that accompanies the country's request for IMF financing. The specific objectives of a program and the policies adopted depend on the country's circumstances. However, the overarching goal in all cases is to restore or maintain balance of payments viability and macroeconomic stability while setting the stage for sustained, high-quality growth.

### How is compliance assessed?

Most IMF loans feature phased disbursements. This allows the IMF to verify that a country is continuing to adhere to its com-

mitments before successive installments are disbursed. Program monitoring relies on several different tools:

- **Prior actions** are measures that a country agrees to take before the IMF's Executive Board approves a loan or completes a program review (see below). Such measures ensure that the program has the necessary foundation to succeed or is put back on track following deviations from the agreed policies. Prior actions could include, for example, adjustment of the exchange rate to a sustainable level, elimination of price controls, or formal approval of a government budget consistent with the program's fiscal framework.

- **Performance criteria** are specific conditions that have to be met for the agreed amount of credit to be disbursed. There are two types of performance criteria: quantitative and structural. **Quantitative criteria** typically refer to macroeconomic policy variables such as international reserves, monetary and credit aggregates, fiscal balances, or external borrowing. For example, a program might include a minimum level of net international reserves, a maximum level of central bank net domestic assets, or a maximum level of government borrowing. **Structural criteria** are used for structural measures that are critical to the success of the economic program. These vary widely across programs but could, for example, include specific measures to improve financial sector operations, reform social security systems, or restructure key sectors such as energy.

- Quantitative criteria may be supplemented with **indicative targets**. These are often set for the later months of a program and are then turned into performance criteria, with appropriate modifications, as economic trends firm up.

- **Structural benchmarks** are used for measures that cannot be monitored specifically enough to be performance criteria, or for small steps in a critical reform process; breach of these would not individually warrant an interruption of IMF financing.

- Another important monitoring tool is the **program review**, which serves as an opportunity for a broad-based assessment by the Executive Board of progress toward the program's objectives. Reviews are used to discuss policies and introduce changes that may be necessary in light of new developments. In some cases, a country might request a waiver for a breached performance criterion—for example, when its authorities have already taken measures to correct the deviation. ■

## How the IMF lends: Terms and conditions of financial facilities

### Stand-By Arrangement and Extended Fund Facility

- **Stand-By Arrangement (1952)**

Addresses balance of payments difficulties that are short term; the arrangement is typically 12–18 months with a legal maximum of 3 years.

**Access limits:** Annual: 100 percent of quota; cumulative: 300 percent of quota for all use of IMF resources in the General Resources Account.

**Maturities (expected repayment)/(obligatory repayment):** 2¼–4 years/3¼–5 years.

**Charges:** Basic rate of charge + level-based surcharges of 100 basis points on amounts above 200 percent of quota and 200 basis points on 300 percent of quota.

**Conditions:** Member adopts policies that provide confidence that its balance of payments difficulties will be resolved within a reasonable period.

**Cumulative access:** Above 25 percent of quota is subject to stricter conditions (known as upper credit tranche conditionality).

**Phasing and monitoring:** Quarterly disbursements contingent on observance of performance criteria and other conditions.

- **Extended Fund Facility (1974)**

Provides longer-term assistance in support of structural reforms that address longer-term balance of payments difficulties.

**Access limits:** Annual: 100 percent of quota; cumulative: 300 percent of quota for all use of IMF resources in the General Resources Account.

**Maturities (expected repayment)/(obligatory repayment):** 4½–7 years/4½–10 years.

**Charges:** Basic rate of charge + level-based surcharges of 100 basis points on amounts above 200 percent of quota and 200 basis points above 300 percent of quota.

**Conditions:** Member adopts 3-year program, with structural agenda, and provides annual detailed statement of policies for the next 12 months.

**Phasing and monitoring:** Quarterly or semiannual disbursements contingent on observance of performance criteria and other conditions.

### Special loans

- **Supplemental Reserve Facility (1997)**

Provides short-term assistance to members with balance of payments difficulties related to a sudden and disruptive loss of market confidence. Available only as a supplement to a regular arrangement.

**Access limits:** None; this facility is available only when access under an associated regular arrangement would otherwise exceed either annual or cumulative limit.

**Maturities (expected repayment)/(obligatory repayment):** 2–2½ years/2½–3 years.

**Charges:** Basic rate of charge + 300 basis points rising to a maximum of 500 basis points after 2½ years.

**Conditions:** Program under an associated arrangement, with strengthened policies to address a loss of market confidence.

**Phasing and monitoring:** Facility available for one year; front-loaded access with two or more disbursements.

- **Compensatory Financing Facility (1963):**

Covers a shortfall in a member's export earnings and services receipts or an excess in cereal import costs that is temporary and arises from events beyond the member's control.

**Access limits:** Maximum 45 percent of quota for each element—export shortfall and excess cereal import costs—and a combined limit of 55 percent of quota.

**Maturities (expected repayment)/(obligatory repayment):** 2¼–4 years/3¼–5 years.

**Charges:** Basic rate of charge; not subject to surcharges.

**Conditions:** Usually available only when a member already has a Stand-By Arrangement or when its balance of payments position, apart from its export shortfall or import excess, is otherwise satisfactory.

