CHAPTER 5

Poverty Reduction and Debt Relief for Low-Income Countries

Reducing poverty in low-income countries remains one of the foremost challenges of our time. There is unprecedented agreement in the international community about what needs to be done: a new cooperative partnership between low-income countries and the donor community based on mutual accountability, including more aid for countries with strong and demonstrable commitments to reform, and ensuring a more equitable distribution of the benefits of globalization. The IMF has been a key player in the overall endeavor and has undertaken numerous activities in the past year to reinforce and strengthen its support for low-income countries' reform and development efforts.

Global Economic Environment and IMF's Support for Low-Income Countries

As the year progressed, it became clear that the economic downturn in industrial countries was having an adverse impact on many developing countries, including low-income member countries (those eligible for support under the IMF's Poverty Reduction and Growth Facility, PRGF, and the International Development Association). In the aftermath of September 11, which exacerbated the downturn, the IMF worked with low-income countries to assess the impact of the cyclical situation on external financing needs and necessary responses. The main channels through which the weaker global environment affected low-income countries were the decline in nonfuel commodity prices and the drop in travel and tourism receipts. Lower oil prices, however, helped to lessen the effects of shocks in oil-importing countries, as did strong policy frameworks. In 2001, within this group, sub-Saharan African countries with generally strong policies managed to sustain substantially higher per capita GDP growth than in the region as a whole.

Early analysis and consultation indicated an adverse but manageable impact on the external financing needs of many low-income countries, and IMF staff members continued to monitor the situation through ongoing consultations, including with authorities in more than 50 low-income countries by end-2001. The response to additional needs has been met through a combination of policy adjustment and additional financing from external sources, including modest PRGF augmentation. For 2002 and 2003, the outlook for developing countries was seen as depending heavily on the extent of the recovery in the industrial countries, commodity and oil price movements, and sound policy frameworks. In this uncertain environment, concessional financing by the donor community and the international financial institutions, particularly for countries pursuing good policies, would be an important safety cushion. The Managing Director of the IMF emphasized that the IMF stood ready to help if additional financing needs emerged in 2002.

Overall in 2001, the IMF committed new PRGF loan resources of $2.7 billion, a record high, partly reflecting approval of a few large new arrangements. Projections indicated that new commitments in 2002 could reach $2 billion. If high levels of new commitments continued thereafter, consideration would be needed about mobilizing new PRGF loan and subsidy resources. For subsidizing Post-Conflict Emergency Assistance, the IMF welcomed contributions (as of April 15, 2002, from Belgium, the Netherlands, Sweden, Switzerland, and the United Kingdom) that were sufficient to finance current and most prospective users of the facility (see Chapter 6).

Broader IMF Support for the Global Effort to Reduce Poverty

The Poverty Reduction Strategy Paper (PRSP) approach was devised as the nexus for bringing development partners, in-country and internationally, together to support a country's poverty reduction and growth strategy. This approach—combined with sound policies to promote macroeconomic stability, debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC), and capacity building through technical assistance—is expected to put countries on a path to sustainable growth and poverty reduction and achievement of the Millennium Devel-

Box 5.1

Millennium Development Goals

All 189 member states of the United Nations have pledged to meet the following Millennium Development Goals by 2015:[1]

- *Curtail extreme poverty and hunger:* cut by half the proportion of people living on less than a dollar a day;
- *Achieve universal primary education*: ensure that all boys and girls complete a full course of primary schooling;
- *Promote gender equality and empower women*: eliminate gender disparity in primary and secondary education—preferably by 2005, and at all levels by 2015;
- *Reduce child mortality*: reduce by two-thirds the mortality rate among children under the age of five;
- *Improve maternal health*: reduce by three-quarters the maternal mortality rate;
- *Combat HIV/AIDS, malaria, and other diseases*: halt and begin to reverse the spread of HIV/AIDS; halt and begin to reverse the incidence of malaria and other major diseases;
- *Ensure environmental sustainability*: integrate the principles of sustainable development into country policies and programs; reverse the loss of environmental resources; reduce by half the proportion of people without sustainable access to safe drinking water; achieve significant improvement in the lives of at least 100 million slum dwellers by 2020; and
- *Develop a global partnership for development*: develop further an open trading and financial system that is rule-based, predictable, and nondiscriminatory (includes a commitment to good governance, development, and poverty reduction—nationally and internationally); address low-income countries' special needs (includes tariff- and quota-free access for their exports; enhanced debt relief for the HIPCs; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction); address the special needs of landlocked and small island developing countries; deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term; in cooperation with the developing countries, develop decent and productive work for youth; in cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries; in cooperation with the private sector, make available the benefits of new technologies (especially information and communications technologies).

[1]Where relevant, 1990 is used as the base year. More information on the Millennium Development Goals and the text of the UN General Assembly's Millennium Declaration can be accessed on the Internet at *www.un.org/millenniumgoals/index.html* and at *www.developmentgoals.com*.

opment Goals (see Box 5.1). The IMF worked proactively during the year to further these ends, through policy dialogue, support under the PRGF and enhanced HIPC Initiative, and technical assistance for capacity building (see below). In parallel with these efforts, the staffs and Executive Boards of the IMF and the World Bank completed a joint review of the PRSP approach. The Executive Boards of the IMF and the World Bank also discussed a paper on actions to strengthen the tracking of poverty-reducing public spending in HIPCs. This paper contained country action plans agreed with IMF and Bank staff to strengthen the capacity of HIPCs to track poverty-reducing public spending in the short and medium term. In addition, the IMF's Executive Board reviewed the implementation of the PRGF and considered the status of implementation of the HIPC Initiative and the HIPCs' achievement of long-term debt sustainability.

Finally, the IMF sponsored—jointly with the World Bank, Asian Development Bank, and the European Bank for Reconstruction and Development—an initiative to help the seven low-income countries of the Commonwealth of Independent States to promote poverty reduction and debt sustainability.

The PRSP Review

In their review of the PRSP approach in March 2002, Directors welcomed the contributions from representatives of low-income countries, international development agencies, and civil society organizations, both in written form and in the context of four regional conferences, as well as an international conference held in Washington in January 2002 (see Box 5.2). The conferences provided an important opportunity for an exchange of views among international partners on the PRSP process, including the role of the IMF in that process, particularly through the PRGF.

The Board's review revealed an encouragingly broad-based endorsement of the PRSP approach as the umbrella framework and vehicle for organizing domestic and international efforts to achieve poverty reduction in low-income countries (see Box 5.3). Directors reaffirmed the underlying principles that national poverty reduction strategies should be country-driven, results-oriented, comprehensive, and long-term in perspective, and should foster domestic and external partnerships that improve the effectiveness of development assistance. The review also underscored the strong ownership of PRSPs among governments,

Box 5.2

International Conference on Poverty Reduction Strategies

Two years after the IMF and the World Bank adopted a new approach to poverty reduction based on broad-based country ownership of policies and programs, an International Conference on Poverty Reduction Strategies was held in Washington, D.C., during January 14–17, 2002. The conference—which brought together representatives from 60 low-income countries, their devlopment partners, and civil society—provided an opportunity to take stock, share experiences and concerns, and fine-tune strategies in order to be better prepared for, and to ensure the achievement of, the programs' objectives. The Poverty Reduction Strategy Paper (PRSP) approach embodies the principles of self-help, country ownership, and accountability. As such, the PRSP experience, its record to date, and means of enhancing its effectiveness were central themes of the discussions.

