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Overview

IMF focuses on supporting economic recovery, strengthening crisis prevention and resolution

The partial recovery of world economic growth seen in 2002, following the slowdown of the previous year, has been broadly sustained in 2003, with some indications in recent months that it has gained strength. The outlook is for growth to strengthen further in late 2003 and 2004, but the balance of risks is still slanted to the downside, though less so than earlier this year. Risk factors weighing on the outlook include global payments imbalances (particularly the large U.S. current account deficit) and the possibility of continuing repercussions of the bursting of the equity market bubble and of further increases in long-term interest rates following their recent sharp upturn.

Against this backdrop, the IMF has focused on promoting policies that support economic recovery and raise growth prospects. In addition to its traditional surveillance, lending, and technical assistance operations, the IMF has been strengthening the framework for preventing crises and for resolving the crises that do occur.

To strengthen surveillance and crisis prevention, the IMF is sharpening its analysis of vulnerabilities, such as debt sustainability, and emphasizing financial sector surveillance, including through the joint IMF–World Bank Financial Sector Assessment Program. The IMF is paying increased attention at the country, regional, and global levels to the external implications of national *(Please turn to following page)*

Middle East and North Africa

MENA region strives to reinvigorate growth and strengthen links to the global economy

Traditional agriculture is a significant source of income in the Middle East and North Africa. Above, Palestinian farmers empty bags of olives into a press.

The Middle East and North Africa (MENA) is an economically diverse region that shares a common cultural and institutional heritage as well (see box, page 4).

The region benefited immensely from the sharp increase in oil prices in the 1970s. The resulting wealth financed an explosion of investment and growth in the oil-exporting countries. This investment, in turn, helped boost worker remittances, trade, and capital flows in other countries in the region. But as oil prices and production softened, the boom faded, prompting a slowdown and, in many cases, a decline in growth rates in the 1980s.

Deteriorating economic conditions brought about pressures for reform. In the mid-to-late 1980s and early 1990s, a number of countries introduced fiscal reforms, strengthened monetary *(Please turn to page 4)*

IMF committed to Millennium Development Goals

(Continued from page 1)

Abdoulaye Bio-Tchané, Director of the IMF African Department (left), IMF Managing Director Horst Köhler, and Madagascar's President Marc Ravalomanana visit a market in Antananarivo.

policies. It is also encouraging countries to include collective action clauses in sovereign bond contracts (as Mexico and Uruguay have done in their recent bond issues) and is supporting efforts by debtors and creditors to develop a voluntary code of conduct during debt restructuring.

Meanwhile, to make its lending decisions in crises more predictable for member countries and financial markets, the IMF has clarified the criteria for access to its resources. The guidelines for the policy conditionality associated with IMF lending have been revised to enhance the country ownership and effectiveness of the policy programs the IMF endorses.

The IMF remains fully committed to achieving the UN Millennium Development Goals. It has continued its work on reinvigorating the fight against poverty in low-income countries, primarily through the poverty reduction strategy paper (PRSP) process, which emphasizes national ownership of policy strategies. Working closely with the World Bank, the IMF supports its poorest members through its low-interest lending facility, the Poverty Reduction and Growth Facility (PRGF). As part of that effort, it is seeking to align its PRGF-supported programs more

IMF HIGHLIGHTS

2002

September 6
IMF approves new Stand-By Arrangement for Brazil, the largest in the institution's history.

At the press briefing on the Independent Evaluation Office's first report are (from left) Montek Singh Ahluwalia (IEO Director), David Goldsborough, and Isabelle Mateos y Lago.

September 6
Executive Board tightens the standards for approving financial support to members in excess of normal limits in relation to their quotas.

September 25
First report of the Independent Evaluation Office reviews prolonged use of IMF resources. In response, the Managing Director establishes a task force to implement IEO recommendations aimed at strengthening the effectiveness of IMF-supported programs.

September 26
Adoption of new conditionality guidelines aimed at promoting national ownership of policy reforms and streamlining and focusing conditionality.

October 2
IMF launches website on statistical practices related to foreign direct investment to meet the needs of researchers, financial analysts, and journalists.

October 24
East Africa Regional Technical Assistance Center (AFRITAC) opens in Dar es Salaam, Tanzania, as part of IMF's response to Africa's request for help in strengthening institutions and in designing and implementing better policies.

November 22
Approval of 12-month pilot project to support international efforts to prevent money laundering and the financing of terrorism.

2003

January 24
IMF approves financial support enabling Argentina to defer $6.6 billion in repayments to the IMF.

February 4
Twelfth General Review of Quotas is concluded without a proposal to increase IMF quotas, which remain unchanged at SDR 218.5 billion ($300 billion).

March
Management takes steps to enhance the capacity of the offices of African constituencies on the Executive Board as a first step toward ensuring adequate voice and representation for all members.

closely with members' poverty reduction strategies. In addition, to help its poorest member countries burdened with unsustainable debt, the IMF continues to provide debt relief, in collaboration with the World Bank, through the enhanced Heavily Indebted Poor Countries Initiative.

Emphasizing that trade can play a key role in helping low-income countries reduce poverty, the IMF has reiterated its support for a successful conclusion of the Doha Round of multilateral trade liberalization. It has also stressed the need for increased aid, encouraging donor countries to meet the UN target of 0.7 percent of their GNP.

The IMF also provides technical assistance and training to developing and transition countries to strengthen their capacity to design and implement policy. In 2002–2003, the IMF opened technical assistance centers in Tanzania and Mali and provided technical assistance to countries establishing or reestablishing institutions after periods of conflict, including Afghanistan, Iraq, and Timor-Leste. ■

The IMF is fully committed to the achievement of the UN Millennium Development Goals, one of which is universal primary education.

September 2002–August 2003

April 12
International Financial and Monetary Committee decides against establishing a statutory sovereign debt restructuring mechanism and shifts the IMF's focus toward finding other methods for the orderly resolution of financial crises.

April 13
Development Committee approves a joint IMF–World Bank project to monitor the policies and actions needed for the achievement of the Millennium Development Goals by 2015.

May 29
West AFRITAC opens in Bamako, Mali, to serve 10 West African countries.

May 29
Agustín Carstens' appointment to the position of IMF Deputy Managing Director is announced.

May 30
IMF announces it will conduct a fact-finding mission to Iraq to enable it to offer the country technical assistance and advice in its areas of expertise.

July 2
IMF announces that Raghuram Rajan of the University of Chicago Graduate School of Business will succeed Kenneth Rogoff as IMF Economic Counsellor and Director of the Research Department.

July 30
IMF announces a reorganization of its area (regional) departments, effective November 1. The European II Department will be dissolved, and the responsibility for countries of the former Soviet Union will be absorbed by two departments that will be renamed the European and the Middle East and Central Asia Departments.

Raghuram Rajan

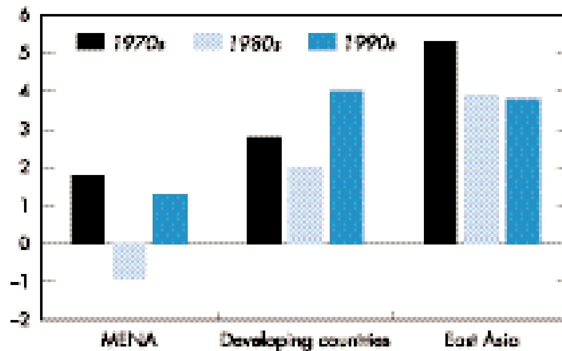
West AFRITAC is launched at a ceremony in Bamako, Mali, on May 29.

Challenges ahead for MENA region

(Continued from page 1)

MENA real GDP per capita growth has not kept pace with growth in other developing countries

(average annual percent change)



Data: IMF, World Economic Outlook database and staff calculations.

policy frameworks, liberalized trade regimes, encouraged foreign direct investment, and pursued more flexible exchange rates. As a result, fiscal deficits have narrowed since the mid-1980s to levels that are well below those of other developing countries; the size of the government has declined considerably; inflation has been low and was on the decline for most of the 1990s; and the region has weathered the financial crises that plagued other regions during the past two decades.

Growth resumed in the 1990s, with faster growth rates in reforming countries such as Egypt and Tunisia. But the region as a whole did not grow as quickly as expected, and, more important, it lagged other developing countries throughout the decade (see chart, this page).

Thus, while the region has maintained macroeconomic stability, it has failed to generate the high and sustained growth rates needed to create jobs for its young and growing population. It has also been unable to reap the benefits of globalization that other developing countries have enjoyed.

To address these challenges, the region must take urgent steps to reinvigorate growth, reignite the reform process, and strengthen its links to the global community.

Challenges ahead

Although there are significant differences among the region's 24 economies—notably between oil producers and non–oil producers and between early reformers and late reformers—all countries face, to varying degrees, several key challenges.

Increase productivity growth. The region's population is one of the fastest growing in the world. It has nearly quadrupled since 1950 and is expected to double over the next 50 years. But jobs have not kept pace with the region's work force: unemployment rates are high, and underemployment (inadequate job opportunities for skilled workers) is pervasive. A young, productive labor force can boost economic growth, but only if there are adequate jobs, complementary factors of production, and a business-friendly environment. The region's performance has

Middle East and North Africa: facts and figures

The Middle East and North Africa region comprises the Arab states of Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, and Yemen, plus the Islamic State of Afghanistan, the Islamic Republic of Iran, Pakistan, and the West Bank and Gaza. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates formed the Gulf Cooperation Council in the early 1980s and launched a customs union in January 2003, with plans to establish a monetary union by January 1, 2010.

The region's 24 countries and territories, which are grouped together here for analytical purposes only, hold about 7.7 percent of the world's population. Its GDP is approximately $2 trillion (measured at purchasing power parity exchange rates) or 4.3 percent of world GDP, also measured at purchasing power parity exchange rates. About 75 percent of the world's proven reserves of crude oil are located in the region, and the GDPs of the oil-exporting countries account for about two-thirds of the region's GDP. Thirteen countries export oil: Algeria, Bahrain, the Islamic Republic of Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, the Syrian Arab Republic, the United Arab Emirates, and Yemen.

The dominant religion is Islam, although there are sizable religious minority groups (particularly Christian) in several countries, including Egypt and Lebanon. Arabic is the principal language spoken in the region, except in Afghanistan, Iran, and Pakistan, which account for almost half of the region's population. French is spoken along with Arabic in the Maghreb countries of Algeria, Mauritania, Morocco, and Tunisia.

also been constrained by weak, often negative, productivity growth.

Continue political and institutional reforms. Despite its geopolitical significance, the region's impact on the global economic system remains weak. Political fragmentation, recurring conflicts, and authoritarian rule have hampered the development of democratic institutions and remain major obstacles to economic reforms.

The demarcation between the public and the private sector in many countries is often unclear, encouraging conflicts of interest, rent seeking (that is, lobbying policymakers for purely private gains), and widespread corruption. Although there are exceptions, transparency in government is poor, and accountability remains problematic (see chart, this page).

Although the public continues to perceive governance as inadequate, some progress has been made. In most countries, elections for representative legislatures are becoming more open and meaningful. A growing number of countries are also strengthening their economic institutions with the assistance of international financial institutions.

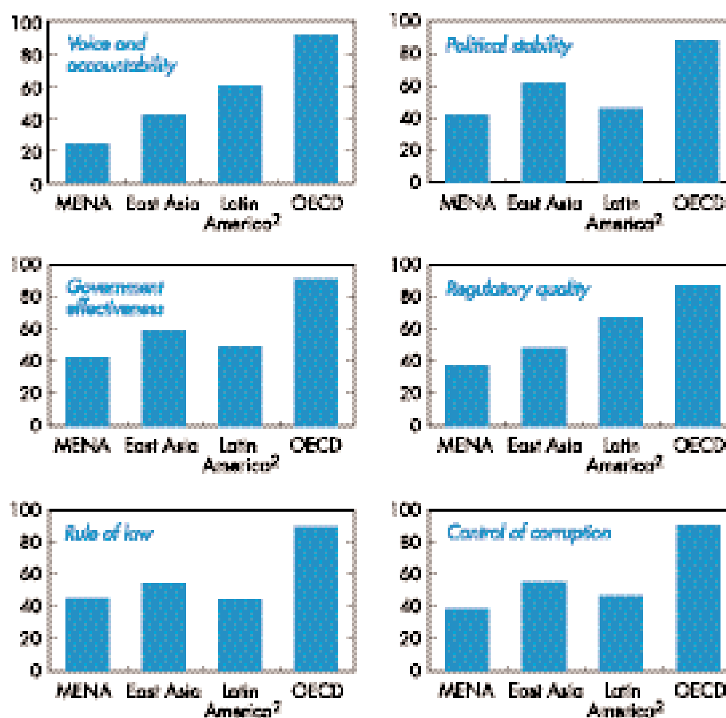
Further rationalize public sectors. Fast economic and population growth in the 1970s fueled a significant expansion in the size of central governments, as measured by the ratio of central government spending to GDP. Although the size of government has declined since then, by the end of the 1990s it remained relatively high by international standards.

In the face of continued slow economic growth and high unemployment, the public sector has increasingly served as the employer of last resort, inflating public payrolls and wage bills. In addition, several countries in the region maintain extensive generalized subsidies and devote large portions of their budgets to military spending.

Confronted with persistent deficits since the early 1970s, some countries have pursued tax reforms (Lebanon and Sudan) and improved transparency and expenditure control (Pakistan and Mauritania). And some progress has been made on privatization, particularly in the region's telecommunications sector. Nonetheless, the process of rationalizing the role of the state and adapting it to the requirements of a modern, competitive economy remains incomplete.

Strengthen education reforms. The region has made significant progress in raising the education levels of its population—in a sample of 12 countries, the average years of schooling increased from 1.3 years in 1970 to 4½ years in 2000, and access to good schools has increased dramatically as well. But the quality of education and training has not advanced correspondingly. Education systems are characterized by fragmented management structures spread across several ministries, inflated administrative bureaucracies, and a spending bias toward higher, rather than primary, education. While in some countries—such as Jordan, Lebanon, Syria, and Tunisia—male-to-female education ratios are converging, in many other countries, enrollment rates, years of schooling, and literacy rates remain distinctly lower for females. More needs to be done to close the gap between male and female access to education.