**Phasing and monitoring:** Typically disbursed over a minimum of six months and in accordance with the phasing provisions of the arrangement.

- **Emergency Assistance**

**Natural disasters (1962):** Provides quick, medium-term assistance to members with balance of payments difficulties related to natural disasters.

**Postconflict (1995):** Provides quick, medium-term assistance for balance of payments difficulties related to the aftermath of civil unrest or cross-border armed conflict.

**Access limits:** 25 percent of quota, although larger amounts can be made available in exceptional cases.

**Maturities (expected repayment)/(obligatory repayment):** No early repayment expectation/3¼–5 years.

**Charges:** Basic rate of charge; not subject to surcharges; possibility of interest subsidy for low-income countries if resources are available.

**Conditions:** Reasonable efforts to overcome balance of payments difficulties and focus on institutional and administrative

capacity building to pave the way toward an upper credit tranche arrangement or an arrangement under the Poverty Reduction and Growth Facility. The conditions for emergency postconflict assistance also include that IMF support would be part of a concerted international effort to address the aftermath of the conflict.

**Phasing and monitoring:** Typically none.

### Loans for low-income members

- **Poverty Reduction and Growth Facility (PRGF) (1999)**

Provides longer-term assistance for deep-seated, structural balance of payments difficulties; aims at sustained, poverty-reducing growth.

**Access limits:** 140 percent of quota; exceptional maximum, 185 percent.

**Maturities (expected repayment)/(obligatory repayment):** No early repayment expectation/5½–10 years.

**Charges:** Concessional interest rate: ½ of 1 percent a year; not subject to surcharges.

**Conditions:** Based on a Poverty Reduction Strategy Paper prepared by the country in a participatory process, and integrating macroeconomic, structural, and poverty reduction policies.

**Phasing and monitoring:** Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and completion of reviews.

- **Exogenous Shocks Facility (ESF) (2005)**

Approved but not yet fully funded. Would provide policy support and financial assistance to low-income countries facing exogenous shocks (such as commodity price changes, natural disasters, and trade disruptions caused by events in a neighboring country). Available to countries eligible for the PRGF but without a PRGF-supported program in place; ESF programs would be one to two years in length.

**Access limits:** 25 percent of quota; cumulative access limit of 50 percent of quota.

**Maturities (expected repayment)/(obligatory repayment):** No early repayment expectation/5½–10 years.

**Charges:** ½ of 1 percent a year; not subject to surcharges.

**Conditions:** Poverty reduction strategy must be in place, and comprehensive economic program must be formulated.

**Phasing and monitoring:** Semiannual or quarterly disbursements contingent on observance of performance criteria and, in most cases, completion of a review.

# Passing on Know-How

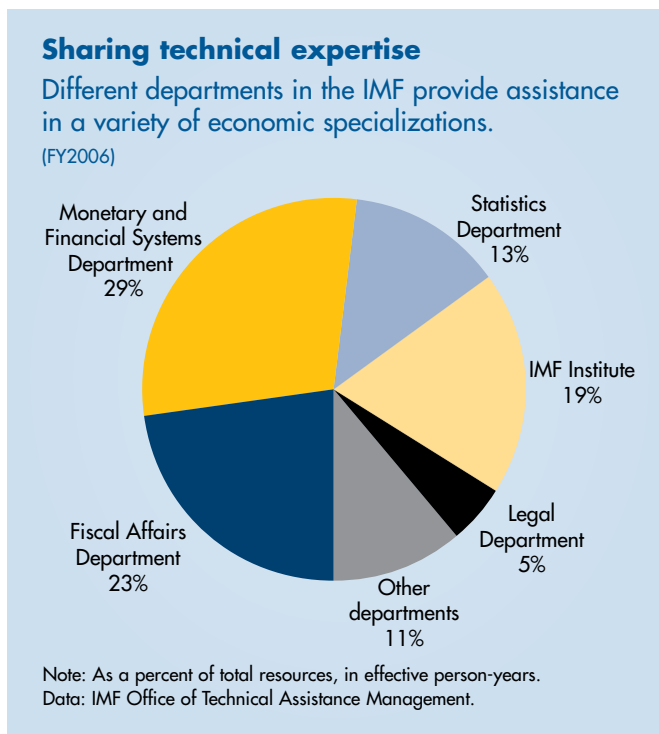
**T**he IMF provides technical advice and training to help strengthen the design and implementation of macroeconomic and financial sector policies in member countries and boost the institutional capacity of their governments. Sound economic policymaking and implementation require know-how and effective government institutions. Many developing countries, in particular, need help to build up expertise in economic management and advice about what policies, reforms, and institutional arrangements are appropriate and have worked well elsewhere. The IMF gives priority to providing assistance where it complements and enhances its other key activities—surveillance and lending.