Prior to the conference, regional forums for low-income countries in Africa, East Asia, Latin America, Eastern Europe, Central Asia, and the Caucasus had brought government officials, parliamentarians, and representatives of civil society and the private sector together with multilateral and bilateral aid organizations to share early experiences on the design and implementation of the PRSP approach. Participants agreed that the early PRSPs had made poverty reduction a central component of policy development in these countries and had broadened participation in the formulation of strategies, as well as identifying the need to diagnose the nature and causes of poverty more systematically.

IMF Managing Director Horst Köhler described the PRSP approach as a work in progress where everyone is learning by doing. While underscoring the importance of self-help efforts to achieve peace, democracy, and good governance, Mr. Köhler stressed the need for official development assistance and encouraged donors to increase funding and better coordinate their aid efforts. In this context, PRSPs can serve as a framework within which to coordinate and direct resources toward antipoverty efforts. Donors have strongly supported the PRSP approach and are increasingly linking their financial assistance strategies to it.

In addition, the IMF is stepping up its efforts to help countries with capacity building, making them better equipped to tackle poverty and achieve sustainable growth (see Chapter 7).

more open dialogue with civil society, and greater prominence of poverty reduction in the policy debate. At the same time, Directors recognized that progress had been uneven, depending on each country's starting point, capacity, and priorities, and that the design and implementation of country-owned poverty reduction strategies was a complex task that taxed countries' limited institutional capacity. The PRSP approach was still evolving, and everyone involved was learning as they went along. The PRSP approach was a long-term approach that required patience, perseverance, and sustained effort.

While progress to date had been encouraging, Directors stressed that there was more that could be done. The main challenges ahead for improving the preparation, content, and implementation of poverty reduction strategies were:

- To encourage and broaden the systematic participation of stakeholders in developing and monitoring PRSPs;
- To strengthen the content and implementation of PRSPs, notably with respect to developing pro-poor growth policies, through greater specificity on macroeconomic targets and linkages between policies and poverty outcomes, systematically undertaking poverty and social impact analyses of major policy choices, and strengthening public expenditure management systems;
- To align donor strategies and assistance fully behind the PRSP approach; and
- To improve monitoring and evaluation of the effectiveness of poverty reduction strategies and progress toward growth and poverty reduction targets, including the Millennium Development Goals where relevant.

Directors noted that participatory processes were beginning to take hold in PRSP countries but that the process needed to be strengthened to include a broad range of domestic stakeholders and development partners. In particular, while government leadership must be respected, there was greater scope for including parliaments, the business community, trade unions and other workers' groups, and groups representing the poor. There was also scope for more openness and transparency in decision making and in the dialogue among governments, stakeholders, and their partners.

The key challenge that remained was to improve the quality of countries' policies and institutions and the political commitment that must underpin sustained implementation. Country poverty reduction strategies, Directors emphasized, needed to focus systematically on how to ensure sustainable pro-poor growth, establish an enabling environment for the private sector, and strengthen the linkages between macroeconomic and structural / sectoral policies and poverty outcomes. Particular attention needed to be placed on designing appropriate measures to respond to both endogenous and exogenous shocks. Public expenditure management systems also needed to be improved to ensure that poverty-reducing spending is effectively delivered and monitored. Finally, Directors stressed the need for development partners to assist countries in undertaking systematic poverty and social impact analysis of major policy choices, and in designing compensatory measures whenever the adverse effects of policies could not be avoided. In all these areas, there was a complementary agenda for research and the development of better analytical tools.

Donors also needed to better align their assistance behind country-led poverty reduction strategies. There was a pressing need for donors to reduce the cost for low-income countries of mobilizing and utilizing aid, so that both aid resources and limited country capacity could be used more effectively. Directors urged donors to harmonize and simplify procedures and reporting requirements, and to align assistance with national cycles of government decision making, including annual budget cycles. In addition, more information on aid commitments and greater predictability in aid flows, especially to those countries implementing sound policies, would help low-income countries to plan and carry out their strategies.

As countries and development partners gained more experience in the implementation of PRSPs, it would be possible to assess more fully the impact on poverty outcomes and indicators. The success of the PRSP approach would ultimately be judged by results—namely, the delivery of sustainable growth and poverty reduction. At the country level, monitoring and evaluation capacity needed to be strengthened, and attention should be directed to developing indicators that could monitor progress toward key objectives—an area where the assistance of development partners would also be needed.

Review of the Poverty Reduction and Growth Facility

The Board's review of the PRGF in March 2002 allowed the IMF the opportunity to look carefully at the content of recent IMF-supported programs and its work in support of low-income countries. Directors noted that since the facility was introduced in 1999, more than 40 countries have had new PRGF arrangements or have had arrangements under the Enhanced Structural Adjustment Facility (the predecessor of the PRGF) transformed to reflect the new features of the PRGF. Given that it was too early to make an assessment of the PRGF's direct impact on poverty, the review focused on the design of PRGF-supported programs to see if they had met the expectations set out for them (see Box 5.4).

Directors agreed that there had been good progress to date in aligning program design with the goals of the facility. Policy goals, including macroeconomic frameworks in PRGF-supported programs, were generally derived from and consistent with those of PRSPs. There had been an increased allocation of budgetary resources toward poverty-reducing spending, and fiscal frameworks were accommodating higher spending to support country-defined poverty reduction goals. Structural conditionality had been streamlined to focus primarily on measures critical to the success of PRGF-supported programs, and within the IMF's area of expertise, while providing better coordination and definition of the IMF's role vis-à-vis that of the World Bank. The IMF would avoid becoming involved in micromanagement, but would promote the ownership of programs. Directors were of the view that outcomes-based conditionality would give the authorities greater flexibility and accountability in choosing how to achieve the desired results. In short, these efforts at streamlining conditionality were creating greater scope for national choices in program design and implementation.

There was, however, a need to build on this progress in several specific areas:

- An increased focus on the sources of pro-poor growth and the design of policies to facilitate such growth;
- Further efforts to improve the quality and efficiency of government spending;
- More systematic treatment of poverty and social impact analysis;
- Broader and deeper discussion and analysis of macroeconomic frameworks and structural policies;
- Greater emphasis on the risks of program implementation, including those related to growth projections, vulnerability to external shocks, and shortfalls in financing;

Box 5.3

What Is a PRSP?

Poverty Reduction Strategy Papers (PRSPs) are prepared by low-income countries through a participatory process involving domestic stakeholders as well as external development partners, including the IMF and World Bank. Updated periodically (up to five years) with annual progress reports, PRSPs describe the country's macroeconomic, structural, and social policies and programs over a three-year or longer horizon to promote broad-based growth and to reduce poverty, as well as associated external financing needs and major sources of financing.

Recognizing that preparation of a PRSP is a lengthy process, the World Bank and IMF have agreed to provide concessional assistance on the basis of Interim PRSPs. I-PRSPs 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.

The country documents, along with the accompanying IMF / World Bank Joint Staff Assessments (JSAs), are made available on the IMF and World Bank websites in agreement with the member country. PRSPs and I-PRSPs, as well as policy documents related to the PRSP approach, can be found on the IMF's website.

Box 5.4
Key Features of Programs Supported by the Poverty Reduction and Growth Facility

As use of the PRGF has evolved, distinctive features of the facility have emerged:

- Broad public participation and increased national ownership;
- Embedding the PRGF in the country's overall strategy for growth and poverty alleviation;
- National budgets that are more favorable to the poor and economic growth;
- Ensuring appropriate flexibility in fiscal targets;
- More selective structural conditionality;
- Emphasis on measures to improve public resource management and accountability; and
- Poverty and social impact analysis of major macroeconomic adjustments and structural reforms.