Some progress made, but governance remains weak
(percent[1])



[1]For each indicator, percent of countries worldwide that rate below selected region. Higher score for an indicator shows a better outcome. Aggregates are simple averages.
[2]Includes the Caribbean.
Data: Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi, 2003, "Governance Matters III: Governance Indicators for 1996–2002," draft World Bank Discussion Paper (Washington)

Modernize financial markets. From the 1970s through the mid-1980s, the region made significant strides in financial sector development. Some countries, such as the Gulf Cooperation Council (GCC) countries, Lebanon, and Jordan, now possess well-developed banking sectors. Overall, however, the region's financial markets remain fragmented and are dominated by traditional banking activity. As a result, financial sectors have not played the intermediation role needed to accelerate the pace of investment and growth. While the region has been a net exporter of capital for the past 30 years, the financial sector has failed to develop the capacity to channel a significant portion of these savings into long-term productive

investment. In many cases, banking systems are predominantly owned or controlled by the state, with considerable exposure to government debt, weak regulatory and enforcement capacity, inadequate management skills, and weak links to international capital markets.

Afghanistan is receiving considerable assistance to address severe poverty and urgent health care needs.

Continue trade liberalization. Trade regimes vary across the region. Many countries—notably the GCC countries, Mauritania, and Yemen—are generally open to free trade, but several continue to maintain relatively high tariffs and nontariff barriers, despite recent trade liberalization efforts. Overall, the region has a higher degree of trade restrictiveness than other regions, although there has been improvement over the past six years. In terms of nontariff barriers, the countries are not that different from developing countries as a group.

Adopt appropriate exchange rate policies. About half of the countries in the region have fixed exchange rates, and another one-fourth have exchange rate regimes that are near-fixed, such as pegs or moving pegs with narrow bands. While some countries, such as those of the GCC, have benefited from using a pegged exchange rate, the choice of an exchange rate regime has not always been appropriate. Countries have tended to delay adjustment in the presence of clear real exchange rate appreciation or have hesitated to exit an inflexible arrangement when this was called for.

Inappropriate exchange rate policies and the inability to successfully address the closely related phenomenon of the "resource curse," typically associated with countries with rich natural resources or large foreign exchange inflows, contribute to the slow growth of non–oil exports from the region. Inflexible exchange rate policies, among other factors, may also have delayed the development of monetary policy frameworks (for example, inflation targeting) that are more suitable for emerging market economies seeking to integrate more fully into the world economy. Such economies include those of Egypt, Jordan, Lebanon, Morocco, and Tunisia.

Some countries—for instance, Egypt and the Islamic Republic of Iran—have recently made progress in making their exchange rate policies more flexible. Such flexibility is important for the continuing efforts of these countries to undertake structural reforms that promote economic efficiency and stimulate trade and investment.

Boosting growth, creating jobs

What can the region do to reignite and sustain high output and employment growth, better integrate with the global economy, and better manage the booms and busts in oil prices?

Over the past 20 years, the region has made clear progress on macroeconomic reforms and has moved on structural reforms, but these have not gone far enough to address deep-rooted problems or seriously tackle the area's governance and institutional reform issues. Accelerated and broad action is needed on these fronts, including a fundamental reassessment of the role of the state in the economy and the creation of a rules-based regulatory environment.

Greater efforts are also needed to accelerate trade liberalization, reform financial and labor markets, and improve transparency, governance, and the quality of state institutions. Economic liberalization should seek to ensure fair and open competition in which market forces could create opportunities for a more efficient allocation of resources and support private sector investment and growth.

Oil-exporting countries need to cushion the effects of booms and busts in the oil markets and, over the longer term, take into account intergenerational equity considerations in mapping out strategies for government spending, investment, and financing of government operations.

While all countries in the region need to maintain macroeconomic stability and pursue structural reforms, it is the reform of public and private sector institutions that, in the final analysis, will make the difference. A more determined and sustained drive by MENA countries toward a more open and democratic society, embracing fundamental structural and institutional reform, appears to be the best assurance that the region, with its rich civilization and abundant natural resources, can achieve its potential for higher growth rates and a decent and dignified life for the 500 million human beings who live in it. ■

Photo credits: Denio Zara, Padraic Hughes, and Michael Spilotro for the IMF, pages 1, 2, 3, 17, 19, 21, 24, 29, and 31; Ahmed Jadallah for Reuters, page 1; Government of Mali, page 3; Leila Gorchev for AFP Photo, page 4; Romeo Ranoco for Reuters, page 6; AFP, page 18; Aizar Raldes for AFP Photo, page 20; George Mulala for Reuters, page 22; IMF staff, pages 22 and 23. Illustrations: Massoud Etemadi, pages 8–9; Miel, 13–15.

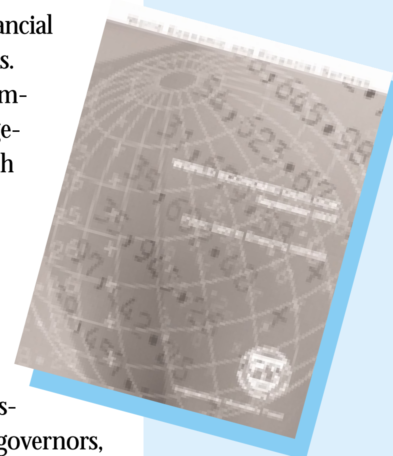
Effective surveillance and crisis prevention

Helping IMF members reduce vulnerabilities, promote stability, and foster growth

IMF surveillance of national and global economic and financial developments has intensified in recent years. In today's global economy, economic developments and policy decisions in one country are more likely than in the past to affect other countries significantly, and financial market information is transmitted around the world instantaneously. In such an environment, it is more important than ever before that developments and policies be monitored so that tensions and imbalances are identified before major problems or crises arise. The IMF fills this need by holding regular dialogues with its member countries about their economic and financial policies and by continuously monitoring and assessing economic and financial developments at the country, regional, and global levels. Through its surveillance operations, the IMF seeks to signal dangers on the economic horizon and enable its member countries to take early corrective policy action.

Country surveillance. The IMF holds regular consultations—normally once a year—with each member country about its economic policies. (These "Article IV consultations" are required by Article IV of the IMF's Articles of Agreement.) The consultations focus on the member's domestic demand pressures, inflation, and unemployment; developments in exchange rate, fiscal, and monetary policies; its balance of payments and its external liabilities and assets; the influence of its policies on the country's 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 and 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 increasingly important to IMF surveillance in the wake of financial crises and in the context of member countries' transition from planned to market economies.

Global surveillance. The Executive Board's conduct of global surveillance relies heavily on two staff reports—the semiannual *World Economic Outlook* and the *Global Financial Stability Report*—and also on more frequent discussions of world economic and market developments. The *World Economic Outlook* offers a comprehensive analysis of prospects for the world economy, individual countries, and regions and examines policy issues. It also explores selected topical issues in depth. The *Global Financial Stability Report* was introduced in March 2002—building on earlier international capital market reports—to provide timely and comprehensive analysis of developments in both mature and emerging financial markets and to identify potential fault lines in the global financial system that could lead to problems and crises.



Regional surveillance. The IMF also examines policies pursued under regional arrangements. It holds regular discussions with such regional economic institutions as the European Union, the European Central Bank, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Eastern Caribbean Currency Union. The IMF also takes part in policy discussions of finance ministers, central bank governors, and other officials in such groups as the Group of Seven major industrial countries, the Asia-Pacific Economic Cooperation forum, and the Maghreb countries associated with the European Union.

Improving surveillance's effectiveness

The IMF has taken a variety of measures in recent years to enhance the effectiveness of its surveillance. Successive internal and external reviews have pointed to five key ingredients of effective surveillance: timely, comprehensive, and accurate information; focused, high-quality analysis; openness to different perspectives to minimize the risk of "tunnel vision"; effective communication of assessments to the authorities and the public; and desired impact on members' policy decisions.

To strengthen its surveillance, the IMF has taken steps to

- improve the data that members provide to the IMF and the data that are disseminated to the public;
- provide more systematic financial sector surveillance, particularly through the joint IMF–World Bank Financial Sector Assessment Program (FSAP);
- create a new analytical framework for debt sustainability assessments, which is being used in surveillance reports for members with significant capital market access, as well as in reports on members' requests for IMF loans;

• strengthen the assessments of policy frameworks and institutions in the context of internationally recognized standards and codes;

• significantly expand the IMF's contribution to efforts to combat money laundering and the financing of terrorism, including through a 12-month pilot program begun in October 2002;

• improve the transparency of countries' policies and data; and

• strengthen surveillance in countries with IMF-supported programs to help ensure that economic conditions and policies are reassessed from a fresh perspective.

The IMF has identified six areas in which further work and reflection would be useful. First, there is a continuing need to build on progress with vulnerability assessments and better calibrate the IMF's policy advice on buffers against outside shocks. Second, the IMF will look at ways to integrate insights from cross-country experiences more systematically into surveillance. Third, the IMF will seek to enhance its analysis and reporting of political issues relevant to economic policies. Fourth, more attention should be given to the impact of economic policies of countries that are systemically and regionally important, including the global effects of their trade policies. Fifth, the IMF must continue to ensure the candor of the diagnosis and policy recommendations in the staff's surveillance reports while making further efforts to boost publication of these reports. Sixth, the IMF should continue looking for ways to enhance the role of surveillance in program countries.

Data provision. Comprehensive, timely, and accurate economic data are critical for well-informed national policymaking and for effective surveillance. Over time, with the extension of the coverage of surveillance and the need for more continuous monitoring, data requirements for surveillance have expanded. In recent years, attention has focused on timely provision of data on external reserves, foreign currency liquidity, and external debt and on other data needed for in-depth assessments of vulnerability to crises.

Financial sector surveillance and the FSAP. The FSAP, which began in 1999, is the international community's key tool for strengthening the monitoring of financial systems. The FSAP provides a comprehensive framework for identifying financial sector vulnerabilities, strengthening the analysis of links between macroeconomic and financial sector developments, and identifying development needs in the financial sector. It is a major source of inputs for IMF surveillance on financial sector policies, institutions, and vulnerabilities and is complemented by a range of instruments designed to enable more continuous and effective financial sector surveillance. Among the instruments are focused updates, work undertaken during Article IV consultations, and continuous monitoring of financial sector developments at IMF headquarters.

The IMF uses many of the diagnostic tools developed for the FSAP in its work on offshore financial centers. This work helps members identify gaps and reduce potential vulnerabilities in their financial systems and improves the statistical coverage of the activities of offshore financial centers. Reviews of these centers evaluate financial regulation and supervision in jurisdictions with significant offshore financial activity to help safeguard the stability and integrity of their financial systems.

Improving sustainability analysis. In June 2002, the Executive Board discussed and endorsed a new framework for judging debt sustainability—that is, whether a country's external and public debts can be serviced without an unrealistically large correction to its balance of income and expenditure. The new framework provides a check of the baseline projections on which sustainability is assessed. It does this by clarifying the underlying assumptions about key variables, including GDP growth, real interest rates, exchange rates, and primary fiscal or external imbalances, and by highlighting their implications. It introduces standardized parameters for stress testing the program baseline to identify the extent to which sustainability hinges on a macroeconomic outcome more favorable than those experienced in the past and to help ensure the robustness of the program against plausible shocks. In July 2003, following a review of the framework, several enhancements were adopted, including the use of scenario analyses to complement stress tests and strengthened treatment of contingent liabilities.

International standards. The standards and codes initiative is part of the international community's strategy to improve the stability of the global financial system. It is designed to strengthen countries' financial and economic institutions, promote good governance and transparency, enhance the accountability and credibility of economic policy, and reduce vulnerability to financial crises. The initiative also contributes to enhancing coverage of institutional

issues in IMF surveillance. Accelerated in the wake of the Asian financial crises of the late 1990s, the initiative began with the establishment of the IMF's Special Data Dissemination Standard (SDDS) in 1996 and now covers 12 key policy areas, offering policymakers benchmarks of good practice.

The standards can be grouped into three main categories: transparency (focused on data and on fiscal, monetary, and financial policy); financial sector (banking supervision, securities, insurance, payment systems, and the combating of money laundering and the financing of terrorism); and market integrity for the corporate sector (corporate governance, accounting, and auditing).

Voluntary assessments of member countries' observance of standards and codes in these 12 areas (through Reports on the Observance of Standards and Codes (ROSCs)), initiated in 1999, have since become established in the IMF and the World Bank. The standards initiative has also attracted growing attention from financial market participants and ratings agencies.

Combating money laundering and the financing of terrorism. Money laundering is the process of moving or concealing assets obtained or generated by criminal activity. Terrorist activities are sometimes funded from the proceeds of illegal activities, and perpetrators attempt to find ways to launder the funds to use them without drawing the attention of the authorities. Detecting and tracing such funds can be extremely difficult, and even the best anti–money laundering measures are not always effective. The Financial Action Task Force (FATF) has primary responsibility for developing a worldwide framework for combating money laundering, in close cooperation with relevant international organizations.

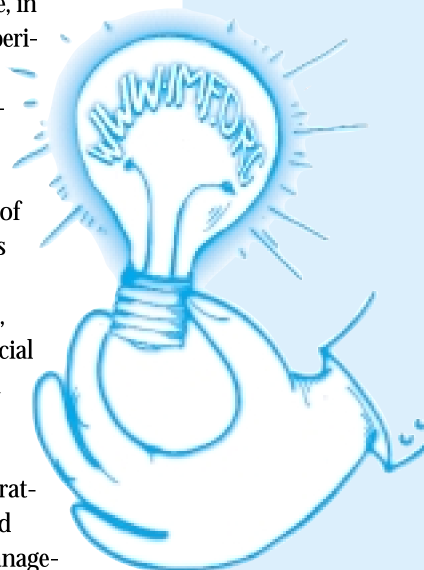
Over the past year and a half, the IMF has significantly intensified its contribution to international efforts to combat money laundering and extended that contribution to combat the financing of terrorism. In cooperation with the World Bank, it has

• added the FATF 40 recommendations and 8 special recommendations on anti–terrorist financing to the list of areas and associated standards and codes useful to the operational work of the IMF and for which ROSCs can be prepared;

• begun, in October 2002, a 12-month pilot project assessing country efforts to combat money laundering and the financing of terrorism. These assessments take place in the context of ROSCs and involve the participation of the IMF, the World Bank, the FATF, and FATF-style regional bodies; and

• substantially increased technical assistance to members to help them strengthen their financial, regulatory, and supervisory frameworks and prevent money laundering and terrorism financing.