Through staff missions sent from headquarters, the provision of specialists on a short-term basis, resident advisors, regional technical assistance centers, and training in the field, at its regional training institutes, or at its headquarters, the IMF offers technical assistance in the core areas of its expertise (see chart). These include macroeconomic policy formulation and management; monetary policy; central banking; the financial system; foreign exchange markets and policy; public finances and fiscal management; and macroeconomic, external, fiscal, and financial statistics. Such assistance is a benefit of IMF membership and is free except for countries that can afford to reimburse the IMF. About one-third of the IMF's total technical assistance is financed externally.

In the early to mid-1990s, as the IMF's membership expanded to include a number of countries in transition from centrally planned to market-based economies, the IMF's tech-

nical assistance grew rapidly. More recently, the IMF's efforts to strengthen the global financial system so as to reduce the risk of crises and improve the management and resolution of those that do occur have generated new demands for technical assistance from countries seeking to adopt international standards and codes for financial, fiscal, and statistical management. Most of this technical assistance is based on recommendations resulting from Financial Sector Assessment Programs and Reports on the Observance of Standards and Codes. IMF work on offshore financial centers and the fight against money laundering and terrorism financing also required technical assistance.

In addition, the IMF has mounted significant efforts, in coordination with other bilateral and multilateral technical assistance providers, to give prompt policy advice and operational assistance to countries emerging from armed conflict. At the same time, there is a continuing demand from low-income countries for help with debt sustainability analysis and the





management of debt-reduction programs, and with designing and implementing programs to enhance growth and accelerate poverty reduction. Increasingly, the IMF has been organizing its technical assistance and training at a regional level. It operates, together with donors, five regional technical assistance centers, two in Africa (a third is coming onstream) and one each in the Caribbean, the Middle East, and the Pacific.

In reviewing a recent report by the Independent Evaluation Office on the IMF's technical assistance program, the Executive Board highlighted the increasingly important role that technical assistance plays in responding to the diverse needs of member countries, particularly in policy design and implementation, and capacity building. The Executive Board found that key factors in the effective provision of technical assistance are the ability to respond quickly, tailor advice to members' circumstances, and produce high-quality analysis. In line with the report's recommendations, the IMF is working to improve the prioritization of technical assistance, ensure active engagement of the authorities in design and follow-up stages, and better monitor the results.

## Training

The IMF places high importance on building expertise in member countries through training. The IMF Institute is responsible for most of the training provided by the IMF. It trains officials from member countries through courses and seminars in the core areas of macroeconomic policy management and financial sector, fiscal, and external sector policies. Training is offered by staff from the Institute and other IMF departments, occasionally assisted by outside academics and experts.



Training at the IMF Institute in Brasilia, Brazil.

## Reforming payment systems in Africa

As part of their financial sector reform strategy, Botswana, Ghana, Namibia, Sierra Leone, and Swaziland are modernizing their payment and settlement systems. With funding from the Japanese government, the IMF's Monetary and Financial Systems Department stationed a regional payment systems advisor in Botswana to assist these countries in the modernization process. The IMF advisor has been working with the country authorities to

- develop legislation in support of the new payment systems.
- implement Electronic Clearing Houses, Electronic Funds Transfer, and Real Time Gross Settlement (RTGS) systems, together with other electronic funds transfer mechanisms and systems.
- develop standards, rules, regulations, and procedures related to the various payment system services.

A key feature of the project is the focus on convergence with related financial sector initiatives in the Southern Africa Development Community and the West African Monetary Zone. The overall objective is to integrate the various national payment systems to create a robust regional cross-border network. Good progress has been made toward that objective. For example, Botswana and Swaziland have implemented new RTGS systems as a result of the project.

Applications from developing and transition country officials are given preference.

In addition to training offered at headquarters, the IMF offers courses and seminars through regional institutes and programs. There are currently four regional training centers: the Joint Regional Training Center for Latin America in Brazil, the Joint Africa Institute in Tunisia, the IMF–Singapore Regional Training Institute in Singapore, and the Joint Vienna Institute in Austria. The IMF has also set up training programs in collaboration with China and the Arab Monetary Fund.

In FY2006, the IMF Institute, with the assistance of other IMF departments, delivered 143 courses for almost 4,600 participating officials. Much of the training was provided at the regional training institutes. Training at headquarters in Washington, DC, including long-term courses, continued to play an important role, accounting for about one-third of participant-weeks. The remainder of the training was at overseas locations outside the IMF regional network, largely as part of collaboration between the IMF Institute and national or regional training programs but also in the form of distance learning. ■

# Striving for a Better Life

**T**he world economy has grown steadily since World War II, bringing widespread prosperity and lifting many millions out of poverty, especially in Asia. Nevertheless, daunting challenges remain. In Africa, in particular, progress in poverty reduction has been limited in recent decades, and some countries have fallen back. Looking ahead, in the next 25 years, the world's population is projected to grow by about 2 billion, mostly in developing economies. Many of these people will be doomed to poverty without concerted efforts both by the low-income countries themselves and by the international community.