These features are closely related, and the overall approach is similarly cohesive. Basing a country's PRGF-supported program on the Poverty Reduction Strategy Paper (PRSP) aims to ensure that civil society has been involved in formulating the program, that the national authorities are the clear leaders of the process, and that the program is properly embedded in the country's broader strategy for growth and poverty reduction. IMF staff are required to explain to the Executive Board how PRGF-supported programs derive from the poverty reduction strategy and how they complement the World Bank's activities and conditionality.

An important outcome of the approach is greater attention to the economic aspects of governance. Still, greater emphasis needs to be given to the social impact of major reforms under PRGF-supported programs, including the impact on the poor (normally undertaken by the World Bank or other donors, where governments lack the capacity to do this work themselves). Where necessary, measures to offset harmful effects on the poor should be incorporated in programs. Given improved country ownership, PRGF conditionality can and should be more selective, focusing on measures central to success of the country's strategy, particularly in the macroeconomic and financial areas.

- Better coordination of program design and conditionality with the World Bank; and
- More effective and extensive communications with authorities, donors, and civil society in PRGF countries.

Economic growth was critical for achieving poverty reduction, Directors stressed. Attention to the sources of growth would therefore be essential in developing appropriate policies and projections. It would be important to underpin the growth projections in PRGF-supported programs with better analysis of the associated structural reforms to develop the private sector, improve property rights, increase foreign and domestic investment, enhance external competitiveness, diversify exports, and increase labor productivity. Good governance and strong institutions, moreover, would be important to ensuring growth prospects.

Almost all PRGF-supported programs had placed substantial emphasis on strengthening public expenditure management. But a substantial reform agenda remained, Directors noted, including with respect to the comprehensiveness of budgetary data, executing and reporting budget outcomes, and disseminating this information to the public. For HIPCs, in particular, action plans designed with the collaboration of the IMF and World Bank would need to be implemented to strengthen capacity to track poverty-reducing spending, and public spending more widely (see above). IMF staff are now required to report on the implementation of these action plans in program documents sent to the Executive Board.

Directors welcomed the progress made in incorporating poverty and social impact analysis but indicated that these assessments should be done for more PRGF-supported programs. Documents for more than half of the current programs provide such analyses. Going forward, the approach would be progressively strengthened so that a description of the assessment being carried out in the country—including a qualitative description of the likely impact of major macroeconomic and structural measures on the poor and a summary of countervailing measures being implemented—would become a routine feature of program documentation.

Both the PRSP and PRGF reviews underscored the importance of considering alternative policy choices and the constraints and trade-offs involved. The aim was for PRGF-supported program documentation to set out clearly the program's role in the context of the country's overall poverty reduction strategy, as well as the options that were considered and the commitments made by the authorities in the context of the program. However, in their discussion, Directors stressed that this would need to be done in a manner consistent with demonstrating the IMF staff's support for the program and respecting the need for frank and confidential discussions between IMF staff and the authorities.

In their review of the PRGF, Directors also pointed to the need for better communication among all the partners involved in the development and execution of countries' poverty reduction strategies. In this regard, IMF staff should stand ready to support national authorities in their efforts to explain to a broader audience the analysis on the links between the macroeconomic framework and growth and poverty reduction outcomes in the context of PRGF-supported programs.

The Board's PRGF review underscored the diverse needs of low-income countries for IMF support and recommended further work on the adequacy of current facilities in meeting these needs. As such, during the coming year the IMF should also examine issues surrounding the structure of the PRGF and how to adapt the current structure of IMF financial assistance for the poorest countries, including those affected by commodity price or other shocks, countries emerging from conflict, and countries with little or no balance of payments need.

HIPC Initiative and Debt Sustainability

Debt relief can contribute to poverty reduction in significant ways. In April 2002 the Executive Board reviewed the status of the HIPC Initiative and the HIPCs' attainment of long-term external debt sustainability. Directors noted that, as of the time of their discussion, 26 countries had reached their decision point under the enhanced HIPC Initiative (see Figure 5.1), with commitments for $40 billion (in nominal terms) of debt relief (see Table 5.1). By cutting the ratio of debt service to exports by about a third, HIPC relief would provide annual budgetary savings for these countries varying between ½ of 1 percent and 1½ percent of GDP, allowing for significant increases in pro-poor spending. Directors expressed concern that, for developing countries as a whole, the recent global economic slowdown, coupled with a significant decline in many primary commodity prices over the past two years, had weakened the HIPCs' growth and export performance. Moreover, the slowdown had led to a deterioration of the external debt indicators for many, but not all, HIPCs. There were considerable differences in the evolution of the debt indicators among the HIPCs, reflecting differences in implementation of economic reform programs and in exposure to shocks. The impact of these unfavorable developments on the outlook for debt sustainability of the HIPCs would depend on a number of factors, notably the adequacy of policy responses and supporting resource transfers. The outlook for the sustainability of external debt had worsened for most of the 21 countries in the interim period (that is, the period between their decision and completion points) at end-April 2002, primarily because of lower exports, but had not necessarily been seriously impaired. The ratio of the net present value of debt to exports at the completion point was projected to be above the 150 percent threshold in 8–10 countries; deviations for 6 of these had already been anticipated at the time of the decision points, although to a lesser degree. For these countries, the debt in excess of the HIPC threshold could range from $0.5 billion to $0.9 billion in net present value terms.

For countries in the interim period, Directors pointed out, the enhanced HIPC Initiative allows some flexibility in exceptional cases to top-up debt relief at the completion point for countries where exogenous factors have caused fundamental changes in their economic circumstances. The enhanced HIPC Initiative thus provides for the possibility of additional debt relief at the completion point. However, Directors stressed that potential additional HIPC relief was not meant to compensate for slippages in policy reform, nor could it be provided on an ongoing basis to deal with future economic shocks. In the near term, to help countries deal with the deterioration in the external environment, some countries might require additional donor support, and increased interim relief might be helpful. Providing any additional debt relief at the completion point would raise the overall costs of the HIPC Initiative, Directors noted, and the financing implications of this would need to be explored in due course. In addition, HIPCs would need to improve their debt-management capacity, with donor assistance.

Capacity Building

Both the PRSP and PRGF reviews underscored that capacity building is critical for full ownership and effectiveness of the reform agenda in PRGF countries as national expertise is developed (including in policy choices, expenditure management, and poverty and social impact analysis). In low-income countries, it is often not a lack of political will that impedes reform but a lack of implementation capacity. Thus, the IMF has continued to strengthen its capacity-building technical assistance and training activities in the institution's core macroeconomic and financial areas of responsibility, including public finance and administration, financial sector development, development of sound statistical systems, and promotion of data dissemination (see Chapter 7). The PRSP approach is increasingly providing a means of coordinating the IMF's efforts with those of other technical assistance providers. Regional initiatives in the Pacific and in the Caribbean are allowing the IMF to make more efficient use of its limited resources for technical assistance, while ensuring that activities are closely aligned with local and regional priorities identified through IMF surveillance and, where available, PRSPs. In this vein, the IMF intends to establish two pilot regional technical assistance centers in sub-Saharan Africa in the second half of 2002 (see Chapter 7), as part of IMF support for the New Economic Partnership for Africa's Development (see Box 5.5). These centers aim to raise the effectiveness of the IMF's technical assistance projects by fostering ownership, enhancing accountability, increasing responsiveness, and strengthening coordination among technical assistance providers.