Transparency. The IMF's Executive Board has adopted a series of measures to improve the transparency of members' economic policies and financial data and to enhance the institution's own transparency and external communications. In taking steps to enhance the IMF's transparency, the Executive Board has had to consider how to balance the IMF's responsibility to oversee the international monetary system with its role as a confidential advisor to its members. As part of its regular reassessment of this balance, in September 2002, the Board reviewed experience with the IMF's transparency policy. The key elements of this policy for documents are



• voluntary publication (that is, with the consent of the country concerned) of staff reports on Article IV consultations and use of IMF resources;

• a presumption that letters of intent, memorandums of economic and financial policies, and other documents stating a government's policy intentions will be published;

• publication of poverty reduction strategy papers (PRSPs), interim-PRSPs, and PRSP progress reports, required for management to recommend their endorsement by the Executive Board;

• voluntary publication of public information notices (PINs) following Article IV consultations and Board discussions on regional surveillance papers, concluding mission statements, background documentation for Article IV consultation discussions, and documentation for staff-monitored programs;

• a presumption that staff reports on policy issues will be published, together with PINs; and

• public access, in the IMF's archives, to Executive Board documents that are over 5 years old, to minutes of Executive Board meetings that are over 10 years old, and to other documentary materials that are over 20 years old, subject to certain restrictions.

Surveillance in countries with IMF-supported programs. Countries with IMF-supported programs need periodic reassessments of economic conditions and policies in light of changing domestic and global conditions. To help ensure that IMF surveillance does provide such reassessments from a fresh perspective, the IMF is clarifying the substantive content of surveillance for countries with IMF-supported programs and is modifying the timing of Article IV consultations so that they take place when policy reassessments will be most useful. ■

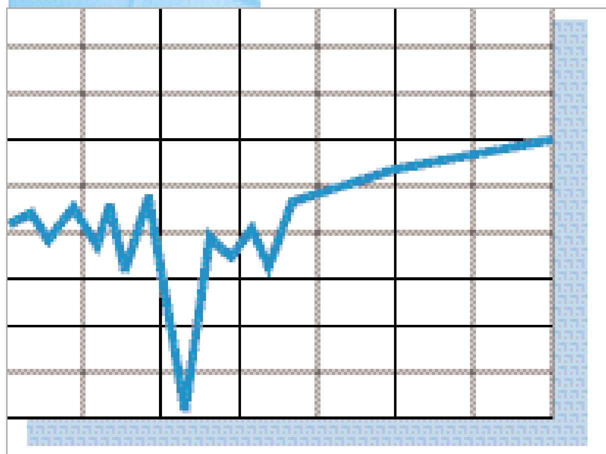
Crisis resolution

Work continues on strengthening IMF framework for crisis resolution

Crisis prevention is the primary focus of the IMF's reform agenda, but work is also continuing on ways to improve the management and resolution of the financial crises that do occur. Indeed, a stronger and clearer framework for crisis resolution is expected to help lessen the number and severity of crises. The IMF is seeking to combine a clearer policy on access to IMF resources and greater selectivity in its lending with an examination of possible approaches to strengthening the mechanisms for restructuring unsustainable sovereign debt.

Clearer, more predictable access

Increasing international integration of financial markets in recent decades has helped emerging market countries finance investment and economic activity but has also exposed these countries to the risk of crises caused by rapid reversals of capital flows. In some cases, the IMF has supported member countries' efforts to resolve such crises by providing large amounts of financing. In Mexico in 1995, during the Asian crises of 1997–98, and subsequently, the IMF has provided financing in amounts well above the access limits normally applied to Stand-By and Extended Fund Facility arrangements.



Large access will sometimes continue to be necessary if the IMF is to provide meaningful assistance to members facing capital account crises, but the policy on exceptional access has needed to be strengthened to ensure that such access remains exceptional. The IMF's Executive Board reviewed the policy framework for exceptional access in early 2003 and agreed that more clearly defined criteria for such access in capital account crises were needed to help shape the expectations of members and markets, set up benchmarks for difficult decisions about program design and access, safeguard IMF resources, and ensure uniform treatment of members. At a minimum, the Board agreed, the following criteria would need to be met to justify exceptional access in a capital account crisis:

- The member must be experiencing exceptional balance of payments pressures on the capital account, resulting in a need for IMF financing that cannot be met within the normal limits.
- A rigorous and systematic analysis must indicate a high probability that debt will remain sustainable.
- The member has good prospects of regaining access to private capital markets within the time IMF resources would be outstanding, so that the IMF's financing would provide a bridge.
- There is a reasonably strong prospect that not only the member's policies but also its institutional and political capacity are sufficiently strong to implement adjustment.

The IMF's Executive Board also agreed on stronger procedures for decision making on all requests for exceptional access. These procedures include a higher burden of proof in indicating the justification for the scale of access, early consultations with the Executive Board on program negotiations (based on a concise staff note outlining the considerations), and evaluation of programs with exceptional access within a year of the end of the arrangement. The ways in which these criteria and procedures are applied in practice will, however, be decisive, and a review of implementation is planned by the end of 2004.

Clarifying policy on arrears

When a member is experiencing difficulties in servicing its debt obligations to its external private creditors, discussions on restructuring that debt can be difficult and protracted, and an agreement may not be reached before the emergence of arrears. In such a case, the IMF stands ready to provide resources to the member when prompt support is essential for the success of its adjustment policies and the member is making a good-faith effort to reach a collaborative agreement with its creditors.

In September 2002, the IMF's Executive Board reviewed recent experience in restructuring sovereign bonds and the application of the good-faith criterion. It agreed that greater clarity about the good-faith dialogue between a debtor and its creditors could better guide the application of lending into arrears and, more generally, promote a better framework for the engagement of debtors and creditors in the restructuring of sovereign debt.

To guide the dialogue between debtors and their private external creditors, the Board considered that the following principles would strike an appropriate balance:

• When a member decides that a restructuring of its debt is necessary, it should engage in an early dialogue with its creditors and continue this dialogue until the restructuring is complete.

• The member should share relevant, nonconfidential information with all creditors on a timely basis. This information should allow creditors to evaluate the member's need for a restructuring and its consistency with proposed adjustment policies and the financing envelope.

• The member should provide creditors with an early opportunity to give input on the design of restructuring strategies and individual instruments. In complex cases that warrant an organized negotiating framework and where creditors have been able to form a representative committee on a timely basis, it is expected that the member will enter into good-faith negotiations with this committee.

Unsustainable sovereign debt

In relatively rare cases, however, sovereign debt can become unsustainable. The IMF has been engaged in an active debate on how best to deal with these cases. There are several challenges to a successful restructuring. Sound macroeconomic and structural policies are clearly critical. Transparency and predictability in the restructuring process are also important to permit better informed due diligence and decision making and to ease the task of achieving adequate intercreditor equity. Another challenge is effective collective action by creditors. In particular, there is a danger that individual creditors will decline to participate in a voluntary collective restructuring in the hope of recovering payment on the original contractual terms. Creditors as a group are best served by agreeing to a restructuring, but the "free rider" problem can make it more difficult to reach agreement on a restructuring.

Given that protracted restructurings are in no one's best interests, the IMF has been working on possible approaches to improving the existing framework for resolving sovereign restructuring cases—in particular through the inclusion of collective action clauses in sovereign bond contracts. The IMF also worked on the design of a statutory framework for sovereign debt restructuring, a sovereign debt restructuring mechanism.

These approaches could be complemented by a voluntary code of conduct—a set of standards for transparency and best practices—that could help guide debtors and their creditors in a broad spectrum of circumstances, ranging from relative tranquility to acute stress. The IMF welcomes private and public sector initiatives in this area and supports their development. It is clear, however, that a code can be effective only if it is able to attract broad support from debtors and their creditors.

Collective action clauses. Collective action clauses (CACs) in international sovereign bond instruments are designed to facilitate more orderly and rapid debt restructuring in the rare cases of unsustainability when a sovereign needs to restructure its debt. CACs are provisions in bond contracts that enable the sovereign and a qualified majority of its bondholders to make decisions that become binding on all bondholders within the same issuance.

The IMF has long recognized the role of CACs in helping to resolve the collective action problem. It promotes the more widespread use of those types of provisions that already exist in many international sovereign bond contracts. Perhaps the most important provision is the *majority restructuring provision*, which enables a qualified majority of bondholders within the same issuance to bind all bondholders to the terms of a restructuring agreement, either before or after default. In addition, *majority enforcement provisions* enable a qualified majority of bondholders to prevent individual creditors from taking disruptive legal action before a restructuring agreement is reached. While majority restructuring provisions currently exist in sovereign bonds governed by English law, bonds governed by New York law (which represent the largest portion of the emerging market sovereign bond market) have traditionally not included these provisions.

The IMF has been encouraged by developments over the past year with respect to both the design of majority restructuring and majority enforcement clauses and the incorporation of such clauses into bonds governed by New York law (see box, page 12). However, given the outstanding stock of bonds that do not include CACs, it will take some time before these clauses are included in most international bonds.

The IMF's Executive Board has agreed that the organization should more actively promote the use of CACs through its bilateral and multilateral surveillance and its outreach work. All member countries, both advanced and developing, should be encouraged to include CACs in their international bond instruments. IMF staff has been encouraged to hold a more active dialogue with emerging market issuers, with a view to promoting the use of CACs in the New York market as well as in other markets, such as Germany, where CACs are not the norm. Progress by mature market economies in the use of CACs in

international bond issuance would further strengthen these efforts. In the latter part of 2003, the IMF staff is expected to hold workshops with key issuers and legal practitioners on ways to promote CACs.

Sovereign debt restructuring mechanism (SDRM)
The second approach pursued by the IMF for resolving unsustainable sovereign debt situations—an SDRM—would differ from CACs in two key ways: it would create a legal framework that would allow collective action for all instruments, including those that required unanimity to restructure the financial terms; and it would aggregate the votes of similarly situated creditors holding participating debt instruments, allowing a single vote to restructure multiple debt instruments.

While the International Monetary and Financial Committee's April 2003 communiqué emphasized that the extensive analysis and consultation undertaken in developing the SDRM proposal had served to promote better understanding of the issues to be addressed, it recognized that it was not feasible at that time to move forward to establish an SDRM. The committee agreed that work should continue on issues of general relevance to the orderly resolution of financial crises. These issues include intercreditor equity considerations, enhancing transparency and disclosure, and aggregation. The IMF's Managing Director will report on progress at the Committee's September 2003 meeting. ■

Collective action clauses: latest developments

In September 2002, a Group of 10 working group proposed a set of clauses, based on English law, that reflect the principles of fostering early dialogue, ensuring effective recontract, and minimizing litigation by minority creditors. In early 2003, the group published its work on a set of model clauses designed to illustrate how these recommendations could be implemented. A group of private sector capital trading associations also published proposals for developing model clauses.

There have also been a number of steps in both mature and emerging markets on the use of CACs. In September 2002, European Union (EU) finance ministers stated that, beginning in June 2003, their member countries committed to issuing bonds in foreign jurisdictions with CACs that reflect the recommendations of the Group of 10 working group on contractual clauses. Italy has already launched such bonds. Although these bonds represent a small part of the overall bonds issued by EU countries, the EU represents a sizable portion of the global bond market and, thus, could influence market practice in the jurisdictions of New York and Germany, which traditionally have not included majority restructuring provisions.

At the end of 2002, international sovereign bonds with CACs issued by emerging markets amounted to about 30 percent of total sovereign bonds issued by these markets. In March and April 2003, Mexico twice issued bonds governed by New York law that included majority restructuring and majority enforcement provisions. (Lebanon (2000), Qatar (2000), and Egypt (2001) had also issued bonds with majority restructuring provisions governed by New York law, but the earlier inclusion of these clauses went unnoticed by the markets.) Mexico's issuances were successful in that they were oversubscribed, and an analysis of the Mexican sovereign yield curve provided no evidence that the price, either at the launch or in secondary market trading, reflected a yield premium for the inclusion of CACs.

Also in April 2003, a global bond issuance by Brazil—governed by New York law and including CACs—was heavily oversubscribed and again showed no evidence that there was a cost associated with the use of CACs. Other emerging market issuers—South Africa, Korea, and Belize—followed with new international bonds governed by New York law and including CACs.

In May 2003, Uruguay issued New York law bonds with CACs following the successful completion of a debt exchange operation, marking the first time a sovereign issued such bonds in the context of a distressed restructuring. Uruguay's bonds also included an aggregation clause, allowing bondholders to bind any future restructuring agreement across multiple issues.

Emerging markets sovereign bond issuance[1]

	2001				2002				2003[2]		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Issues with CACs[1]											
Number	14.0	10.0	2.0	10.0	6.0	5.0	2.0	4.0	9.0	15.0	0
Volume (billion U.S. dollars)	5.6	4.8	1.8	2.2	2.6	1.9	0.9	1.4	5.6	11.6	0
of which: New York law		1.5							1.0	5.9	
Issues without CACs[1]											
Number	16.0	17.0	6.0	18.0	17.0	12.0	5.0	10.0	14.0	5.0	3.0
Volume (billion U.S. dollars)	6.7	8.5	3.8	6.1	11.6	6.4	3.3	4.4	8.1	3.4	1.0

Data: Capital Data.

[1]With CACs are English and Japanese law bonds where relevant. Without CACs are German and New York law bonds.
[2]Data for 2003-Q3 are as of July 15, 2003.

IMF lending

Helping members pursue sound policies

The volume of financing that the IMF has provided to its members has fluctuated significantly over time. The oil shocks of the 1970s and the debt crisis of the 1980s were followed by sharp increases in IMF financing. In the 1990s, the transition in Central and Eastern Europe and the former Soviet Union from centrally planned to market economies and the crises in emerging market economies led to further surges in the demand for IMF financing. Only member countries of the IMF can borrow from it.

How does the IMF provide financing?

The IMF provides temporary financial assistance to members with balance of payments problems, in support of policies aimed at correcting them. Unlike development banks, the IMF does not provide financing for specific purposes or projects (see "IMF at a glance," page 32). The IMF's financial assistance must be approved by the Executive Board.