## Coordinating development assistance

The IMF plays a critical role in low-income countries, where the central goal of its work is to help promote economic stability and growth, and thereby achieve deep and lasting poverty reduction. In this task, the IMF works closely with the World Bank, the lead international agency on poverty reduction. Together they are helping these countries make progress toward the Millennium Development Goals (MDGs) (see box on opposite page) through policy advice, technical assistance, lending, debt relief, and support for trade liberalization.

A woman with her son in Sumbe, Angola.

Chetan Lutherman/Inf/Aurora & Quanta Productions, Inc.



The pressures to meet the MDGs by 2015 have further focused the IMF's efforts on helping countries scale up both their own policy efforts and external financial support in a context of macroeconomic stability. In this context, it encourages countries to develop and analyze alternative frameworks for achieving the MDGs and to use these to underpin their poverty reduction strategies. The IMF also offers low-income countries advice on how to manage the economic impact of aid inflows, which is crucial given that, in 2005, major donor countries indicated they would significantly increase the amount of external assistance they provide to developing countries in the next decade. On the donor side, the IMF is working with multilateral development partners to enhance the predictability of aid flows and achieve greater policy and administrative coherence on the part of development partners.

Since 1999, three initiatives have been instrumental in boosting the financial support of the IMF and the World Bank to low-income countries:

- Poverty Reduction Strategy Papers (PRSPs), written by each borrowing country and setting out its homegrown policy strategy to provide the basis for the IMF's and the World Bank's concessional lending;
- the Heavily Indebted Poor Countries (HIPC) Initiative, introduced in 1996 and enhanced in 1999, whereby creditors provide debt relief, in a coordinated manner, with a view to restoring debt sustainability; and
- the Multilateral Debt Relief Initiative (MDRI), under which the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF) canceled 100 percent of their debt claims on certain countries to help them advance toward the MDGs.

The PRSP is a comprehensive country-based strategy for poverty reduction. It aims to provide the crucial links between low-income countries, their donor partners, and development policies needed to meet the MDGs. PRSPs provide the operational basis for IMF and World Bank concessional lending and for debt relief under the HIPC Initiative. In the case of the IMF, loans are provided through its Poverty Reduction and Growth Facility (PRGF).

Low-income countries prepare their strategies with the participation of domestic stakeholders and external development partners. Updated periodically (at least once every five years) and with annual progress reports, PRSPs describe the macroeconomic,

structural, and social policies that countries plan to pursue and how they will finance them. Once a country has developed a PRSP, it becomes eligible for loans from the PRGF trust and for HIPC debt relief.

The HIPC Initiative was enhanced in 1999 to provide faster, deeper, and broader debt relief to low-income countries and to strengthen the links between debt relief and poverty reduction, particularly through social policies. Countries' continued efforts toward macroeconomic stability and structural and social policy reforms—including increased spending on such social sector programs as basic health care and education—are central to the enhanced HIPC Initiative.

To date, 29 countries have reached the decision point under the enhanced HIPC Initiative, and \$59 billion in nominal debt service has been committed to them by the international community. HIPC Initiative assistance is expected to reduce the debts of these countries by two-thirds in net present value terms. Nineteen HIPCs have also reached their completion

## The Millennium Development Goals

The heads of 189 countries signed the Millennium Declaration in September 2000, adopting the Millennium Development Goals (MDGs), a set of eight objectives incorporating specific targets for reducing income poverty, tackling other sources of human deprivation, and promoting sustainable development. The eight MDGs seek, by 2015, to

- (1) halve extreme poverty and hunger relative to 1990;
- (2) achieve universal primary education;
- (3) promote gender equality;
- (4) reduce child mortality;
- (5) improve maternal health;
- (6) combat HIV/AIDS, malaria, and other diseases;
- (7) ensure environmental sustainability; and
- (8) establish a global partnership for development.

A follow-up meeting of world leaders in Monterrey, Mexico, in March 2002 established a shared understanding of the broad strategy needed to achieve the MDGs. The Monterrey Consensus ushered in a new compact between developing and developed countries that stressed their mutual responsibilities in the quest to meet the development goals. It called on developing countries to improve their policies and governance and on developed countries to step up their support, especially by providing more and better aid and more open access to their markets.



Students at Lusaka's SOS Children's Village. In early 2006, Zambia received \$581 million in debt relief under the Multilateral Debt Relief Initiative.

points, when debt relief is to be delivered irrevocably by all creditors. Eleven additional countries have recently been identified as meeting the Initiative's income and indebtedness criteria using end-2004 data and might wish to be considered for HIPC Initiative assistance.

The MDRI supplements the assistance provided under the HIPC Initiative. It became fully effective in the IMF on January 5, 2006. Countries eligible to receive MDRI relief from the IMF include all HIPCs that have met their completion point under the Initiative (that is, they have reached the point at which they can receive full HIPC relief), as well as non-HIPCs with a per capita income of \$380 or less.

To date, debt relief in the amount of \$3.7 billion has been provided to 21 countries: 19 post-completion point HIPCs (Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia) and two non-HIPCs (Cambodia and Tajikistan). More countries may qualify for MDRI relief from the IMF in the course of 2006. Malawi, São Tomé and Príncipe, and Sierra Leone are expected to reach their HIPC completion point, and thus qualify for MDRI relief, in 2006.