CIS Initiative

In FY2002 the IMF worked with the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development on an Initiative

Figure 5.1
Enhanced HIPC Initiative Flow Chart

First Stage

- Country establishes three-year track record of good performance and develops together with civil society a Poverty Reduction Strategy Paper (PRSP); in early cases, an Interim PRSP may be sufficient to reach the decision point.
- Paris Club provides flow rescheduling on Naples terms, i.e., rescheduling of debt service on eligible debt falling due (up to 67 percent reduction on a net present value (NPV) basis).
- Other bilateral and commercial creditors provide at least comparable treatment.[1]
- Multilateral institutions continue to provide adjustment support in the framework of World Bank- and IMF-supported adjustment programs.

Decision Point

Either

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors
is adequate
for the country to reach external debt sustainability.
========> Exit
(Country does not qualify for HIPC Initiative assistance.)

Or

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors
is not sufficient
for the country to reach external debt sustainability.
========> World Bank and IMF Boards
determine eligibility for assistance.

All creditors (multilateral, bilateral, and commercial) commit debt relief to be delivered at the floating completion point. The amount of assistance depends on the need to bring the debt to a sustainable level. This is calculated based on latest available data at the decision point.

Second Stage

- Country establishes a second track record by implementing the policies determined at the decision point (which are triggers to reaching the floating completion point) and linked to the (Interim) PRSP.
- World Bank and IMF provide interim assistance.
- Paris Club provides flow rescheduling on Cologne Terms (90 percent debt reduction on NPV basis or higher if needed).
- Other bilateral and commercial creditors provide debt relief on comparable terms.[1]
- Other multilateral creditors provide interim debt relief at their discretion.
- All creditors and donors continue to provide support within the framework of a comprehensive poverty reduction strategy designed by governments, with broad participation of civil society and donor community.

"Floating Completion Point"

- Timing of completion point for nonretroactive HIPCs (i.e., those countries that did not qualify for treatment under the original HIPC Initiative) is tied to at least one full year of implementation of a comprehensive poverty reduction strategy, including macroeconomic stabilization policies and structural adjustment. For retroactive HIPCs (those countries that did qualify under the original HIPC Initiative), the timing of the completion point is tied to the adoption of a comprehensive PRSP.
- All creditors provide the assistance determined at the decision point; interim debt relief provided between decision and completion points counts toward this assistance.
- All groups of creditors provide equal reduction (in NPV terms) on their claims as determined by the sustainability target. This debt relief is provided with no further policy conditionality.
  – Paris Club provides stock-of-debt reduction on Cologne terms (90 percent NPV reduction or higher if needed) on eligible debt.
  – Other bilateral and commercial creditors provide at least comparable treatment on stock of debt.[1]
  – Multilateral institutions provide debt relief, each choosing from a menu of options, and ensuring broad and equitable participation by all creditors involved.

[1] Recognizing the need for flexibility in exceptional cases.

Table 5.1
Progress Status of Countries Under the Enhanced HIPC Initiative, as of end-April 2002

Completion Points Reached (5)	Decision Points Reached (21)		Decision Point Not Yet Reached (12)		Sustainable Cases (4)
Bolivia	Benin	Malawi	Burundi	Lao P.D.R.	Angola
Burkina Faso	Cameroon	Mali	Central African Rep.	Liberia	Kenya
Mozambique	Chad	Mauritania	Comoros	Myanmar	Vietnam
Tanzania	Ethiopia	Nicaragua	Congo, Dem. Rep. of	Somalia	Yemen[1]
Uganda	Gambia, The	Niger	Congo, Rep. of	Sudan	
	Ghana	Rwanda	Côte d'Ivoire[2]	Togo	
	Guinea	São Tomé and Príncipe			
	Guinea-Bissau	Senegal			
	Guyana	Sierra Leone			
	Honduras	Zambia			
	Madagascar				

Sources: HIPC documents; and IMF and World Bank staff estimates.
[1]Yemen reached its decision point in June 2000. Its debt sustainability analysis indicated that the country has a sustainable debt burden after the application of traditional debt relief mechanisms. The Paris Club provided a stock-of-debt operation on Naples terms in July 2001.
[2]Côte d'Ivoire had reached its decision point under the original HIPC Initiative, but has not yet reached its decision point under the enhanced Initiative.

to accelerate growth and poverty reduction in seven low-income countries of the Commonwealth of Independent States (Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan) to accelerate growth and poverty reduction. Primary responsibility for intensifying their development and reform efforts would rest with the CIS-7 countries themselves, but the Initiative calls for the international community to provide strong complementary support to countries following sound reform policies—to help these countries strengthen the conditions for growth, poverty reduction, and debt sustainability—both through international and regional institutions and through governments acting bilaterally.

Under the Initiative, the CIS-7 countries would undertake reforms to:

- Promote policy and institutional reform more consistently and resolutely, within the framework of fully participatory poverty reduction strategies;
- Strengthen the capacity of their governments, build greater public accountability, and strive to reduce corruption;
- Ensure macroeconomic stability, promote the transparency of public finances, strengthen tax collection, and adopt appropriate policies (including debt-management policies) to ensure that debt levels are sustainable;
- Implement growth-promoting structural reforms, including energy sector reform (through unbundling, setting tariffs that reflect costs, and eliminating arrears and noncash settlements), maintaining open trade regimes, and creating a favorable investment climate to encourage the growth of small and medium-sized enterprises;
- Target scarce resources to priority social services and safety nets, including by ensuring the adequate provision of health and education services and by acting now to counter the problems of HIV/AIDS, tuberculosis, malaria, and drug trafficking and abuse; and
- Work with their neighbors, with the support of the international community, to resolve conflicts and foster regional cooperation, especially in trade and transit, water, and energy.

The role of trade and development partners and creditors under the Initiative would be to extend support to those CIS-7 countries implementing strong reforms, including:

- More concessional financial support, as well as debt restructuring or debt relief where needed, in conjunction with strong reform programs, so that resources are well used;
- Increased access for CIS-7 countries to industrial countries' markets, and promotion of direct investment;
- Improved coordination between development agencies, anchored in country-led poverty reduction programs; and
- Added support from international and regional institutions through technical assistance, policy advice, and concessional financial assistance (including grants) in support of the reform efforts of the CIS-7 countries.

Support by the International Community

The IMF's work to improve development outcomes in its low-income member countries increasingly takes place within a larger, and complementary, international

Box 5.5

Africa Initiatives

IMF Managing Director Horst Köhler has called for a "two-pillar approach" to the war on poverty. The first pillar is based on the recognition by developing nations that they themselves have primary responsibility for tackling poverty and that this requires a commitment to good governance and accountability. The second pillar is based on increased and better-coordinated support from the industrial countries, and a willingness to open their markets to the exports of poorer nations and remove subsidies.

Mr. Köhler sees African initiatives, such as the New Economic Partnership for African Development (NEPAD), as an integral part of this two-pillar approach. Conceived by leaders from the member states of the Organization of African Unity (OAU), working together to achieve economic growth for all African nations and to reduce widespread poverty, the partnership's core objectives are to:

- encourage peace, democracy, and good governance;
- design and implement action plans to develop key pro-poor sectors: health care, education, infrastructure, and agriculture;
- achieve economic integration at the regional and global levels by building a strong private sector and fostering a climate conducive to domestic and foreign investment; and
- develop more productive partnerships with Africa's bilateral and multilateral development partners.