The IMF extends its financing through two main channels:

- Nonconcessional financial assistance is made available—subject to interest at or above the IMF's standard rate of charge—through a number of policies and facilities designed for specific balance of payments problems. The applicable rates of charge and the repurchase (repayment) periods vary by policy or facility.
- Concessional (low-interest) loans are provided through the Poverty Reduction and Growth Facility (PRGF) Trust to qualifying low-income member countries encountering protracted balance of payments problems to help them foster durable growth and reduce poverty while addressing balance of payments problems.

The IMF can also create international reserve assets by allocating SDRs (see page 25) to members, which they can use to obtain foreign exchange from other members and to make payments to the IMF. There has been no allocation of SDRs since 1979–81.

Nonconcessional financing is provided under different facilities and policies (see page 14). The main ones are the credit tranche policies, which provide the basis for Stand-By Arrangements intended to address members' short-term balance of payments difficulties, and the Extended Fund Facility (EFF), the basis for extended arrangements that focus on external payments difficulties associated with longer-term structural problems that call for deeper reforms. Financing under these facilities can be supplemented with very short term resources under the Supplemental Reserve Facility (SRF) to assist members experiencing sudden and disruptive losses of access to international capital markets. The amount of financing a member can obtain from the IMF is generally based on the size of its capital subscription (or quota).

The IMF has also developed special facilities to provide assistance for certain specific balance of payments difficulties, such as those that occur after a conflict or a natural disaster.

To discourage excessive reliance upon IMF resources and to ensure the revolving character of its resources, the IMF levies surcharges on financing outstanding above a certain level. The IMF also levies surcharges on SRF resources.

The IMF introduced accelerated repurchase schedules—"repurchase expectations"—to encourage early repayment of IMF financing. Members are expected to repurchase on the accelerated schedule (in advance of the standard repurchase schedule). Members unable to meet the accelerated repurchase schedule may request an extension, but not beyond the standard repurchase schedule.

IMF financing in 2002/2003

New IMF loan commitments in financial year 2002/2003 (ended April 30, 2003) were dominated by a large Stand-By Arrangement for Brazil. In addition, large new arrangements for Colombia and Argentina, as well as two augmentations of the existing arrangement for Uruguay, kept the level of total commitments in the financial year relatively high, with new commitments amounting to SDR 29.4 billion compared with SDR 39.4 billion in financial year 2001/2002.

Under the IMF's nonconcessional financing facilities, the IMF approved 10 new Stand-By Arrangements involving commitments totaling SDR 27.1 billion, and the commitment to Uruguay

under the Stand-By Arrangement already in place was augmented by SDR 1.5 billion. In addition, two EFF Arrangements were approved in financial year 2002/2003: SDR 0.7 billion for Serbia and Montenegro and SDR 0.1 billion for Sri Lanka. Burundi, Grenada, and Malawi made small purchases under the IMF's policy of emergency assistance. No commitments were made under the IMF's Compensatory Financing Facility (CFF) or Contingent Credit Lines (CCLs) during the year.

During financial year 2002/2003, the IMF disbursed SDR 21.7 billion in loans from its quota resources. The amount of new financing exceeded the repurchase of amounts extended in earlier years. Total repurchases were SDR 7.8 billion, including early repurchases by Croatia (SDR 0.1 billion, which eliminated its outstanding IMF financing), Thailand (SDR 0.1 billion), Estonia, the Kyrgyz Republic, and Lithuania. Thus, IMF financing outstanding at the end of the financial year amounted to a record high of SDR 66 billion, SDR 13.9 billion more than a year earlier.

IMF financial facilities: terms and conditions

Stand-By Arrangement and Extended Fund Facility

• ***Stand-By Arrangement (1952):*** Addresses short-term balance of payments difficulties; the length of arrangements is typically 12–18 months, with a legal maximum of 3 years.

Normal access limits: Annual: 100 percent of quota; cumulative: 300 percent of quota in combination with Extended Fund Facility.

Maturities (expected repayment)/(obligatory repayment): 2½–4 years / 3¼–5 years.

Charges: Basic rate of charge + level-based surcharges in combination with Extended Fund Facility of 100 basis points on amounts above 200 percent of quota, and 200 basis points above 300 percent of quota.

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

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

• ***Extended Fund Facility (1974):*** Provides longer-term assistance to support structural reforms that address longer-term balance of payments difficulties.

Normal access limits: Annual: 100 percent of quota; cumulative: 300 percent of quota in combination with Stand-By Arrangement.

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

Charges: Basic rate of charge + level-based surcharges in combination with Stand-By Arrangement 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 purchases contingent on observance of performance criteria and other conditions.

Special facilities

• ***Supplemental Reserve Facility (1997):*** Provides short-term assistance for balance of payments difficulties related to a sudden and disruptive loss of market confidence.

Access limits: None; this facility is available only when access under 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 500 basis points after 2½ years. The Supplementary Reserve Facility surcharge is 300 basis points initially, rising by 50 basis points one year after the first purchase and every six months thereafter, up to a maximum of 500 basis points.

Conditions: Available only in context of a regular arrangement with associated program and 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 purchases; subject to conditionality.

• ***Contingent Credit Lines (1999):*** Serve as a precautionary line of defense for members with strong track records of good policies in normal times to help them resist external financial contagion. The IMF will review this facility prior to its expiration in November 2003.

Access limits: None, but in practice expected to be 300–500 percent of quota.

Maturities (expected repayment)/obligatory repayment): 1–1½ years / 2–2½ years.

Charges: Basic rate of charge + 150 basis points rising to 350 basis points after 2½ years. The CCL surcharge is 150 basis points initially, rising by 50 basis points one year after the first purchase and every six months thereafter, up to a maximum of 350 basis points.

Conditions: Commitment criteria: at the time of commitment, unlikely to need to use IMF resources and not

In February 2003, the repurchase expectations introduced at the time of a review of IMF facilities completed in financial year 2001 began to take effect. In financial year 2002/2003, repurchase expectations arose for four members: Argentina, Bosnia and Herzegovina, Pakistan, and Turkey. In February–March 2003, Bosnia and Herzegovina, Pakistan, and Turkey repurchased SDR 0.1 billion on the expectations schedule. For Argentina, repurchase expectations arising in financial year 2002/2003 (SDR 0.3 billion) and in financial year 2003/2004 (SDR 0.4 billion) have been extended by one year in the context of the arrangement granted by the IMF in January 2003. Repurchase expectations arising in financial year 2003/2004 have also been extended for Ecuador, Sri Lanka, and Uruguay. As of April 30, 2003, IMF financing amounting to SDR 32.9 billion was sub-ject to early repurchase expectations under the policies adopted in November 2000; in addition, SDR 28.7 billion was subject to the new surcharges on high levels of IMF financing also introduced at that time. ■

facing defined balance of payments difficulties; positive assessment of policies by the IMF; constructive relations with private creditors and satisfactory progress in limiting external vulnerability; satisfactory economic program.

Phasing and monitoring: Resources approved for up to one year. Small purchase (5–25 percent of quota) available on approval. Presumption that one-third of committed resources will be released on activation, with the disbursement of the remainder determined by a postactivation review.

• ***Compensatory Financing Facility (1963):*** Covers a shortfall in a member's export earnings and services receipts as well as an excess in cereal import costs that are temporary and arise 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: Available only when a member has an arrangement with upper credit tranche conditionality 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 international armed conflict.

Access limits: 25 percent of quota, although up to an additional 25 percent of quota 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 rate of charge subsidy if financing is available; rate of charge only for low-income countries receiving emergency postconflict assistance.

Conditions: Notably, 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 Trust; IMF support would be part of a concerted international effort to address the aftermath of the conflict in a comprehensive way.

Phasing and monitoring: Typically none.

Facility for low-income members

• ***Poverty Reduction and Growth Facility (1999):*** Provides longer-term assistance for deep-seated, structural balance of payments difficulties; aims at sustained, poverty-reducing growth (replaced the Enhanced Structural Adjustment Facility, created in 1987).

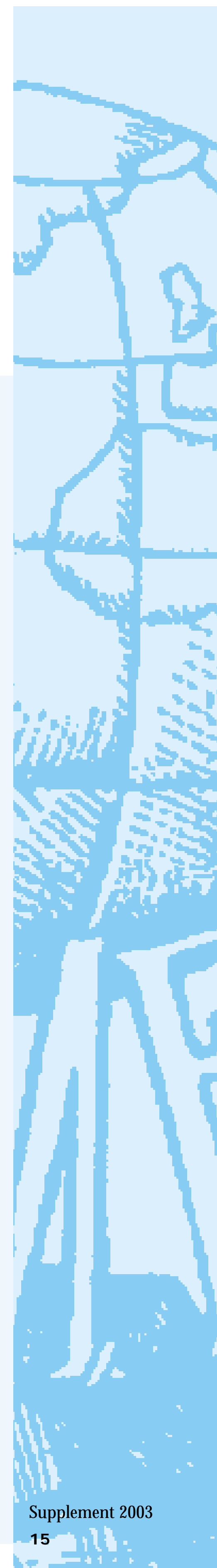
Access limits: 140 percent of quota; exceptional maximum, 185 percent.

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 (PRSP) prepared by the country in a participatory process, and integrating macro, structural, and poverty reduction policies.

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



Conditionality

IMF approves new conditionality guidelines, emphasizes country ownership of reforms

When the IMF provides financial support to a member country to help it resolve balance of payments problems, its support is conditional on the country's implementation of the policy adjustments and the reforms needed to correct the problems that gave rise to the balance of payments difficulties.

How does conditionality work?

A country requesting financing from the IMF prepares a "Letter of Intent" outlining the authorities' policy intentions during the program period. In many cases, the authorities also undertake policy actions prior to the IMF Executive Board's approval of the requested financing, as a condition for that approval. The IMF's financing is usually provided in installments; each installment is conditional on the country's meeting specified performance criteria that indicate whether the policies envisaged have been carried out.

In addition, the IMF periodically reviews a country's progress in relation to the program objectives. Such reviews are often guided in part by structural benchmarks against which progress can be assessed. A program review must be completed to the satisfaction of the Executive Board for the IMF's financing to continue.

Why is it necessary?

IMF financing helps to solve a country's balance of payments problems temporarily. A lasting solution, however, requires policy adjustments and reforms. Conditionality ensures that IMF financing goes hand in hand with corresponding policy actions and is thereby used to support a lasting solution to a country's balance of payments problems. By the same token, the country is assured that if it continues to implement appropriate policies, it will continue to receive IMF financing.

How has IMF conditionality evolved?

Conditionality has evolved over the IMF's history as the circumstances and challenges facing its members have changed. Since the 1950s, the IMF has attached conditions to its financing arrangements, focusing initially on monetary, fiscal, and exchange rate policies.

Beginning in the late 1980s, the IMF became increasingly involved in providing assistance to countries whose institutional weaknesses and structural distortions were central to their macroeconomic problems. This was particularly true in low-income countries and in countries in transition from centrally planned economies. To an increasing extent, IMF financing was made conditional on these countries' efforts to tackle their institutional and structural problems. This change in emphasis was reflected in the average number of structural conditions in IMF-supported programs, which climbed from 2 or 3 structural conditions a year in the mid-1980s to 12 or more by the second half of the 1990s.

The increase in the number of structural conditions raised concerns that the IMF might be overstepping its mandate and expertise. Excessively detailed policy conditions can undermine a country's sense that it is in charge of its own reforms. Without such "ownership," reform will not happen. Moreover, poorly focused conditionality can overburden countries if they attempt to implement nonessential reforms at the expense of reforms truly needed for economic growth and a sustainable external position.

What are the new guidelines?

In September 2000, the IMF's Managing Director issued interim guidelines on streamlining structural conditionality that set out general principles. In September 2002, the Board approved new conditionality guidelines, the first revision since 1979. The new guidelines emphasize the need to focus conditionality on policies that are critical to achieving the macroeconomic objectives of IMF-supported programs. They also aim to establish a clearer division of labor with other international institutions, especially the World Bank. The guidelines are based on an increasing recognition of the importance of several interrelated principles, including

- national ownership of policy reforms;
- parsimony in the application of program-related conditions;
- tailoring of programs to the member's circumstances; and
- clarity in the specification of conditions.

How should conditionality be applied?

Conditions should be focused on policy measures that are critical to achieving the program objectives and

should be applied sparingly. Applying these principles requires an approach that is tailored to each country's circumstances and problems while treating all IMF members uniformly. A note by IMF staff providing additional explanation and context for the conditionality guidelines was released along with the guidelines.

Can country ownership be strengthened?

Country authorities should be involved in the early stages of designing a policy program to be supported by IMF financing. They must themselves be convinced that the reforms can be achieved and are in the country's best interests. Moreover, ownership should involve not only the executive branch of a country's government but also its parliament and other major stakeholders.

In the new guidelines, the IMF recognizes that building domestic consensus on economic policies is the responsibility of the authorities. The guidelines outline ways that the IMF can help ensure that policy programs are adequately supported in the country and are likely to be implemented:

- IMF staff should undertake an effective dialogue on feasible policy options.
- IMF staff should be aware of political factors that are likely to influence the prospects for implementation and should provide the Executive Board with a candid assessment of ownership.
- The IMF should be open to programs that differ from the staff's preferred options, as long as the core objectives of the program are not compromised.
- IMF technical assistance should be directed toward the medium and long terms and aim at building countries' capacity to formulate and implement policies.
- The IMF can play a supporting role in communicating with the public about economic policies; thus, IMF staff has, to an increasing extent, been engaging in dialogue with a wider range of governmental institutions, with civil society, and with the media.
- Finally, if there is an inadequate level of ownership for a viable policy program, the IMF should be cautious in providing financial support. ■

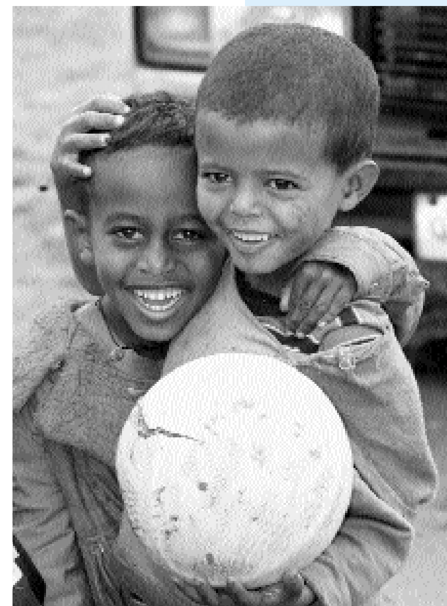
Poverty reduction

Supporting country-led, country-specific efforts

In September 1999, the IMF established the Poverty Reduction and Growth Facility (PRGF), which replaced its Enhanced Structural Adjustment Facility (ESAF). The PRGF broadened the objectives of the IMF's concessional lending to include a more explicit focus on poverty reduction in the context of a growth-oriented strategy. Demand for PRGF resources has been high. In recent years, more than 40 countries have had PRGF Arrangements or have transformed ESAF Arrangements to include the new features of the PRGF. During financial year 2003, the Executive Board approved 10 new PRGF arrangements (for Albania, the Democratic Republic of the Congo, The Gambia, Guyana, Nicaragua, Rwanda, Senegal, Sri Lanka, Tajikistan, and Uganda), with commitments totaling SDR 1.2 billion.