While the HIPC Initiative is designed to restore debt sustainability for the most heavily indebted poor countries, the MDRI

goes further by providing the full cancellation of eligible debt (in the case of the IMF, that disbursed by end-2004 and still outstanding at the time the country qualifies for MDRI relief) to free up additional resources to help these countries reach the MDGs. Unlike the HIPC Initiative, which entailed coordinated action by all creditors, the MDRI does not propose any parallel debt relief on the part of official bilateral or private creditors or multilateral institutions beyond the IMF, IDA, and AfDF. Modalities of implementation of the MDRI also vary across institutions.

For countries to realize the potential benefits of debt relief, it will be critical to help them avoid excessive borrowing in the future. Countries must balance their need to step up spending to meet the MDGs against the risks of a new round of over-indebtedness. The debt sustainability framework for low-income countries, developed jointly by the IMF and the World Bank in 2004, can help creditors and debtors assess the risks of an unsustainable debt buildup. The framework traces the path of key debt indicators with respect to given debt thresholds (linked to the quality of policies and institutions in debtor countries), as well as their behavior in the face of shocks. It has already become an important tool guiding the IMF's policy advice to low-income countries.

### Further steps

Although countries that have, or have had, PRGF arrangements show marked improvements in macroeconomic performance, most low-income countries are far from attaining the sustained high growth necessary for achieving the MDGs by 2015. The IMF and the World Bank, in their third annual *Global Monitoring Report*—which tracks countries' progress—say that advances have been uneven. The good news is that the report found evidence of reduced child deaths in 9 out of 10 developing countries surveyed and of the first decline in HIV/AIDS infection rates in high-prevalence countries such as Haiti, Uganda, and Zimbabwe. It also noted rapid gains in primary school enrollment. However, many countries, especially in Africa and Latin America, are still not making strong inroads into poverty reduction, and South Asian countries have made insufficient progress on human development indicators. Published in 2006, the report highlights that economic growth, more and better-quality aid, trade reforms, and better governance are essential for achieving the MDGs.



For its part, the IMF continued to reflect on the adequacy of its instruments for engaging low-income members. Although the PRGF remains the main instrument for assisting them, for those that have recently made significant progress toward economic stability and no longer require its financial assistance, the IMF introduced the Policy Support Instrument (PSI) in October 2005. The PSI enables the IMF to support these low-income countries by helping them design effective economic programs. Once approved by the IMF's Executive Board, these programs will signal to donors, multilateral development banks, and markets the IMF's endorsement of a member's policies. Such policy support for and "signaling" about countries' performance and prospects can be used to inform the decisions of outsiders and may, for example, affect the flow of external assistance, including debt relief and other aid.

In December 2005, the IMF also introduced the Exogenous Shocks Facility to provide policy support and concessional financial assistance to low-income countries facing shocks beyond their control (see page 23). For low-income countries that face balance of payments difficulties as a result of natural disasters or multilateral trade reforms or are emerging from conflict, the IMF has activated mechanisms that provide support—the subsidized Emergency Natural Disaster Assistance, and the Trade Integration Mechanism (TIM) and Emergency Postconflict Assistance—on concessional terms.

Under the IMF's Medium-Term Strategy (see page 7), endorsed by its membership at the 2006 spring meeting, the institution will further refine its role in low-income countries. First, it will focus on issues that are critical for each country's pursuit of macroeconomic stability, streamline its division of labor with the World Bank, and offer more flexible conditions under lending facilities. Second, the IMF will assess whether projected aid flows are consistent with macroeconomic stability and the estimated costs of achieving countries' development goals, and will also be more forthcoming with donors. Third, it will help ensure that the beneficiaries of debt relief do not again accumulate excessive debt.

### **Trade issues and the Doha Round**

Trade is potentially much more important than aid in helping developing countries prosper, and the IMF continues to stress the global importance of the Doha Round of trade negotiations

(begun in 2001). Without a Doha agreement, global growth would be slower and the world economy could be less resilient in the face of shocks. In the context of achieving the MDGs, the IMF is keen to see an ambitious and successful outcome to the Doha Round. Poverty reduction efforts stand to gain from an agreement that would fully realize Doha's development promise—particularly a major reform of agricultural trade policies in high-income countries. During its 2006 spring meeting, the IMF appealed to members to reach an agreement that would allow poor countries to take full advantage of the opportunities of global integration through ambitious trade liberalization. It called for the Round to be completed by the end of 2006.

The IMF has been doing its part to support an open international trading system. In FY2005, the IMF activated the TIM to help countries cope with balance of payments shortfalls resulting from the implementation of the Doha Round and, more generally, nondiscriminatory trade liberalization by other countries. The TIM allows IMF members to request financial assistance under the IMF's existing facilities to meet temporary trade-related balance of payments needs.