In order to help sustain the commitment of African nations to growth and poverty reduction, the IMF has launched a complementary Capacity-Building Initiative aimed at strengthening economic governance and the domestic capacity of governments to carry out sound economic poverty-reducing policies. Two new IMF technical assistance centers in sub-Saharan Africa (see Chapter 7) will assist governments to achieve these goals, including through developing effective poverty-monitoring systems, implementing accountability mechanisms, and identifying more effective ways to involve local governments in decision making.

To garner international support, the IMF is calling for more development assistance; thus far, the United States and the European Union have committed to increase their aid to countries with strong policies. Efforts to help African nations achieve economic integration at the regional and global levels include promoting greater involvement of the private sector through initiatives such as investors' councils and motivating investment through sound economic and fiscal frameworks. At the same time, the IMF is strongly encouraging industrial nations to remove subsidies and eliminate trade barriers for African exports.

The IMF has been working hard to promote true national ownership of programs. African countries themselves have shown the way forward by the progress they have made.

- Mozambique and Uganda, once devastated by war, are now among the most rapidly growing African countries.
- In Botswana and Cameroon, revenues from diamonds and oil are being used to help build more diversified economies.
- Mauritius and Tanzania have achieved noteworthy success in promoting stronger private sectors and attracting foreign investment.
- In Burkina Faso, policies to increase agricultural production and cotton exports are raising growth performance and improving the incomes of the rural poor.

The Poverty Reduction Strategy Paper (PRSP) approach is the guiding framework for the IMF's partnership with Africa, acting as a core mechanism to help these nations incorporate regional poverty reduction priorities into their national programs and to coordinate international support. As of end-April 2002, over two dozen countries in sub-Saharan Africa were preparing PRSPs with IMF and World Bank assistance, and 23 African countries had qualified for debt relief under the enhanced HIPC Initiative.

effort. The IMF is committed to help support the Millennium Development Goals agreed by the international community (see Box 5.1). In November 2001, the Managing Director of the IMF and the President of the World Bank proposed, at the Ottawa meetings of the IMF and Bank, a two-pillar approach for fighting global poverty: first, low-income countries must help themselves by implementing sound policies, strengthening institutions, and improving governance; second, for those countries that help themselves, the international community must provide strong support through greater trade opportunities as well as increased, and better delivery of, aid flows. The IMF will also be guided by the "Monterrey Consensus," which emerged from the United Nations Conference on Financing for Development in March in Monterrey, Mexico (see Box 5.6).

The international community must open markets and phase out trade-distorting subsidies, especially in areas where developing countries have a comparative advantage, such as agriculture, processed foods, textiles and clothing, and light manufactures. Greater transparency about and public awareness of the costs of the status quo to the world's poor are especially important if the political ground is to be prepared for serious reform.

In keeping with the outcomes of Monterrey and Doha, the IMF has stepped up its surveillance of issues related to market access (see Chapter 2) in the context of its Article IV consultations with member countries. Low-income countries need support to strengthen their ability to take full advantage of the opportunities of the global market and the multilateral trading system. As a participating agency under the Integrated

Framework for Trade-Related Technical Assistance, the IMF is helping by providing diagnostics of the trade environment in low-income countries, by identifying policy and assistance priorities, and by providing technical assistance in its areas of expertise (see Chapter 7).

Effective monitoring of progress toward the Millennium Development Goals is key to staying on track and for building sustained support for greater international assistance to poor countries. At the global level, a comprehensive and transparent system to monitor progress toward achieving the Millennium Development Goals is being developed, and the IMF has welcomed the efforts being undertaken by the United Nations to this end. The IMF participated in an interagency working group (including the World Bank, OECD, and UN agencies) led by the UN to agree on the targets and indicators to monitor progress toward the Millennium Development Goals. These will form the basis of the UN Secretary-General's first Millennium Report to the General Assembly in September 2002. The IMF's specific input to this global monitoring system is the provision of data on HIPC debt relief and contributions to the monitoring of the indicators on market access (both part of the "global partnership for development" Millennium Development Goal). As part of this process, the respective responsibilities of poor countries and their development partners—donor countries, international institutions, the private sector, and civil society—will need to be identified more clearly. On this basis better accountability can be established.

Box 5.6

Conference on Financing for Development, Monterrey, Mexico

Putting development issues at the center of the global agenda—an important goal of developing and developed nations alike—was the theme of the International Conference on Financing for Development held in Monterrey, Mexico, March 18–22, 2002. The conference served as a catalyst for various elements of the new development partnership being forged among debtor and donor governments, aid organizations, international financial institutions, and the private sector—a partnership based on mutual accountability and commitment to promoting growth and reducing poverty. The Monterrey Conference affirmed that the best way to help developing countries is to improve the environment for international trade. The emphasis on coherence between aid and trade policies echoed the key message of the Doha Declaration of the WTO Ministerial Meeting, held in November 2001 in Doha, Qatar (see Box 2.2 in Chapter 2). The consensus at the Doha Ministerial Conference was that the best defense against aid dependency and recurrent debt problems is to build prosperity by expanding and diversifying exports and attracting foreign direct investment. Estimates of the possible benefits to low-income countries from increased trade are substantially higher than current concessional flows.

The Monterrey Conference welcomed the commitments by the European Union and the United States to increase aid flows but noted that more needs to be done. Well-directed aid, combined with strong reform efforts, can greatly reduce poverty. However, building strong public support in donor countries for increased aid will require greater understanding of aid as an investment in peace, stability, and shared prosperity and—equally important—a demonstration by poor countries that they are putting aid to good use.

The World Summit on Sustainable Development in Johannesburg, South Africa, in late August 2002 is expected to follow up on some of the accomplishments of the Monterrey Conference.

Looking Ahead

The financial year saw slowdown, sudden shocks, and uncertainty—but it also witnessed the arrival of an unprecedented degree of agreement about what is required to overcome world poverty. The Monterrey Consensus defined the right priorities and made it clear that durable progress is not possible without good governance, respect for the rule of law, and policies and institutions that unlock creative energies and promote investment—including foreign direct investment. It also recognized that the international community should provide faster, stronger, and more comprehensive support to those low-income countries that provide this environment.

To meet the Millennium Development Goals, progress must be made simultaneously on many fronts by many actors. The implementation of the Monterrey Consensus should be a next chapter in international efforts to create a better world, and the IMF remains committed to contribute—in its areas of expertise—to this global effort to combat poverty.

CHAPTER 6

Financial Operations and Policies in FY2002

The IMF is a cooperative institution that provides financing to member countries experiencing balance of payments problems. It extends financing through three channels:

Regular Operations. The IMF provides financing from a revolving pool of funds consisting of members' capital subscriptions (quotas) on the condition that the borrower undertake economic adjustment and reform policies to address its balance of payments difficulties. This financing is extended under a variety of policies and facilities designed to address specific balance of payments problems (see Table 4.1). Interest is charged on the loans at market-related rates and with repayment periods that vary depending on the lending policy or facility.

Concessional Financing. The IMF lends at a very low interest rate to poor countries to help them address their balance of payments difficulties by restructuring their economies to promote growth and reduce poverty. The IMF also provides assistance on a grant (no-charge) basis to heavily indebted poor countries to help them achieve sustainable external debt positions. The principal for concessional loans is funded primarily by bilateral lenders to the IMF at market-based rates. Resources to subsidize the rate charged to borrowers, and grants for debt relief, are financed through voluntary bilateral contributions by members and income from the IMF's own resources.