The IMF and the World Bank support strategies that low-income borrowing countries elaborate in a poverty reduction strategy paper (PRSP). These PRSPs are prepared through a participatory process that involves domestic stakeholders and external development partners. The papers are then broadly endorsed by the IMF and the World Bank as providing a sound basis for concessional lending. Updated periodically (up to five years) with annual progress reports, PRSPs describe the country's macroeconomic, structural, and social policies and programs over a horizon of three years or longer. PRSPs also specify the external financing needed to implement the strategy.

Recognizing that the preparation of a PRSP is a lengthy process, the World Bank and the IMF have agreed to provide concessional assistance on the basis of interim PRSPs. These interim strategy papers summarize the current knowledge and analysis of a country's poverty situation, describe the existing poverty-reduction strategy, and lay out the process for producing a fully developed PRSP in a participatory fashion.



Young boys play in Addis Ababa. Ethiopia is receiving IMF assistance under a PRGF Arrangement.

Aligning the PRSP and the PRGF

The PRSP approach has become widely accepted by low-income countries and the donor community as an effective way to mobilize broad input into, and develop ownership of, national poverty reduction strategies. The PRSP is still a relatively new instru-

ment, however, and its content and procedures are evolving in response to lessons learned and the needs and capacities of individual countries. Since the Executive Board review of the PRSP process and the PRGF in financial year 2002, increased attention is being paid in country programs to creating the right environment for investment and growth. In addition, efforts are under way to bring poverty and social impact analysis more systematically to bear in the formulation of poverty reduction strategies and PRGF lending and to strengthen public expenditure management in collaboration with the World Bank.

The PRSP and PRGF reviews also focused on the tension between the ambitious objectives set out in the PRSPs and the need for a realistic framework on which to base national budgets and PRGF-supported programs. In May 2003, the Executive Board discussed important new steps to help align the PRSP approach and PRGF-supported programs, including

- incorporating more realistic projections and assumptions;
- rationalizing documentation under the PRGF loan program to demonstrate clearly how the PRGF supports the goals of the PRSP plan, indicating how policy choices have been made, and reducing overall reporting requirements;
- providing greater coherence between PRSP plans and the budget process and more closely synchronizing the cycle of PRGF-supported programs with those of the PRSP and national budgets; and
- improving public expenditure management, which would facilitate the effective use of aid inflows, enhancing the poverty and social impact analysis for PRSPs and PRGF-supported programs, and scaling up the provision of technical assistance and donor support for countries' capacity building in PRSP-related areas.

A watermelon vendor in Ho Chi Minh City. Vietnam's structural reforms are being supported by a PRGF Arrangement from the IMF.

The harmonization of donor procedures with the budget and the PRSP processes will have a critical role to play in the success of this effort. In the coming months, the IMF will be deepening its work on related analytical issues, including the linkages between macroeconomic and structural policies and growth in low-income countries.

Better market access

There is now wide consensus that improved market access for developing country exports and the removal of trade-distorting subsidies in advanced economies are essential elements in the fight against world poverty. Action by industrial countries will be particularly important, but developing countries can also benefit from lowering their own trade barriers. The IMF has vigorously supported an increased emphasis on open trade. It has issued a report on progress with the Doha agenda (see box below); will review its trade policy advice during the remainder of 2003; has stepped up its surveillance of market access issues facing developing countries and of regional and multilateral trade negotiations; and is encouraging countries to integrate trade policy considerations more fully into their poverty reduction strategies.

The IMF has also cooperated with the World Trade Organization (WTO) on ways to coordinate some of their activities, including through technical assistance for customs administration and for coping with the revenue implications of tariff reforms. The IMF has indicated its readiness to support countries facing balance of payments difficulties as a result of changes in the trade environment. In addition, the IMF has provided technical notes to the WTO on areas of IMF expertise. These notes conclude, among other things, that trade restrictions remain a distinctly second-best policy for dealing with balance of payments pressures, including those arising from the capital account; that the erosion of preferential treatment is likely to cause significant losses to relatively few of the least-developed countries (and compensatory financing would be best provided in the context of an adjustment program); that trade liberalization, when

Doha trade round

The multilateral trade negotiations that the World Trade Organization (WTO) launched in late 2001 were termed the Doha Development Agenda, reflecting both the site where agreement was reached and the importance of developing countries and development objectives in the world trading system.

The development potential of the Doha Round depends on a lowering of barriers affecting imports from developing countries, especially the least developed. While the world's trading system is far more liberal than it was 40 years ago, it still discriminates against low-income countries, particularly those dependent on sectors such as agriculture that are most affected by tariffs and other trade restrictions.

complemented by a strengthened domestic tax system, need not worsen revenue performance in developing countries; and that there is no compelling case for developing country exporters to receive concessional finance because their own capital markets are distorted.

Millennium Development Goals

At its spring 2003 meeting, the IMF–World Bank Development Committee considered a framework, prepared jointly by the two institutions, for regular monitoring of the policies and actions that are required for making progress toward achieving the Millennium Development Goals (see box below). This annual global monitoring exercise consists in tracking and assessing the adequacy of policies, institutions, and governance in developing and transition countries; evaluating the appropriateness of macroeconomic, aid, and trade policies in developed countries (policies essential for fostering a global partnership for development); measuring the quality and effectiveness of development assistance; and gauging the effectiveness of international financial institutions in promoting a strong global economic environment and supporting country efforts to meet their development goals. The IMF–World Bank framework is designed to complement and support the monitoring efforts of the United Nations and other agencies working toward achieving the Millennium Development Goals.

Greater voice for developing countries

As developing countries' participation in the global economy grows, their voice in international institutions must grow correspondingly. Strong and effective participation in World Bank and IMF decision making has several dimensions. The most straightforward of these is voting strength. Another important dimension is the degree to which countries are able to make themselves heard in policy discussions. This latter dimension of "voice" is quite important for large multicountry constituencies—especially those with a significant number of heavily indebted poor countries or countries with IMF-supported programs, given the volume and complexity of associated issues requiring their input.

In their initial discussion of a joint World Bank–IMF background paper on this topic, Executive Directors underscored the importance of enhancing the voice and participation of developing and transition countries. They highlighted the initiatives that have already been taken to enhance the voice of developing countries and improve the listening culture in the IMF—including the ongoing development of the PRSP process, strengthened support for capacity building, and emphasis on country ownership of reforms—and looked forward to building on these efforts.

Children at Kenya's first hospice for HIV positive orphans. Combating the spread of HIV/AIDS is one of the UN Millennium Development Goals.

Because more rapid progress can be made on a number of possible administrative measures for enhancing voice, the IMF's Board has already begun to consider steps that could be taken to address the staffing and technological constraints of the two sub-Saharan African constituencies, whose needs are most pressing. The World Bank and the IMF will discuss progress on this goal at their 2003 Annual Meetings, based on their discussions in connection with the Thirteenth General Review of Quotas. ■

Millennium Development Goals

The Millennium Development Goals form an ambitious agenda for reducing poverty and improving lives. World leaders agreed on the goals at the UN Millennium Summit in September 2000. The eight goals, most to be achieved by 2015, are as follows:

- Eradicate extreme poverty and hunger.
- Achieve universal primary education.
- Promote gender equality and empower women.
- Reduce child mortality.
- Improve maternal health.
- Combat HIV/AIDS, malaria, and other diseases.
- Ensure environmental sustainability.
- Develop a global partnership for development.

HIPC Initiative

Helping poor countries qualify for debt relief

The IMF plays a central role, through its policy guidance and financial support, in helping member countries cope with external debt problems. The IMF's ultimate objective is to ensure that debtor countries achieve sustainable growth and balance of payments viability and establish normal relations with creditors, including gaining access to international financial markets. The basic elements of the IMF's debt strategy have remained the same over time, even though the instruments it uses have evolved:

- promoting growth-oriented adjustment and structural reform in debtor countries,
- maintaining a favorable global economic environment, and
- ensuring adequate financial support from official (bilateral and multilateral) and private sources.

Bolivia, where nearly 43 percent of peasants live in poverty, has reached its completion point under the IMF's enhanced HIPC Initiative and received a reduction in its stock of debt.

Paris Club

Debtor countries seeking to reschedule their official bilateral debt typically approach the Paris Club, an informal group of creditor governments, mainly those belonging to the Organization for Economic Cooperation and Development. Under such agreements, debtor countries generally reschedule their arrears and the current maturities of eligible debt service, with repayment stretching over many years. To ensure that such relief helps countries restore balance of payments viability and achieve sustainable economic growth, the Paris Club links debt relief to the formulation of an economic program supported by the IMF. In deciding on the coverage and terms of individual rescheduling agreements, Paris Club creditors also draw on the IMF's analysis and assessment of countries' balance of payments and debt situations.

Over the past two decades, rescheduling has helped some distressed middle-income countries return to financial stability. For low-income countries, the Paris Club began not only to reschedule but also to reduce debt in the late 1980s.

New approach needed

Although the terms of Paris Club reschedulings became increasingly concessional over the years to bring more lasting relief, many poor countries did not grow as rapidly as had been hoped, and their debt remained high. For these low-income, heavily indebted countries, creditors recognized the need for a new approach.

The original Heavily Indebted Poor Countries (HIPC) Initiative, launched in 1996, marked the first time that multilateral, Paris Club, and other official bilateral and commercial creditors combined efforts to reduce the external debt of the world's most debt-laden poor countries to "sustainable levels"—that is, levels that would allow these countries to service their debt through export earnings, aid, and capital inflows without compromising long-term, poverty-reducing growth. This exceptional assistance, which entails a reduction in the net present value (see box below) of the public external debt of the indebted country, aims to free up resources that debtor countries can use to reduce poverty and invigorate growth.

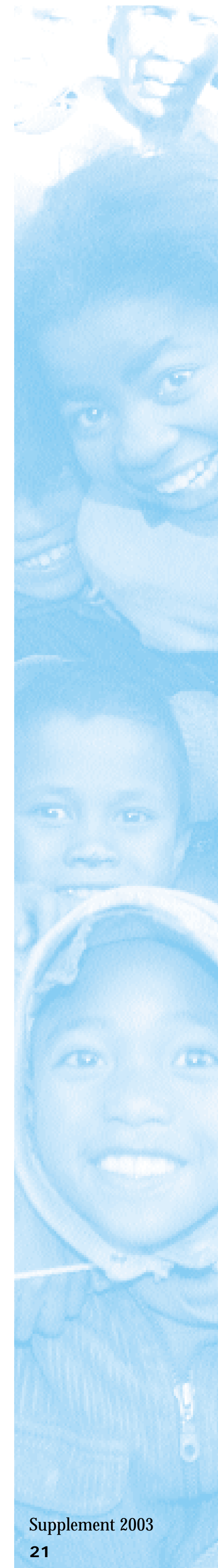
Assistance under the HIPC Initiative is limited to countries that have per capita incomes low enough to qualify for World Bank and IMF concessional lending facilities and face unsustainable debt burdens even after traditional debt relief. The vast majority of the eligible countries are in Africa.

Modifying HIPC

Following a review of the HIPC Initiative and extensive public consultations, a number of modifications were approved in 1999 to provide deeper, broader, and faster debt relief to eligible countries and to strengthen the links between debt relief, poverty reduction, and social policies.

Net present value of debt

The face value of the external debt stock is not a good measure of a country's debt burden if a significant part of the external debt is contracted on concessional terms with an interest rate below the prevailing market rate. The net present value of debt takes into account the degree of concessionality. It is defined as the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the market interest rate. Whenever the interest rate on a loan is lower than the market rate, the resulting net present value of debt is smaller than its face value, with the difference reflecting the grant element.



But the enhanced HIPC Initiative is no panacea. Debt relief—no matter how generous—is only the first step to economic recovery for heavily indebted poor countries. These countries can achieve long-term debt sustainability only if they directly address the underlying causes that triggered the debt problem in the first place. To avoid slipping back into a situation where poverty-reducing investments are sacrificed to mounting external debt repayments, these countries must use the debt-relief proceeds to create the basis for sustained growth and poverty reduction.

What has the initiative achieved?

The enhanced HIPC Initiative has made substantial progress in meeting its objective of reducing debt burdens and in providing deeper and earlier debt relief to heavily indebted poor countries. In July 2003, the Democratic Republic of the Congo met an important milestone when it reached its decision point (see box, this page). That brought to 27 the number of countries that have reached their decision points under the enhanced HIPC Initiative, with commitments for the equivalent of over $51 billion in debt relief (in nominal terms) over time. This Initiative, along with other debt relief, will reduce these countries' external debt by about two-thirds, from $77 billion in net present value terms to $26 billion. The Initiative has lowered the average ratio of debt service to exports for the 27 decision-point countries from 16 percent in 1998–99 to about 9.9 percent in 2002. With these reductions in debt and debt-servicing costs, more resources are being allocated to education; health care, including HIV/AIDS prevention and treatment; rural development and water supply; and road construction.

Eight countries—Benin, Bolivia, Burkina Faso, Mali, Mauritania, Mozambique, Tanzania, and Uganda—have reached their completion points under the HIPC Initiative and had their stock of debt reduced, but they have not all received the envisaged debt relief. Another 19 countries have passed their decision points and have begun to receive interim debt relief. Many of these countries are well placed to reach completion points in 2003 and 2004.