When the World Trade Organization's Agreement on Textiles and Clothing expired at the end of 2004, for example, the Dominican Republic obtained support under the TIM, making it the second country to do so, following Bangladesh in 2004. Discussions with other member countries are under way. Availability of assistance under the TIM should help assuage concerns of some developing countries that an ambitious outcome to the Doha Round could place undue adjustment pressures on them.

To help ensure that member countries can take full advantage of the opportunities of multilateral trade liberalization, the IMF has

- provided technical assistance in such areas as customs reform, tax and tariff reform, and data improvements;
- contributed to diagnostic studies of obstacles to trade integration in less-developed countries as part of an interagency effort led by the World Bank;
- identified potential risks and helped countries understand the benefits of international integration; and
- assessed how countries are affected by trade reforms—for example, the implications of reduced agricultural subsidies, preference erosion, and the phasing out of textile quotas. ■

# Increasing IMF Transparency and Accountability

To obtain independent, objective, and substantive feedback on the IMF's performance, the IMF's Executive Board established the Independent Evaluation Office (IEO) in July 2001. Since then the IEO has produced a series of detailed reports that evaluate how the IMF does its job and help identify desirable changes in policies and practices. The IEO works independently of the IMF's management and staff, and at arm's length from the IMF's Executive Board. The IEO is headed by Thomas A. Bernes and has 12 other staff members, the majority of whom are recruited from outside of the IMF, as well as consultants.

The IEO's website ([www.imf.org/ieo](http://www.imf.org/ieo)) gives detailed information on its terms of reference, work to date, status of ongoing projects, evaluation reports, and seminars and outreach activities. The website also provides opportunities for interested stakeholders (country authorities, academics, nongovernmental organizations, and other members of civil society) to interact with the IEO in defining its work program, determining the terms of reference of individual studies, and submitting substantive inputs to these studies.

The IEO develops its work program on the basis of internal discussions and broad-based external consultations. Draft issues papers for all evaluations are posted on the IEO website for public comments for completed and ongoing studies.

In formulating its future work program, the IEO has identified a broad list of possible topics for evaluation over the medium term, reflecting the many suggestions received from outside stakeholders as well as from IMF Executive Directors, management, and staff.

## Completed evaluations

- Prolonged use of IMF resources
- The IMF's role in recent capital account crises in Korea, Indonesia, and Brazil
- Fiscal adjustment in IMF-supported programs
- The IMF's role in Argentina during 1991–2001
- The effectiveness of the Poverty Reduction Strategy Paper process and the Poverty Reduction and Growth Facility
- IMF technical assistance
- The IMF's approach to capital account liberalization
- The Financial Sector Assessment Program
- IMF assistance to Jordan
- The IMF's multilateral surveillance

## Ongoing evaluations

- IMF structural conditionality
- The IMF's role in the determination of the external resource envelope in sub-Saharan African countries
- IMF advice on exchange rate policy

In 2006, the IEO itself was evaluated by an independent external panel. On the basis of the panel's report, the Executive Board agreed that the IEO had served the IMF well and earned strong support across a broad range of stakeholders. The panel also identified a number of areas for strengthening the IEO, which are being followed up. The Executive Board also agreed that the IMF continued to need an independent evaluation office to contribute to the institution's learning culture and to facilitate oversight and governance by the Board. ■

## Strengthening surveillance: lessons from recent IEO evaluations

The IEO has recently completed two evaluations pertaining to surveillance—a central activity of the IMF. The particular aspects covered in these evaluations were the Financial Sector Assessment Program (FSAP) and multilateral surveillance. The reports found a number of positive elements, including the high quality of analysis contained in multilateral surveillance outputs and the distinct improvement in the IMF's ability to conduct financial sector surveillance resulting from the FSAP. At the same time, the IEO identified several important areas for improvement in surveillance as a whole.

For FSAPs, the main challenges involve

- ensuring future coverage of all systemically important countries;
- addressing cross-border issues (which have mostly been neglected until now); and

- taking steps to improve integration with overall bilateral surveillance. That integration has been problematic.

On multilateral surveillance, the evaluation concludes that the IMF's work is falling short of its full potential. It recommends changes to

- better integrate both financial and macroeconomic dimensions, as well as bilateral and multilateral analysis and policy prescriptions;
- improve "customer focus" in the IMF's outputs through streamlined and better-focused products, shorter and clearer messages, and a strengthened communications strategy; and
- enhance the impact of the Executive Board and the IMFC in multilateral surveillance, together with a more proactive use of smaller country groupings in which the IMF participates.