SDRs. The IMF can also create international reserve assets by allocating special drawing rights (SDRs) to members, which can be used to obtain foreign exchange from other members and to make payments to the IMF (21.4 billion SDRs have been allocated). The SDR also serves as the IMF's unit of account and its value is based on a basket of major international currencies. The SDR interest rate is based on market interest rates for the currencies in the valuation basket and serves as the basis for other IMF interest rates.

To promote better understanding of IMF finances, the IMF regularly releases to the public a wide variety of timely and comprehensive data (see Box 6.1).

The key financial developments in FY2002 included:

- An increase in outstanding IMF loans as the slowdown in the world economy contributed to a worsening of the balance of payments difficulties of several members that experienced reduced access to international capital markets.
- Continued efforts to assist the IMF's poorest members with implementation of initiatives to reduce the debt burdens of the heavily indebted poor countries and to focus the IMF's concessional lending activities more explicitly on poverty reduction.
- Commencement by the IMF of a review of the size and distribution of members' capital subscriptions and consideration of a possible general allocation of SDRs.

Box 6.1
Public Information on IMF Finances

In recent years, the IMF has significantly expanded the volume, quality, and timeliness of information available to the public on its finances. During FY2002, a new edition of the IMF's standard pamphlet providing detailed information on its financial structure was published.[1] The IMF also provides background and current data on its financial activities on the IMF's website (*http://www.imf.org/external/fin.htm*), including:

- Current financial position
- IMF liquidity and sources of financing
- SDR valuation and interest rate
- Rates of charge on IMF loans and the interest rate paid to creditors
- Country information on
  - Current lending arrangements
  - Loan disbursements and credit outstanding
  - Loan repayments and projected obligations
  - Arrears
  - SDR allocations and holdings
- Financial statements

[1] Treasurer's Department, *Financial Organization and Operations of the IMF*, IMF Pamphlet Series, No. 45, 6th ed. (Washington: International Monetary Fund, 2001).

Regular Financing Activities

The IMF conducts its regular lending activity through the General Resources Account (GRA), which holds the quota subscriptions of members (see Box 6.2). The bulk of the financing is provided under Stand-By Arrangements, which address members' balance of payments difficulties of a short-term, cyclical nature, and under the Extended Fund Facility (EFF), which focuses on external payments difficulties arising from longer-term structural problems. Loans under Stand-By and Extended Arrangements can be supplemented with short-term resources from the Supplemental Reserve Facility (SRF) to assist members experiencing a sudden and disruptive loss of capital market access. All loans incur interest charges and can be subject to surcharges based on the type and duration of the loan and the amount of IMF credit outstanding. Repayment periods also vary by facility.

Box 6.2

The IMF's Financing Mechanism

The IMF's lending is financed from the paid-in capital subscribed by member countries. Each country is assigned a quota that determines its maximum financial commitment to the IMF. A portion of the quota is provided in the form of reserve assets (foreign currencies acceptable to the IMF or SDRs) and the remainder in the member's own currency. The IMF extends financing by providing reserve assets to the borrower from the reserve asset subscriptions of members or by calling on countries that are considered financially strong to exchange their currency subscriptions for reserve assets (see Box 6.3).

The loan is disbursed or drawn by the borrower "purchasing" the reserve assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower "repurchasing" its currency from the IMF with reserve assets. The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate (see Box 6.6) and imposes surcharges depending on the type and duration of the loan and the level of credit outstanding.

A country that provides reserve assets to the IMF as part of its quota subscription or through the use of its currency receives a liquid claim on the IMF (reserve position) that can be encashed on demand to obtain reserve assets to meet a balance of payments financing need. These claims earn interest (remuneration) based on the SDR interest rate and are considered by members as part of their international reserve assets. As IMF loans are repaid (repurchased), the amount of SDRs and the currencies of creditor members is restored and the creditor claim on the IMF is extinguished.

The "purchase / repurchase" approach of IMF lending affects the composition, but not the overall size, of the IMF's resources. An increase in loans outstanding will reduce the IMF's holdings of reserve assets and the currencies of members that are financially strong and, at the same time, increase the IMF's holdings of the currencies of countries that are borrowing from the IMF. The amount of the IMF's holdings of reserve assets and the currencies of financially strong countries determines the IMF's lending capacity (liquidity) (see Box 6.4).

Lending

Augmentations of existing arrangements as well as new arrangements for Brazil and Turkey—all in amounts larger than usual—contributed to a sharp rise in new IMF commitments in FY2002. Total commitments increased to SDR 39.4 billion[1] in FY2002 from SDR 13.1 billion in FY2001. The IMF approved nine new Stand-By Arrangements involving commitments totaling SDR 26.7 billion, and commitments to Argentina and Turkey under Stand-By Arrangements already in place were augmented by SDR 12.7 billion. No EFF arrangements were approved in FY2002. (See Table 6.1.)

The largest IMF commitments during the year reflected new Stand-By Arrangements for Brazil and Turkey, including the provision of shorter-term financing under the SRF. In September 2001, a Stand-By Arrangement of SDR 12.1 billion (SDR 10.0 billion under the SRF) was approved for Brazil in support of the government's economic and financial program through December 2002. In February 2002, the IMF approved a three-year, SDR 12.8 billion Stand-By Arrangement for Turkey to support the government's economic program, which replaced the previous arrangement approved in December 1999.

In a continuation of recent trends, a growing volume of IMF financing commitments are being treated as precautionary, with borrowers indicating that they do not intend to draw on the funds committed to them by the IMF. Increased use of precautionary Stand-By Arrangements, as well as other factors such as uncompleted reviews and interrupted programs, resulted in drawings being made under only 16 of the 34 Stand-By and Extended Arrangements in place during the year (see Appendix II, Table II.7). At the end of April 2002, undrawn balances under the 17 Stand-By and Extended Arrangements still in effect amounted to SDR 26.9 billion, about half of the total amount committed (SDR 51.7 billion).

No commitments were made under the IMF's policy for emergency assistance, the Compensatory Financing Facility (CFF), or Contingent Credit Lines (CCLs) during the year.

During the financial year, the IMF disbursed SDR 29.1 billion in loans from its GRA. The amount of new credit exceeded the repayment of loans

[1]As of April 30, 2002, SDR 1 = US$1.267706.

Table 6.1
IMF Financial Assistance Approved in FY2002

Member	Type of Financial Arrangement	Date of Approval	Amount Approved[1] (in millions of SDRs)
Argentina	Augmentation of Stand-By	September 7, 2001	6,351.3
Armenia	Three-year PRGF	May 23, 2001	69.0
Azerbaijan	Three-year PRGF	July 6, 2001	80.5
Brazil[2]	15-month Stand-By	September 14, 2001	12,144.4
Bulgaria	Two-year Stand-By	February 27, 2002	240.0
Cape Verde	Three-year PRGF	April 10, 2002	8.6
Chad	Augmentation of PRGF	January 16, 2002	5.6
Côte d'Ivoire	Three-year PRGF	March 29, 2002	292.7
Ethiopia	Augmentation of PRGF	March 18, 2002	13.0
Ghana	Augmentation of PRGF	June 27, 2001	37.0
Guatemala	One-year Stand-By	April 1, 2002	84.1
Guinea	Three-year PRGF	May 2, 2001	64.3
Kyrgyz Republic	Three-year PRGF	December 6, 2001	73.4
Lithuania	18-month Stand-By	August 30, 2001	86.5
Mali	Augmentation of PRGF	July 26, 2001	4.7
Mongolia	Three-year PRGF	September 28, 2001	28.5
Pakistan	Three-year PRGF	December 6, 2001	1,033.7
Peru	Two-year Stand-By	February 1, 2002	255.0
Romania	18-month Stand-By	October 31, 2001	300.0
Sierra Leone	Three-year PRGF	September 26, 2001	130.8
Turkey	Augmentation of Stand-By	May 15, 2001	6,362.4
	Three-year Stand-By	February 4, 2002	12,821.2
Uruguay	Two-year Stand-By	April 1, 2002	594.1
Yugoslavia, Fed. Rep. of	One-year Stand-By	June 11, 2001	200.0