The remaining 12 eligible countries are having greater difficulties reaching their decision points, particularly because many of them are still experiencing political turmoil or are emerging from armed conflicts. More generally, the process has taken longer than expected in many cases, owing to the time needed to prepare poverty reduction strategies, difficulties in achieving stable macroeconomic positions, and slower-than-expected implementation of the necessary social and structural reforms. Notwithstanding the delays, once these challenges are met, the links between debt relief, poverty reduction, and social policies will be stronger, which is an important objective of the enhanced HIPC Initiative.

Remaining challenges

The first challenge is to bring more heavily indebted poor countries to their decision points. What makes this challenge particularly difficult is that many of the countries that have not yet qualified for HIPC relief are either engaged in, or have recently ended, domestic or cross-border armed conflict. Their need for debt relief is especially acute because they suffer from abject poverty and face major reconstruction tasks. Many are also struggling with severe governance problems. These countries require help to develop a

How the HIPC Initiative works

To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. Its efforts are complemented by concessional aid from all relevant donors and institutions and traditional debt relief from bilateral creditors and the Paris Club.

During this first phase, the country's external debt situation is analyzed in detail. If its external debt ratio, after the full use of traditional debt relief, is above 150 percent for the net present value of debt to exports (or, for small open economies, above 250 percent of government revenue), it qualifies for HIPC relief. At the decision point, the IMF and the World Bank formally decide on the country's eligibility, and the international community commits to reducing the country's debt to a sustainable level.

Once it qualifies for HIPC relief, the country must continue its good track record with the support of the international community, satisfactorily implementing key structural policy reforms, maintaining macroeconomic stability, and adopting and implementing a poverty reduction strategy. Paris Club bilateral creditors reschedule the country's obligations coming due, with a 90 percent reduction in net present value, and other bilateral and commercial creditors are expected to do the same.

A country reaches its completion point once it has met the objectives established at the decision point. It then receives the balance of the debt relief committed. This means all creditors are expected to reduce the net present value of their claims on the country to the agreed sustainable level.

The IMF and the World Bank and some other multilateral creditors provide interim relief between the decision and completion points.

Women carry food from the market in Arusha. Like Bolivia, Tanzania has reached its completion point under the HIPC Initiative.

track record of good policy performance that will allow them to move toward their decision points and begin receiving interim debt relief.

The second challenge is to keep the countries that have reached their decision points on track to implement sound, poverty-reducing policies so that they can reach their completion points under the HIPC Initiative and achieve sustainable growth.

Why not just forgive all the debt?

There have been repeated appeals to the international community to simply erase all the debt of the world's poorest countries, but such a step would not be the most effective or equitable way to support the fight against poverty with the limited resources available. Today's greatest development challenge––reducing world poverty––requires a comprehensive strategy that includes the efforts of the poorest countries to help themselves, as well as increased financial assistance from the international community and improved access to industrial country markets. Debt relief under the HIPC Initiative is only one element of the international support for poor countries that removes debt as an obstacle to growth. For many years to come, these countries will continue to need financial support on concessional terms to help them implement their growth and poverty reduction strategies and stand on their own feet.

Total debt cancellation would imperil the funds that multilateral creditors would have for future lending and would come at the expense of resources available to other developing countries, some of which are equally poor but have less external debt. Over 80 percent of the world's poor live in countries that are not HIPCs. For the IMF, total debt cancellation would exhaust the resources that finance the Poverty Reduction and Growth Facility (PRGF) and the HIPC Initiative, and the IMF would have to stop providing concessional support to its poorest members. ■

Technical assistance

Sharing the collective knowledge of the IMF and its membership

The IMF provides technical assistance to its member countries in policy areas within its core mandate––namely, macroeconomic, monetary and foreign exchange, fiscal, external debt, and statistics. The IMF began providing technical assistance in 1964 in response to requests from newly independent African and Asian countries establishing central banks and ministries of finance.

The IMF's Ake Lönnberg (left) shows U.S. dollars and coins to central bank and postal staff in Timor-Leste after the dollar was declared legal tender.

The IMF's technical assistance activities grew rapidly, and, by the mid-1980s, the number of staff years devoted to these activities had almost doubled. In the 1990s, many countries––those of the former Soviet Union as well as a number of countries in Eastern Europe––moved from command to market economies, turning to the IMF for technical assistance. Later in that decade, to improve crisis prevention and resolution following the Mexican crisis of 1994–95 and the Asian crisis of 1997–98, the IMF stepped up its technical assistance as part of its efforts to strengthen the international financial system. More recently, as part of the international community's drive to combat money laundering and the financing of terrorism, the IMF took the lead in designing a comprehensive assessment process and began providing technical assistance for remedial measures.

The IMF has also helped countries and territories reestablish government institutions following civil unrest or war––for example, in Afghanistan, Albania, Bosnia and Herzegovina, Kosovo, and Timor-Leste. In addition to supporting the work of crisis prevention and management, and the restoration of macroeconomic stability in postcrisis situations, the IMF provides assistance to countries that are following up on recommendations from financial sector assessments, adopting international standards and codes, and improving their tracking of public expenditures (see table, page 24).

The IMF's technical assistance has grown from just under 70 person-years in 1970 to approximately 355 person-years in financial year 2003 and represents about 25 percent of the IMF's total administrative budget. In recent years, the regional distribution of

technical assistance has shifted gradually from the transition economies to Africa (see chart).

Types of technical assistance

The IMF provides technical assistance in three areas:

- designing and implementing fiscal and monetary policies;
- drafting and reviewing economic and financial legislation, regulations, and procedures; and
- institution and capacity building in central banks, treasuries, tax and customs departments, and statistical services.

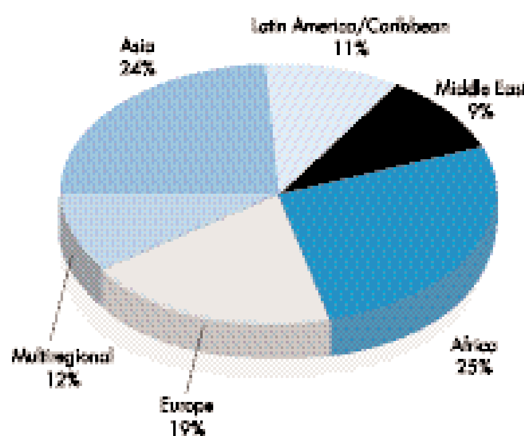
Technical assistance is provided through missions, short- and long-term assignment of experts, and regional technical assistance centers. Regional technical assistance centers have been established to serve the small island economies of the Pacific, the Caribbean Community countries and the Dominican Republic, and, as part of the IMF's Africa Capacity-Building Initiative, countries in East and West Africa (see box below). In addition, the IMF trains officials from its member countries through courses offered at its headquarters in Washington and through a number of overseas regional institutes and programs (see box, page 24).

External cooperation

In recent years, technical assistance projects have grown both larger and more complex, requiring multiple sources of financing. Large projects may involve more than one IMF department and more than one development partner. Donors with which the IMF cooperates include the Asian Development Bank, the European Commission, the Inter-American Development Bank, the United Nations Development Program, the World Bank, and the governments of Australia, Canada, China, Denmark, France, Germany, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Russia, Sweden, Switzerland, the United Kingdom, and the United States.

The government of Japan also makes generous annual contributions to IMF scholarship programs.

Africa, Asia received largest shares of IMF technical assistance in FY2003
(percent of total, in effective person-years)



Data: IMF Office of Technical Assistance Management

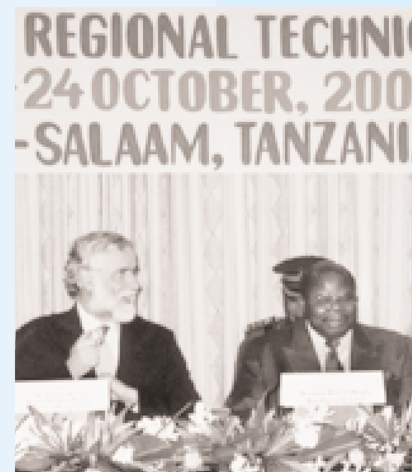
African regional technical assistance centers foster capacity building

In response to a request made by African heads of state for enhanced IMF support in fostering capacity building, and drawing on positive experience with regional technical assistance centers in the Pacific and the Caribbean regions, the IMF established two regional technical assistance centers (AFRITACs) in collaboration with bilateral and multilateral donor partners and participating African countries.

The first center, serving 6 countries in East Africa and based in Dar es Salaam, opened in October 2002. The second, serving 10 countries in West Africa, began operations in May 2003. West AFRITAC, which was originally to have been based in Abidjan, has been temporarily relocated to Bamako, Mali, because of civil unrest in Côte d'Ivoire.

Each center has a team of resident experts who cover the core areas of the IMF's competence and help member countries develop and implement their capacity-building programs, guided by each country's poverty reduction strategy paper (see page 17). The centers help implement and monitor ongoing technical assistance programs; facilitate donor coordination of ongoing capacity-building activities; and provide technical advice.

Each center works under the policy guidance of a steering committee consisting of representatives of member countries and donors to ensure full ownership of the individual country activities, as well as accountability to, and close coordination with, donor partners. After an independent evaluation of these two centers, the IMF will consider whether to establish additional centers to cover the rest of sub-Saharan Africa.



Eduardo Aninat, former IMF Deputy Managing Director (left), and Tanzanian President William Mkapa at the East AFRITAC opening.

More than half of IMF's technical assistance focused on poverty reduction and regional work in FY2003
(Field delivery in person-years)[1]

	FY 2003
Main program areas	
Crisis prevention	35.2
Poverty reduction	60.7
Crisis resolution and management	30.5
Postconflict	26.5
Regional	41.4
Total	**194.3**
Key policy initiatives and concerns	
Standards and codes, excluding FSAP	18.1
FSAP-related	6.0
HIPC-associated	16.8
Safeguarding IMF resources	0.5
Offshore financial centers and AML/CFT	10.4
Policy reform/capacity building	142.5
Total	**194.3**

Note: FSAP = Financial Sector Assessment Program; HIPC = Heavily Indebted Poor Countries Initiative; AML/CFT = Anti–Money Laundering and Combating the Financing of Terrorism.
[1]Excludes headquarters-based activities related to technical assistance.

Data: IMF Office of Technical Assistance Management

Such cooperative arrangements with multilateral and bilateral donors not only support activities financially but also help prevent conflicting advice and redundant activities and have led to a more integrated approach to the planning and implementation of technical assistance. As the demand for technical assistance in macroeconomic and financial management grows, such arrangements will become even more valuable.

In response to the ever-increasing demand for technical assistance, the IMF sets clear priorities so that its resources can be allocated among member countries and regions in the most effective and efficient manner. The IMF's area (regional) departments are instrumental in identifying countries' technical assistance needs, and an interdepartmental committee of senior IMF staff. The Technical Assistance Committee, which is chaired by a Deputy Managing Director, takes part in this process. The Office of Technical Assistance Management has been established to help IMF management develop policies guiding the delivery of technical assistance and the coordination of technical assistance within the IMF, as well as the collaboration with donor partners and technical assistance providers.

A number of conditions have been identified as being crucial for the successful implementation of technical assistance—in particular, commitment of the country authorities to policy and institutional reforms, a stable and cohesive macroeconomic environment, and an adequate administrative structure and local counterparts with appropriate skills.

New developments

At its July 2002 meeting to review IMF technical assistance policy and experience, the Executive Board endorsed measures to

- introduce an institution-wide methodology for monitoring and evaluating technical assistance activities, and for implementing a formal three-year rolling program of evaluations; and
- set up a comprehensive systems to manage technical assistance resources. ■

Hugo Juan-Ramon, Deputy Chief of the IMF Institute's Western Hemisphere Division, lectures Institute participants in June.

IMF Institute

The IMF Institute has been training officials from member countries since 1964. Its courses and seminars, focused on the IMF's core areas, are delivered by Institute staff or by staff from other IMF departments, occasionally assisted by academics and other experts. In selecting participants for its training programs, the IMF Institute gives some preference to officials from developing and transition countries.

The IMF Institute also offers courses and seminars through overseas regional institutes and programs in cooperation with the Joint Regional Training Center for Latin America, the Joint China-IMF Training Program, the Joint Africa Institute, the Joint Vienna Institute, the IMF–Arab Monetary Fund Regional Training Program, and the IMF-Singapore Regional Training Institute.

IMF SURVEY

IMF introduces new measure of capacity to make loans

The IMF is a cooperative financial institution that provides assistance to member countries that encounter balance of payments problems. All 184 member countries of the IMF are eligible for financial assistance (provided their access to IMF financing has not been suspended), but loans are subject to the approval of the IMF Executive Board. The IMF provides financing under a range of policies and facilities (see page 13), and service or interest charges and repurchase (repayment) periods vary (see page 14). In the past year, the bulk of IMF financing has gone to five countries: Argentina, Brazil, Indonesia, Turkey, and Uruguay. While the IMF—unlike its sister organization, the World Bank—does not finance specific development projects, it does provide concessional loans and debt relief to qualified low-income countries that are seeking to reduce poverty and foster growth.

How does the IMF differ from other financing institutions?

While sharing certain characteristics of other financing institutions, the IMF distinguishes itself by being a "reluctant financier." Profit-oriented banks welcome long-term borrowing, but the IMF encourages repayment as quickly as possible. The IMF also lends to countries when other institutions are unwilling to take the risk. And, unlike other lenders, the IMF has a responsibility to assemble a viable package of assistance with sound economic policy recommendations for the recipients of its financing.

Where does the IMF get its money?

The IMF's financing is funded primarily from a pool of resources formed by its members' subscriptions, equal to their quotas. A member's quota is largely determined by its economic and financial position relative to other members and takes into account members' GDPs, current account transactions, and official reserves. The size of a member's quota also determines its voting power in the organization. Members pay up to 25 percent of their quota subscription in widely accepted international currencies (U.S. dollars, euros, Japanese yen, or pounds sterling) and SDRs (see box below) and the rest in their own curren-

What is the SDR?

In 1969, the IMF created the SDR as an international reserve asset to supplement members' existing reserve assets. The SDR is valued on the basis of a basket of key international currencies and serves as the unit of account of the IMF and a number of other international organizations.