## At a Glance

### Key IMF indicators (as of April 30, 2006, unless otherwise indicated)<sup>1</sup>

|   |                                     |  |                                     |
|---|-------------------------------------|--|-------------------------------------|
| Membership  | 184 countries                       | <b>Current lending arrangements</b>  |                                     |
| Headquarters                                      | Washington, DC                      | Stand-By Arrangements  | 10                                  |
| Executive Board                                   | 24 members                          | Extended Fund Facility   | 1                                   |
| Total staff                                       | About 2,700                         | Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF)                         | 27                                  |
| Total quotas                                      | \$310 billion (SDR 213.5 billion)   |  |                                     |
| <b>Quotas</b>                                     |                                     | <b>Biggest borrowers</b>   |                                     |
| Largest   | United States (17.4% of total)      | Turkey   | \$13.1 billion (SDR 8.9 billion)    |
| Smallest  | Palau (0.001% of total)             | Indonesia  | \$7.6 billion (SDR 5.2 billion)     |
|   |                                     | Uruguay  | \$1.9 billion (SDR 1.3 billion)     |
|   |                                     | Ukraine  | \$1.1 billion (SDR 734 million)     |
|   |                                     | Serbia and Montenegro  | \$965 million (SDR 656 million)     |
| <b>Lending resources</b>                          |                                     | <b>Debt relief for heavily indebted poor countries (HIPCs) as of end-April 2006,</b>                   |                                     |
| Uncommitted usable resources <sup>2</sup>         | \$216.6 billion (SDR 147.2 billion) | Having met all criteria  |                                     |
| One-year forward commitment capacity <sup>3</sup> | \$176.6 billion (SDR 120.1 billion) | and reached completion point   | 19 countries                        |
|   |                                     | reached decision point, but yet to meet  |                                     |
| <b>Credit lines<sup>4</sup></b>                   |                                     | additional criteria to reach completion point  | 10 countries                        |
| Credit available under borrowing arrangements     | \$50.0 billion (SDR 34.0 billion)   | met the end-2004 income and indebtedness criteria and might wish to be considered for HIPC debt relief | 11 countries                        |
| <b>Reserves</b>                                   |                                     | Total cost of HIPC debt relief for 29 HIPCs that have already reached decision point                   | \$41.3 billion (end-2005 NPV terms) |
| Precautionary balances <sup>5</sup>               | \$11.2 billion (SDR 7.6 billion)    | Cost to the IMF for 29 HIPCs that have already reached decision point                                  | \$3.1 billion (end-2005 NPV terms)  |
| <b>Other assets</b>                               |                                     | <b>Multilateral Debt Relief Initiative Assistance (MDRI)</b>   |                                     |
| Gold holdings                                     | 103.4 million fine ounces           | Recipients of MDRI assistance  | 20 countries                        |
| Value on IMF books                                | \$8.6 billion (SDR 5.85 billion)    | Assistance that covers General Resources Account credit outstanding                                    | \$136.2 million (SDR 89.8 million)  |
| Market value                                      | \$66.6 billion (at \$644.0/oz.)     | Assistance that covers PRGF-ESF credit outstanding   | \$3.7 billion (SDR 2.4 billion)     |
| <b>Credit outstanding</b>                         |                                     | Total  | \$3.8 billion (SDR 2.5 billion)     |
| Total credit                                      | \$34.1 billion (SDR 23.1 billion)   |  |                                     |
| To low-income countries on concessional terms     | \$5.8 billion (SDR 3.9 billion)     |  |                                     |
| To other member countries                         | \$28.3 billion (SDR 19.2 billion)   |  |                                     |

Notes:

<sup>1</sup>U.S. dollar amounts are calculated at the rate of SDR 1 = \$1.47106 (April 28, 2006) and are rounded.

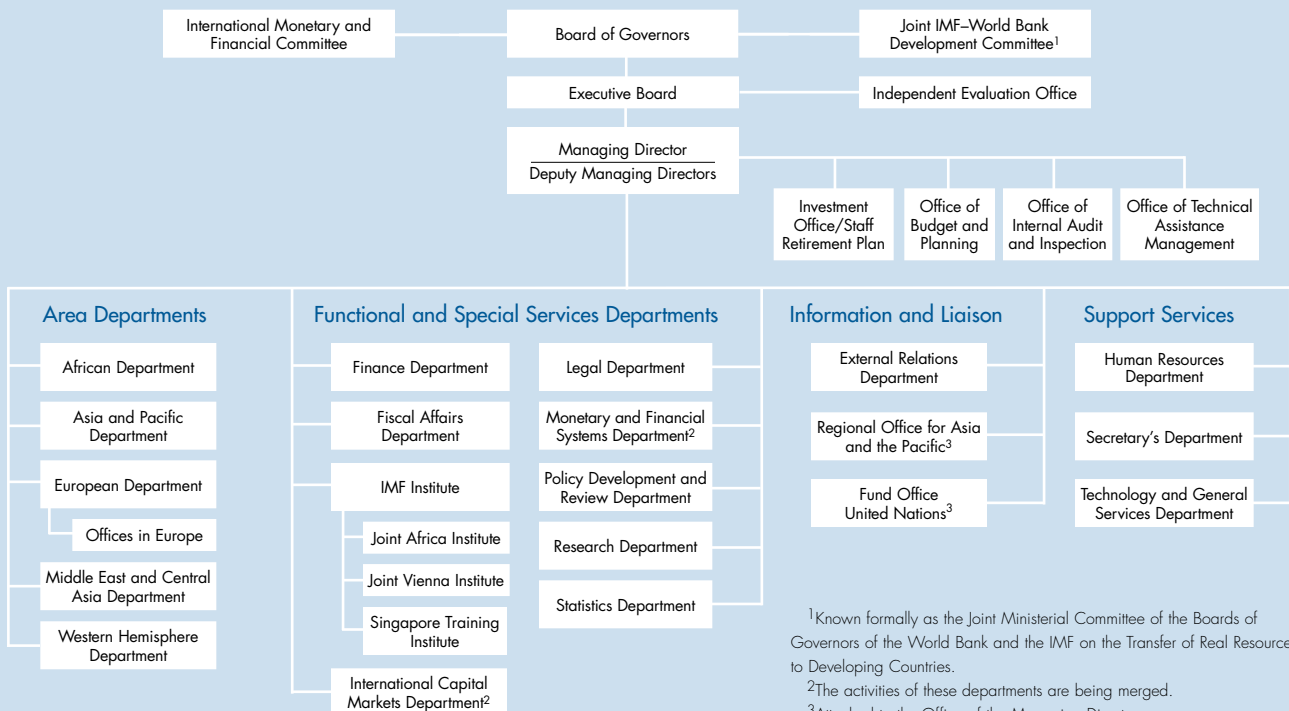
<sup>2</sup>Usable resources less the full amount of undrawn balances under existing arrangements.