[1]For augmentations, only the amount of the increase is shown.
[2]Amount agreed includes commitment and amounts remaining available under the SRF.

extended in earlier years. Total repayments were SDR 19.2 billion, including advance repayments by Brazil (SDR 3.3 billion), Korea (SDR 1.9 billion), Russia (SDR 1.9 billion), and Turkey (SDR 4.5 billion). Consequently, IMF credit outstanding at the end of the financial year amounted to SDR 52.1 billion, SDR 9.9 billion higher than a year earlier but some SDR 8.5 billion below the peak attained during the recent financial crises.

A review of IMF facilities completed in FY2001 resulted in a number of important measures affecting the duration and size of future IMF financing under Stand-By and Extended Arrangements (see Chapter 4). The new policies on time-based early repurchase expectations and the level-based interest surcharge apply to drawings made after the date of the decision by the Executive Board (November 28, 2000). As of April 30, 2002, financing amounting to SDR 21.9 billion was subject to early repurchase expectations under these policies; at that time, SDR 11.6 billion was subject to the level-based surcharge.

Resources and Liquidity

The IMF's lending is financed primarily from the fully paid-in capital (quotas) subscribed by member countries in the form of reserve assets and currencies (see Box 6.2).[2] Only a portion of the resources are readily available to finance new lending, however, because of earlier commitments and IMF policies that limit use of the currencies to those of members that are financially strong (see Boxes 6.3 and 6.4). General reviews of IMF quotas are conducted at five-year intervals during which adjustments are proposed in the overall size and distribution of quotas to reflect developments in the world economy. A member's quota can also be adjusted separately from a general review to take account of major developments. The IMF can also borrow to supplement its quota resources.

The IMF's financial position weakened somewhat during the financial year but remained comfortable. On April 30, 2002, the IMF had SDR 64.7 billion in net uncommitted usable resources, compared with SDR 78.7 billion a year earlier. As noted above, a number of new, large Stand-By Arrangements and the augmentation of several existing arrangements resulted

[2]Quotas also determine a country's voting power in the IMF, its access to IMF financing, and its share in SDR allocations.

in a decline of available resources. However, this effect was partly offset by expirations of some arrangements with undrawn balances and by some advance repayments (including by Brazil, Korea, and Russia), both of which increased resources available for new lending. Similarly, the amount of usable resources increased because two countries (Cyprus and Korea) were considered sufficiently strong for their currencies to be newly included on the transfer side of the IMF's financial transactions plan.

Box 6.3
Financial Transactions Plan

The IMF extends loans by providing reserve assets from its own holdings and by calling on financially strong countries to exchange the IMF's holdings of their currencies for reserve assets. The members that participate in the financing of IMF transactions in foreign exchange are selected by the Executive Board based on an assessment of each country's financial capacity. These assessments are ultimately a matter of judgment and take into account recent and prospective developments in the balance of payments and reserves, trends in exchange rates, and the size and duration of external debt obligations.

The amounts transferred and received by these members are managed to ensure that their creditor positions in the IMF remain broadly the same in relation to their quota, the key measure of each member's rights and obligations in the IMF. This is achieved in the framework of an indicative quarterly plan for financial transactions. The IMF publishes on its website the outcome of the financial transactions plan for the quarter ending three months prior to publication. As of April 30, 2002, the 40 members listed below were participating in financing IMF transactions.

Australia	Denmark	Korea	Saudi Arabia
Austria	Finland	Kuwait	Singapore
Belgium	France	Luxembourg	Slovenia
Botswana	Germany	Netherlands	Spain
Brunei Darussalam	Greece	New Zealand	Sweden
Canada	Hungary	Norway	Switzerland
Chile	Ireland	Oman	Trinidad and Tobago
China	Israel	Poland	United Arab Emirates
Cyprus	Italy	Portugal	United Kingdom
Czech Republic	Japan	Qatar	United States

Quota Developments

A number of quota-related developments took place during the financial year.

- The Twelfth General Review of Quotas began in December 2001 with the formation of a Committee of the Whole to consider the possible need to increase quotas. As part of this process, the Executive Board held an informal seminar on conceptual issues involved in assessing the adequacy of the IMF's resource base (Box 6.5). Directors noted that the Twelfth Review is being conducted in a context of increased global economic and financial integration, including access by a growing number of countries to private capital markets and greater vulnerability to economic shocks and financial market volatility. At the same time, many countries have improved economic policy and performance, leading to a decrease in vulnerability. There was broad recognition that these diverse factors, as well as the IMF's efforts to adapt its policies to deal with the challenges of globalization, would have important implications for the future demand for IMF financing. However, there was no converging view in the Executive Board on the extent to which, on balance, the various developments could affect the required size of the IMF's resource base.
- The Executive Board also held further discussions on possible revisions of the formulas used in determining members' quotas. Directors expressed a wide range of views on the structure and content of alternative quota formulas. They agreed that further work was needed to develop quota formulas that more fully reflected members' roles in the world economy, though many noted that this was a difficult task because quotas performed a variety of roles. Most Directors agreed that any new quota formula should be simple and transparent, and they generally endorsed the use in quota formulas of variables that had traditionally been considered to reflect the IMF's financial functions (that is, GDP, openness, variability, and, possibly, reserves). However, Directors noted that these variables needed to be modernized to take account of changes in the world economy—in particular, the large and growing role of international capital flows. Most Directors further recognized that issues related to the governance of the IMF were unlikely to be resolved solely through revisions of the quota formulas, although revised formulas that commanded wide support could contribute to the gradual adjustment of quotas. At the same time, many Directors considered that, apart from the choice of formula, it was important to address without delay the situation of countries whose actual quotas were significantly below their calculated quotas. Many Directors underscored the desirability of ensuring the proper representation in the IMF's decision making of developing countries, especially the Fund's poorest member countries, particularly those in Africa.

Box 6.4
IMF Financial Resources and Liquidity

While the IMF's lending and other transactions are financed primarily from the quota subscriptions of member countries, only a portion of these funds is available to finance new lending. The IMF's *usable resources* consist of its holdings of the currencies of financially strong members included in the financial transactions plan (Box 6.2) and SDRs. Moreover, some of these usable resources will have been committed under existing loans and must be retained for working balances. Thus, the IMF's *net uncommitted usable resources* represent the funds available for new lending and to meet requests for encashment of creditor liquid claims (reserve positions).