The SDR is not a currency, nor is it a claim on the IMF. Instead, it is potentially a claim on the freely usable currencies of IMF members, as holders of SDRs can exchange their SDRs for these currencies. The SDR's value as a reserve asset derives from the commitments of member countries to hold and accept SDRs and to honor various obligations connected with the operation of the SDR system.

The IMF allocates SDRs to its members in proportion to their IMF quotas, and these SDRs may in turn be used to obtain foreign exchange reserves from other members and make payments to the IMF. Member countries can use SDRs to meet a balance of payments financing need without undertaking economic policy measures or repurchase obligations. However, a member that uses its SDRs pays the SDR interest rate—based on market interest rates—on the amount by which its allocations exceed its holdings. A member that acquires SDRs in excess of its allocation receives interest.

The basket of currencies on which the SDR value is based is reviewed every five years to ensure that the currencies included are representative of those used in international transactions and that the weights assigned to them reflect their relative importance in the world's trading and financial systems. The basket currently consists of the euro, the Japanese yen, the pound sterling, and the U.S. dollar; the last review of the SDR valuation took place in October 2000.

The SDR interest rate provides the basis for calculating the rate of charge on nonconcessional IMF financing and the interest paid to creditor members of the IMF. The SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket currencies.

cies. Members with strong balance of payments and reserves positions are obliged to convert the IMF's holdings of their currencies into widely accepted international currencies as needed by the IMF to fund its loans.

The IMF also maintains two standing borrowing arrangements with official lenders—the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The IMF can also borrow from private markets but has not done so for organizational and operational reasons. Under the GAB and the NAB, a group of member countries (and their institutions) have agreed to lend, in exceptional circumstances, specific amounts of their currencies to the IMF at market-related interest rates. The NAB and the GAB function as lines of credit and pose no cost to the IMF unless activated. The IMF has not had to draw upon either since 1998.

How much can the IMF make available?

The portion of the IMF's own resources available for financing is smaller than the total pool of IMF resources, which is about $300 billion. Only IMF members with strong balance of payments and reserves positions can make available to the IMF the widely accepted international currencies that are needed for members with balance of payments problems. In early 2003, resources for IMF financing were provided by 44 members. This group of creditor countries is not fixed, however, and members can switch from debtor to creditor status as their economic situations improve. Recently, India, Malaysia, Mauritius, and Mexico shifted from debtor to creditor status vis-à-vis the IMF. On April 30, 2003, outstanding IMF financing was $91 billion (SDR 66 billion).

The IMF recently introduced a more transparent measure of its capacity to make new financing avail-

IMF quotas
(million SDRs)

Member	Quota[1]	Member	Quota[1]	Member	Quota[1]
Afghanistan, Islamic State of	161.9	Chad	56.0	Greece	823.0
Albania	48.7	Chile	856.1	Grenada	11.7
Algeria	1,254.7	China	6,369.2	Guatemala	210.2
Angola	286.3			Guinea	107.1
Antigua and Barbuda	13.5	Colombia	774.0		
		Comoros	8.9	Guinea-Bissau	14.2
Argentina	2,117.1	Congo, Dem. Rep. of the	533.0	Guyana	90.9
Armenia	92.0	Congo, Rep. of	84.6	Haiti	81.9
Australia	3,236.4	Costa Rica	164.1	Honduras	129.5
Austria	1,872.3			Hungary	1,038.4
Azerbaijan	160.9	Côte d'Ivoire	325.2		
		Croatia	365.1	Iceland	117.6
Bahamas, The	130.3	Cyprus	139.6	India	4,158.2
Bahrain	135.0	Czech Rep.	819.3	Indonesia	2,079.3
Bangladesh	533.3	Denmark	1,642.8	Iran, Islamic Rep. of	1,497.2
Barbados	67.5			Iraq	504.0
Belarus	386.4	Djibouti	15.9		
		Dominica	8.2	Ireland	838.4
Belgium	4,605.2	Dominican Rep.	218.9	Israel	928.2
Belize	18.8	Ecuador	302.3	Italy	7,055.5
Benin	61.9	Egypt	943.7	Jamaica	273.5
Bhutan	6.3			Japan	13,312.8
Bolivia	171.5	El Salvador	171.3		
		Equatorial Guinea	32.6	Jordan	170.5
Bosnia and Herzegovina	169.1	Eritrea	15.9	Kazakhstan	365.7
Botswana	63.0	Estonia	65.2	Kenya	271.4
Brazil	3,036.1	Ethiopia	133.7	Kiribati	5.6
Brunei Darussalam	215.2			Korea	1,633.6
Bulgaria	640.2	Fiji	70.3		
		Finland	1,263.8	Kuwait	1,381.1
Burkina Faso	60.2	France	10,738.5	Kyrgyz Rep.	88.8
Burundi	77.0	Gabon	154.3	Lao People's Dem. Rep.	52.9
Cambodia	87.5	Gambia, The	31.1	Latvia	126.8
Cameroon	185.7			Lebanon	203.0
Canada	6,369.2	Georgia	150.3		
		Germany	13,008.2	Lesotho	34.9
Cape Verde	9.6			Liberia	71.3
Central African Rep.	55.7	Ghana	369.0	Libya	1,123.7

[1] As of August 12, 2003.
Data: IMF Finance Department

able. This new measure—the "one-year forward commitment capacity" (FCC)—indicates how much money the IMF has available for financing in the coming year. It takes into account that some of the IMF's available resources have already been committed and that a prudential balance is needed to safeguard the liquidity of creditors' claims on the IMF and guard against any potential erosion of the IMF's base of available resources. The one-year FCC includes amounts that are projected to be repaid to the IMF over the coming 12 months. The IMF's one-year FCC amounted to $84 billion at the end of April 2003.

What is charged on IMF financing?

The main cost to the IMF of financing is the remuneration it pays to creditor members on outstanding IMF loans. The IMF, in turn, levies charges (set as a proportion of the weekly SDR rate) on members using nonconcessional financing. In cases where the IMF provides high levels of financing to a member, a surcharge is levied. The IMF's costs—and thus the rate at which it provides financing—are lower than they otherwise would be because a portion of the resources provided by creditor countries constitutes reserves.

So that the cost of overdue financial obligations is not borne entirely by any subset of IMF members, a burden-sharing mechanism is in place. Under this mechanism, when repurchases are not made on a timely basis, debtor countries pay slightly higher charges on their outstanding loans and creditor countries receive slightly less in remuneration on the resources they have made available. ■

Member	Quota[1]
Lithuania	144.2
Luxembourg	279.1
Macedonia, FYR	68.9
Madagascar	122.2
Malawi	69.4
Malaysia	1,486.6
Maldives	8.2
Mali	93.3
Malta	102.0
Marshall Islands	3.5
Mauritania	64.4
Mauritius	101.6
Mexico	2,585.8
Micronesia, Fed. States of	5.1
Moldova	123.2
Mongolia	51.1
Morocco	588.2
Mozambique	113.6
Myanmar	258.4
Namibia	136.5
Nepal	71.3
Netherlands	5,162.4
New Zealand	894.6
Nicaragua	130.0
Niger	65.8
Nigeria	1,753.2
Norway	1,671.7
Oman	194.0
Pakistan	1,033.7
Palau	3.1
Panama	206.6
Papua New Guinea	131.6
Paraguay	99.9
Peru	638.4
Philippines	879.9
Poland	1,369.0
Portugal	867.4
Qatar	263.8
Romania	1,030.2
Russia	5,945.4
Rwanda	80.1
St. Kitts and Nevis	8.9
St. Lucia	15.3
St. Vincent and the Grenadines	8.3
Samoa	11.6
San Marino	17.0
São Tomé and Príncipe	7.4
Saudi Arabia	6,985.5
Senegal	161.8
Serbia and Montenegro	467.7
Seychelles	8.8
Sierra Leone	103.7
Singapore	862.5
Slovak Rep.	357.5
Slovenia	231.7
Solomon Islands	10.4
Somalia	44.2
South Africa	1,868.5
Spain	3,048.9
Sri Lanka	413.4
Sudan	169.7
Suriname	92.1
Swaziland	50.7
Sweden	2,395.5
Switzerland	3,458.5
Syrian Arab Rep.	293.6
Tajikistan	87.0
Tanzania	198.9
Thailand	1,081.9
Timor-Leste	8.2
Togo	73.4
Tonga	6.9
Trinidad and Tobago	335.6
Tunisia	286.5
Turkey	964.0
Turkmenistan	75.2
Uganda	180.5
Ukraine	1,372.0
United Arab Emirates	611.7
United Kingdom	10,738.5
United States	37,149.3
Uruguay	306.5
Uzbekistan	275.6
Vanuatu	17.0
Venezuela, República Bolivariana de	2,659.1
Vietnam	329.1
Yemen, Rep. of	243.5
Zambia	489.1
Zimbabwe	353.4
Total	**212,794.0**

Overdue payments

IMF strategy consists of three pillars—prevention, collaboration, and remedial steps

To maintain the IMF's cooperative nature and protect its financial resources, members must meet their financial obligations to the IMF. If a member does fall behind in its debt-service obligations, it is expected to settle its arrears as quickly as possible.

The IMF has a three-pronged strategy to help countries avoid and, if need be, resolve arrears.

Prevention. To prevent new cases of arrears from emerging, the IMF attaches conditions (see page 16) on the use of its resources, assesses members' capacity to repay, assures the adequacy of balance of payments financing for members under IMF-supported programs, carries out safeguard assessments of the central banks of members receiving IMF resources, and provides technical assistance to members.

Intensified collaboration and the rights approach. Intensified collaboration helps members design and implement economic policies to resolve their balance of payments and arrears problems. This process also provides a framework for members in arrears to establish a track record of policy and payments performance, mobilize resources from international creditors and donors, and become current in their obligations to the IMF and other creditors.

In some cases, a country's economic policies are formulated in the context of a "rights-accumulation program." This program allows a country in protracted arrears—owing amounts to the IMF that are overdue by more than six months—to accumulate "rights" to future drawings of IMF resources through its adjustment and reform efforts. Future drawings are made only after the member has completed the program and cleared its arrears and the IMF has approved a successor arrangement. Only 11 IMF members are eligible for the rights approach. Of those countries, only Liberia, Somalia, and Sudan remain in arrears. Of the countries that have resolved their arrears to the IMF, 3 used the rights approach, while 5 used other means.

Remedial measures. If a member does not actively cooperate with the IMF in seeking a solution to its arrears problems, a timetable of remedial measures of increasing intensity is applied. Remedial measures start with suspending a member's access to the use of IMF resources in the Poverty Reduction and Growth Facility (PRGF) Trust or Heavily Indebted Poor Countries Initiative. If the country fails to take appropriate measures, the Executive Board then issues a declaration of noncooperation in the case of arrears to the PRGF Trust. Ultimately, in the case of overdue financial obligations to the General Resources Account, the member's withdrawal from the IMF is compulsory. Most recently, further remedial measures were applied to Liberia and Zimbabwe, when their voting and related rights in the IMF were suspended in March 2003 and June 2003, respectively.

Developments

Protracted arrears to the IMF decreased in financial year 2003 to SDR 2.01 billion, from SDR 2.36 billion a year earlier. This reflected mainly the clearance of arrears by the Democratic Republic of the Congo in June 2002 and by the Islamic State of Afghanistan in February 2003.

The clearance of the Democratic Republic of the Congo's arrears (SDR 404 million) was facilitated by bridge loans from Belgium, France, South Africa, and Sweden. Immediately after the clearance of that country's arrears, the Executive Board approved a PRGF Arrangement for it. Part of the proceeds of the first PRGF disbursement was used to repay in full the bridge lenders. The Democratic Republic of the Congo subsequently also cleared its arrears to the World Bank Group, while its arrears to the African Development Bank were handled in the context of a partial clearance and partial consolidation mechanism.

Afghanistan settled its overdue financial obligations (SDR 8.1 million) to the IMF as part of a coordinated plan under which Afghanistan also cleared arrears to the Asian Development Bank and the International Development Association. The coordinated arrears-clearance operation was supported by grants from Italy, Japan, Norway, Sweden, the United Kingdom, and the Afghanistan Reconstruction Trust Fund.

However, the arrears of other countries (with the exception of Sudan) continued to rise. The most notable of these is Zimbabwe, which is the first new case of significant arrears to the IMF's General Resources Account since 1993 and the first case of protracted arrears to the PRGF Trust. The two countries with the largest protracted arrears to the IMF—Sudan and Liberia—account for more than 78 percent of the total overdue financial obligations to the IMF—with Somalia and Zimbabwe accounting for most of the remainder. ■

Organization

Articles of Agreement shape IMF structure

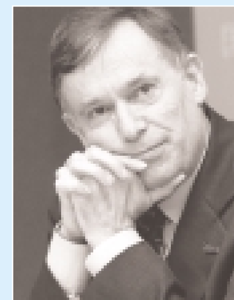
The decision to establish the IMF was made at a conference held in Bretton Woods, New Hampshire, in July 1944. The IMF came into official existence on December 27, 1945, with the signing of its Articles of Agreement. It commenced financial operations on March 1, 1947.

How is the IMF organized?

The chain of command runs from the governments of its member countries to the IMF. This accountability is essential to its effectiveness.

Board of Governors. The top link of the chain of command is the Board of Governors, which is composed of ministers of finance or heads of central banks (or other officials of comparable rank) from each of the IMF's 184 member countries. Apart from those Governors who are represented on the International Monetary and Financial Committee (IMFC), the Governors gather only on the occasion of the IMF–World Bank Annual Meetings to deal formally with IMF matters. During the rest of the year, they communicate their governments' views about the IMF's day-to-day work through the Executive Director who represents them on the Executive Board (see page 30).

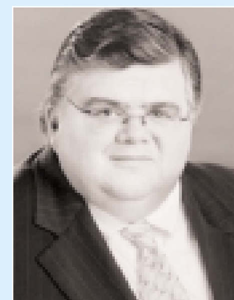
The International Monetary and Financial Committee. The IMFC consists of 24 Governors representing constituencies or groups of countries corresponding to those of the Executive Board. It meets twice a year, on the occasions of the IMF–World Bank Annual and Spring Meetings, to advise the IMF on the functioning of the international monetary system.