<sup>3</sup>A measure of the resources available for new financial commitments in the coming year, equal to uncommitted usable resources plus repurchases one year forward minus the prudential balance (set at \$50.3 billion (SDR 34.2 billion) at end of the fiscal year 2006).

<sup>4</sup>The IMF has two credit lines it can access if it needs additional liquidity. These are known as the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The last time these credit lines were activated was in 1998.

<sup>5</sup>The IMF accumulates precautionary balances, consisting of reserves and a special contingent account, to protect itself and its creditor members from losses in the event of nonpayment of loans. Data: IMF Finance Department.

## How the IMF Is Organized

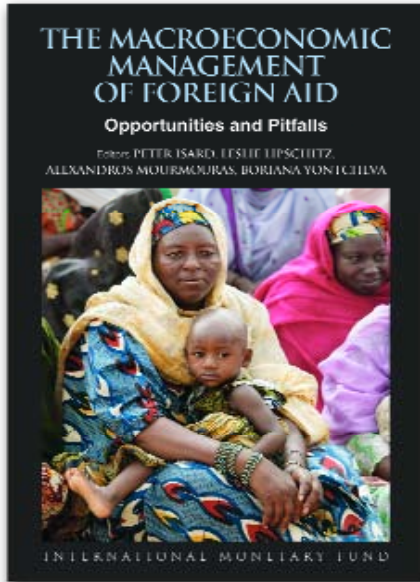


<sup>1</sup>Known formally as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries.

<sup>2</sup>The activities of these departments are being merged.

<sup>3</sup>Attached to the Office of the Managing Director.

# The Macroeconomic Management of Foreign Aid: Opportunities and Pitfalls



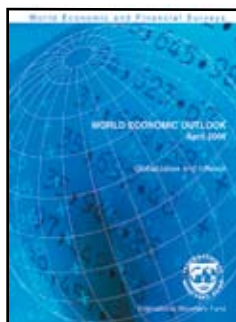
**Editors: Peter Isard, Leslie Lipschitz, Alex Mourmouras, and Boriana Yontcheva**

This new volume emphasizes that a substantial increase in foreign aid will be necessary but not sufficient to meet the Millennium Development Goals. Sound macroeconomic management by recipients of foreign aid, and supportive efforts by donors, will also be crucial. Issues addressed in the papers and overview chapter include the relationship between aid, growth, and poverty reduction; the potential for sizable increases in aid to adversely affect competitiveness, and how to avoid this; and the effect of aid on institutions and the political economy in recipient countries.

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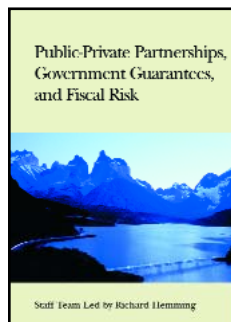
The *World Economic Outlook* is the product of a unique international exercise in

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## Public-Private Partnerships, Government Guarantees, and Fiscal Risk

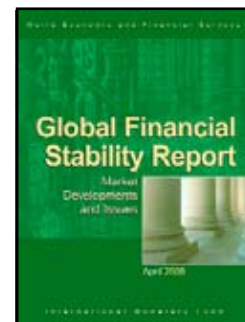
*IMF Staff Team Led by Richard Hemming*

Public-private partnerships (PPPs) refer to arrangements under which the private sector supplies infrastructure assets and infrastructure-based services that traditionally have been provided by the government. This Special Issue paper provides an overview of some of the issues raised by these PPPs, with a particular focus on their fiscal consequences. It also looks at government guarantees, which are used fairly widely to shield the private sector from risk and are a common feature of PPPs. The paper concludes with a list of measures that can maximize the benefits and minimize the fiscal risks associated with the use of PPPs.

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