Horst Köhler, German, is Managing Director.

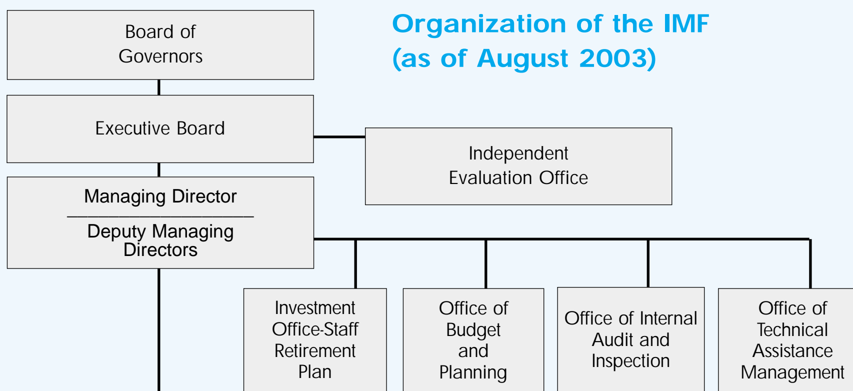
Anne O. Krueger, a U.S. national, is First Deputy Managing Director.

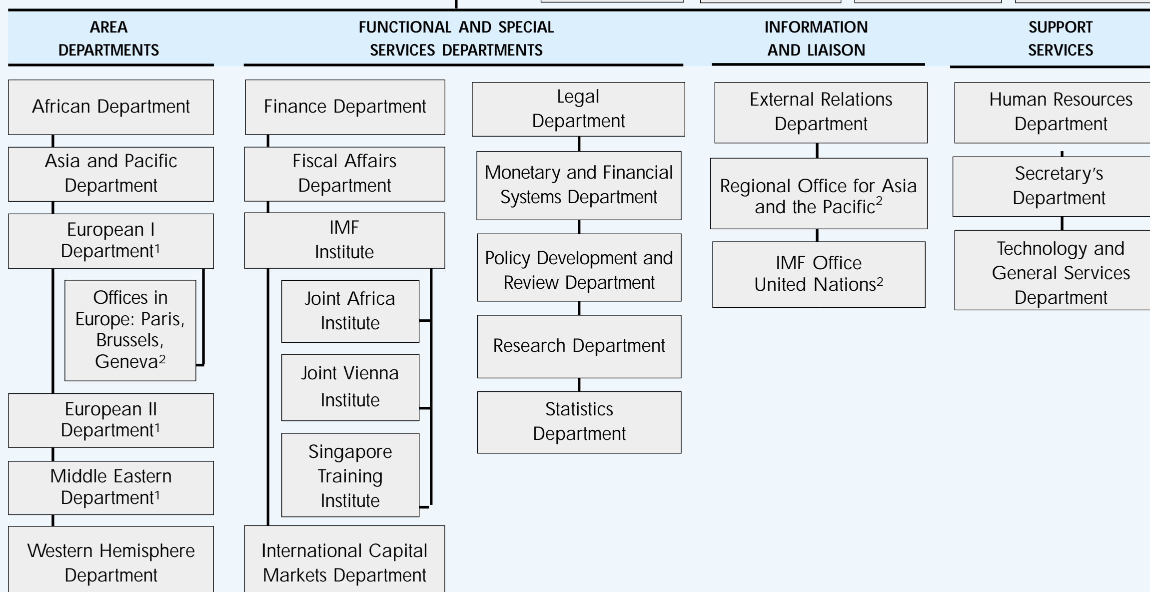
Shigemitsu Sugisaki, Japanese, is Deputy Managing Director.



Agustín Carstens, Mexican, is Deputy Managing Director.

Organization of the IMF (as of August 2003)





[1]On November 1, the country responsibilities of the European II Department will be distributed to the renamed European Department and the Middle East and Central Asia Department.

[2]Attached to the Office of Managing Director.

Executive Board. The Executive Board consists of 24 Executive Directors appointed or elected by the IMF's 184 member countries. The Board, which is based at IMF headquarters in Washington, D.C., is responsible for the day-to-day business of the IMF and meets about three times a week in formal session. At present, 5 Executive Directors are appointed by the members with the largest IMF quotas: the United States, Japan, Germany, France, and the United Kingdom. The other 19 Executive Directors are elected by one country or a group of countries. The Executive Board rarely makes its decisions on the basis of formal voting, relying instead on the formation of consensus among its members.

Managing Director. The Managing Director is head of the IMF staff and chairs the Executive Board. The Managing Director is appointed by the Executive Board. ■

IMF Executive Board
(as of August 26, 2003)[1]

Director
Alternate
Casting votes[1] of
(percent of IMF total)

Nancy P. Jacklin
Meg Lundsager
United States
(371,743–17.14 percent)

Ken Yagi
Michio Kitahara
Japan
(133,378–6.15 percent)

Karlheinz Bischofberger
Gert Meissner
Germany
(130,332–6.01 percent)

Pierre Duquesne
Sébastien Boitreaud
France
(107,635–4.96 percent)

Thomas W. Scholar
Martin A. Brooke
United Kingdom
(107,635–4.96 percent)

Willy Kiekens (Belgium)
Johann Prader (Austria)
Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey
(111,696–5.15 percent)

Jeroen Kremers (Netherlands)
Yuriy G. Yakusha (Ukraine)
Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, FYR of, Moldova, Netherlands, Romania, Ukraine
(105,412–4.86 percent)

Luis Martí (Spain)
Mario Beauregard (Mexico)
Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela, República Bolivariana de
(92,989–4.29 percent)

Pier Carlo Padoan (Italy)
Harilaos Vittas (Greece)
Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste
(90,968–4.19 percent)

Ian E. Bennett (Canada)
Charles X. O'Loghlin (Ireland)
Antigua and Barbuda, Bahamas, The, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
(80,636–3.72 percent)

Vilhjálmur Egilsson (Iceland)
Benny Andersen (Denmark)
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
(76,276–3.52 percent)

Michael J. Callaghan (Australia)
Michael H. Reddell (New Zealand)
Australia, Kiribati, Korea, Marshall Islands, Micronesia, Fed. States of, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu
(72,423–3.34 percent)

Sulaiman M. Al-Turki
Abdallah S. Al Azzaz
Saudi Arabia
(70,105–3.23 percent)

Ismaila Usman (Nigeria)
Peter J. Ngumbullu (Tanzania)
Angola, Botswana, Burundi, Eritrea, Ethiopia, Gambia, The, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia
(65,221–3.01 percent)

Sri Mulyani Indrawati (Indonesia)
Ismail Alowi (Malaysia)
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam
(69,019–3.18 percent)

A. Shakour Shaalan (Egypt)
Oussama T. Kanaan (Jordan)
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen, Republic of
(64,008–2.95 percent)

Wang Xiaoyi
GE Huayong
China
(63,942–2.95 percent)

Aleksei V. Mozhin
Andrei Lushin
Russia
(59,704–2.75 percent)

Fritz Zurbrügg (Switzerland)
Wieslaw Szczuka (Poland)
Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan
(61,827–2.85 percent)

Murilo Portugal (Brazil)
Roberto Steiner (Colombia)
Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago
(53,634–2.47 percent)

Yaga V. Reddy (India)
R.A. Jayatissa (Sri Lanka)
Bangladesh, Bhutan, India, Sri Lanka
(52,112–2.40 percent)

Abbas Mirakhor (Islamic Republic of Iran)
Mohammed Daïri (Morocco)
Afghanistan, Islamic State of, Algeria, Ghana, Iran, Islamic Rep. of, Morocco, Pakistan, Tunisia
(53,662–2.47 percent)

Guillermo Le Fort (Chile)
A. Guillermo Zoccali (Argentina)
Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
(43,395–2.00 percent)

Damian Ondo Mañe (Equatorial Guinea)
Laurean W. Rutayisire (Rwanda)
Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Dem. Rep. of, Congo, Rep. of, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo
(30,749–1.42 percent)

[1]As of August 26, 2003, members' votes totaled 2,168,501 and votes in the Executive Board amounted to 2,168,289. This total does not include the votes of Liberia, Somalia, or Zimbabwe.

Independent Evaluation Office

Lessons sought from experience with PRSPs and PRGF, Argentina crisis, and IMF technical assistance

The Independent Evaluation Office (IEO) was established in July 2001 to give the IMF objective and independent evaluations on crucial issues. It is intended to complement the institution's long-standing internal review and evaluation processes. The IEO's work is expected to enhance the learning culture within the IMF, strengthen the institution's external credibility, promote greater understanding of the IMF's work throughout the membership, and support the Executive Board's institutional governance and oversight responsibilities. The office is independent of IMF management and operates at arm's length from the IMF's Executive Board.

First three studies

During financial year 2003 (May 1, 2002–April 30, 2003), the IEO's work program consisted of three evaluation projects: the prolonged use of IMF financial resources and its implications; the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia, and Korea); and fiscal adjustment in IMF-supported programs in a group of low- and middle-income countries. Its report on prolonged use, broadly endorsed by the Executive Board in September 2002 and subsequently published, offered a series of recommendations designed to minimize prolonged use and its adverse consequences. These recommendations covered the rationale for IMF-supported programs (including the need for alternative methods of signaling an IMF "seal of approval" to other donors and creditors), program design, strengthening of political information and analysis, and human resource management.

Following up on these recommendations, IMF management set up a staff task force to propose how best to address issues raised by the evaluation. The IEO provided the task force with comments received through its external outreach. The Executive Board discussed the task force report in March and agreed to specific follow-up steps:

• the rigorous implementation of IEO recommendations to improve surveillance, conditionality, and program design (including the need for greater realism in program objectives and assumptions, along with a more strategic approach to IMF involvement);

• additional measures to strengthen "due diligence" for prolonged users and to enhance information for decision making, including a systematic effort to undertake ex post assessments of achievements in prolonged-use cases (a specific definition of prolonged use was adopted as a trigger for these enhanced due diligence efforts); and

• further substantive consideration of issues raised by the IEO in the context of future discussions on surveillance, program design, and the role of the IMF in low-income countries.

Tsidi Tsikata (left), Montek Singh Ahluwalia, and David Goldsborough brief the press on the IEO's review of prolonged use of IMF resources.

In May, the Executive Board discussed the IEO's report on the three capital account crisis cases. The evaluation report, along with the summing up of the Board discussion, has now been published. This evaluation made six recommendations, encouraging the IMF to

• incorporate in its annual consultations with members a stress-testing approach to the analysis of country exposure to potential capital account crises;

• make staff assessments more candid and more accessible to the public, thus increasing the impact of surveillance;

• undertake a comprehensive review of the IMF's approach to program design in capital account crises;

• ensure that the terms of the financing package are credible so as to generate confidence, since restoration of confidence is the central goal;

• act as a proactive crisis coordinator, providing candid assessments if some elements of a strategy are lowering the probability of success; and

• ensure that "centers of expertise" on crisis management issues are established to allow for rapid application of relevant expertise to emerging crises.

The evaluation on fiscal adjustment in IMF-supported programs was circulated to the Executive Board in July 2003 and was discussed on August 29.

What's next?

Following extensive consultation with a broad range of internal and external stakeholders and subse-

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quent review and support from the Executive Board, the IEO's work program for financial year 2004 was finalized by IEO Director Montek Singh Ahluwalia. In the course of the current financial year, the IEO will evaluate the IMF's experience with poverty reduction strategy papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF); the IMF's role in Argentina, assessing the 2000 and 2001 programs but also taking a longer view of the IMF's involvement from 1991 onward; and IMF technical assistance.

The evaluation of the PRSP and the PRGF is already well under way. It is being conducted in parallel with a review of the PRSP process by the World Bank's Operations Evaluation Department. The final terms of reference for this study have been posted on the IEO website, following consultations with internal and external stakeholders on an earlier issues paper. The evaluation will draw upon six detailed country studies (Guinea, Mozambique, Nicaragua, Tajikistan, Tanzania, and Vietnam) as well as a cross-country analysis of the full sample of countries with PRSPs.

Work has also commenced on the evaluation of the IMF's role in Argentina. The issues paper for that evaluation, finalized after broad-based consultations, is available on the IEO's website. The issues paper for the evaluation of IMF technical assistance will be posted on the website for comments in September.

In the course of its work, the IEO continues to undertake wide-ranging outreach efforts, including building ties with the academic and aid evaluation communities and with representatives of civil society. It organized a series of seminars to disseminate the results of its evaluation of prolonged use of IMF resources, and similar events will be held for the other two completed evaluations. The IEO website is now being used by a wide range of subscribers, and significant efforts have been made to ensure that key issues papers, reports, and other material produced by the IEO are available in English and other languages.

More information on the scope of the IEO's projects and work program, as well as access to the published evaluation reports, is available on the IEO's website (www.imf.org/ieo). ■

IMF at a glance

When was the IMF set up?	Founded in 1945, it began financial operations on March 1, 1947
What is its current membership?	184 countries
What are its governing bodies?	Board of Governors and Executive Board
Who heads the IMF?	Horst Köhler is Managing Director
How many staff work at the IMF?	About 2,700 individuals from 141 countries
What are its total resources?	SDR 218.5 billion (about $300 billion, as of April 30, 2003)

Primary purposes

- *Promote* international monetary cooperation.
- *Facilitate* the expansion and balanced growth of international trade.
- *Promote* exchange stability and *maintain* orderly exchange arrangements among member countries.
- *Assist* in establishing a multilateral system of payments for current transactions between member countries as well as in eliminating foreign exchange restrictions that hamper the growth of world trade.
- *Make available* to member countries the IMF's general resources on a temporary basis to enable them to correct balance of payments difficulties without resorting to measures that would harm national or international prosperity.
- *Shorten* the duration and *lessen* the degree of disequilibrium in the international balances of payments of member countries.

Main areas of activity

- *Surveillance*, or appraisal, of its members' macroeconomic policies within the framework of a comprehensive analysis of both the general economic climate and each member's policy strategy.
- *Financial assistance*, in the form of credits and loans to member countries with balance of payments problems, to support adjustment and reforms.
- *Technical assistance* consisting of IMF expertise and financial support for member countries in several broad areas, including design and implementation of fiscal and monetary policy, institution building (such as central banks and treasuries), collection and refinement of statistical data, and training of government officials.