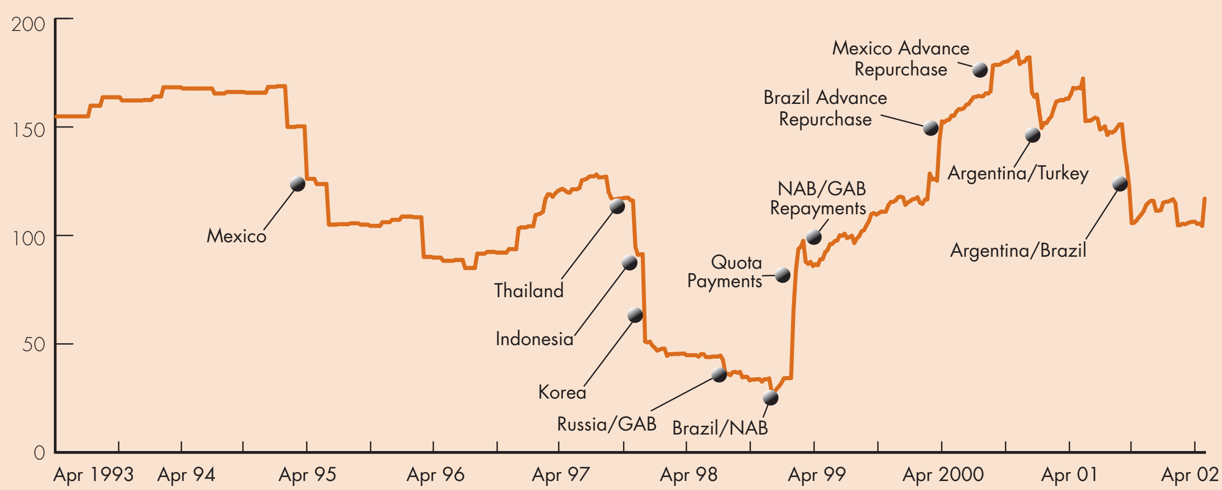
The IMF's usable resources are replenished as borrowers repay outstanding loans.

As of April 30, 2002, the IMF's net uncommitted usable resources amounted to SDR 64.7 billion, about 30 percent of total quotas (see Schedule 2 to the financial statements of the General Resources Account in Appendix IX). Detailed information on the IMF's liquidity position is published monthly on the IMF's website.

The IMF's two standing *borrowing arrangements*—the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB)—can provide up to SDR 34 billion in supplementary resources in specified circumstances. Any such borrowing increases the creditor members' reserve positions and thus adds to the IMF's liquid liabilities.

The IMF must maintain sufficient liquidity to meet current and prospective financing needs. A *liquidity ratio,* which is the ratio of the IMF's net uncommitted usable resources to its liquid liabilities, has traditionally been used to assess the IMF's liquidity position. As of April 30, 2002, the liquidity ratio was 117 percent, compared with 168 percent a year before but more than three and a half times the low point prior to the 1999 increase in IMF quotas. (Figure 6.1).

Figure 6.1
IMF Liquidity Ratio, April 1993–April 2002
(In percent)



- As of April 30, 2002, 174 member countries accounting for more than 99 percent of total quotas proposed in 1998 under the Eleventh General Review of Quotas had consented to, and paid for, their quota increases. Three member countries eligible to consent to the proposed increases in their quotas had not done so by the end of the financial year, and six countries were ineligible to consent to their proposed increases because they were in arrears to the IMF. On January 31, 2002, the Executive Board approved an extension of the period for consent to, and payment of, quota increases under the Eleventh Review until July 31, 2002. At the close of the financial year, total quotas amounted to about SDR 212.4 billion.

Concessional Financing

The IMF provides concessional assistance to help its poorest members increase their economic growth and reduce poverty through the Poverty Reduction and Growth Facility (PRGF) and in the context of the Initiative for Heavily Indebted Poor Countries (HIPCs). In FY2002, the mobilization of loan and grant resources for the continuation of the PRGF in the period 2002–2005 and the HIPC Initiative was completed. A total of 36 member countries received PRGF financing during FY2002, and 26 countries had received financial commitments under the enhanced HIPC Initiative by the end of the financial year.

Poverty Reduction and Growth Facility

The objectives of the IMF's concessional lending were modified in 1999 to include an explicit focus on poverty reduction in the context of a growth-oriented economic strategy. The IMF, along with the World Bank, supports strategies elaborated by the borrowing country in a Poverty Reduction Strategy Paper (PRSP), which is prepared with the participation of civil society and other development partners. Reflecting the new objectives and procedures, the IMF established the PRGF in place of the Enhanced Structural Adjustment Facility (ESAF) to provide financing under arrangements based on PRSPs. The loan commitment capacity of the PRGF is currently estimated to be about SDR 1.1 billion a year through 2005.

During FY2002, the Executive Board approved nine new PRGF arrangements (for Armenia, Azerbaijan, Cape Verde, Côte d'Ivoire, Guinea, the Kyrgyz Republic, Mongolia, Pakistan, and Sierra Leone) with commitments totaling SDR 1.8 billion; in addition, augmentations of existing commitments totaling SDR 66 million were approved for Chad, Ethiopia, Ghana, and Mali (Appendix II, Tables II.5 and II.7). Total PRGF disbursements during FY2002 amounted to SDR 1.0 billion, compared with SDR 0.6 billion in FY 2001. As of end-April 2002, 36 member countries' reform programs were supported by PRGF arrangements, with IMF commitments totaling SDR 4.3 billion and undrawn balances of SDR 2.7 billion.

Financing for the PRGF is provided through trust funds administered by the IMF—the PRGF Trust and PRGF-HIPC Trust—that are separate from the IMF's quota-based resources. Contributions from a broad spectrum of the IMF's membership and the IMF itself constitute the financing of both trusts. The PRGF Trust borrows resources at market or below-market interest rates from loan providers—central banks, governments, and government institutions—and lends them to PRGF-eligible member countries at an annual interest rate of 0.5 percent. The PRGF Trust receives grant contributions to subsidize the rate of interest on PRGF loans and maintains a Reserve Account as security for loans to the Trust. Subsidy resources in both the PRGF Trust and the PRGF-HIPC Trust are available to subsidize PRGF operations, and the PRGF-HIPC Trust also provides resources for HIPC Initiative assistance.[3]

During FY2002, 10 lenders (Table 6.2) made SDR 4.4 billion in new loan resources available to finance future PRGF operations. Consequently, the borrowing limit for loan resources of the PRGF Trust was increased from SDR 11.5 billion to SDR 16.0 billion in September 2001.

The framework for the PRGF envisages that commitments would be financed through 2005 from external sources. The continuation of concessional lending for the period after 2005 will need to be reassessed closer to that time, but a substantial proportion of such lending is expected to be provided from the IMF's own resources accumulating in the PRGF Trust Reserve Account. These resources will become available as PRGF lenders are repaid and the security provided by the Reserve Account is no longer needed.

Enhanced HIPC Initiative

The HIPC Initiative, originally launched by the IMF and World Bank in 1996, was considerably strengthened in 1999 to provide deeper, faster, and broader

Box 6.5

Twelfth Review of Quotas

The IMF normally conducts general reviews of members' quotas every five years to assess the adequacy of its resource base and to provide for adjustments of the quotas of individual members to reflect changes in their relative positions in the world economy. The Twelfth General Review of Quotas formally began in December 2001 and is scheduled to be completed by January 30, 2003.

During the financial year, the Executive Board held a series of discussions to consider issues related to the size and distribution of quotas. A seminar in February 2002 provided an opportunity for a preliminary exchange of views on the implications of developments in the world economy and the evolving role of the IMF for the institution's resource base. A follow-up staff paper will take into account these views and quantify the possible size of the IMF under various scenarios based on new and traditional indicators.

The Executive Board has also considered possible revisions in the formulas used by the IMF in determining quotas of individual members as requested by the IMF Board of Governors at the conclusion of the last quota review. Papers considered by the Executive Board included a report by a group of external experts and an accompanying staff commentary as well as a staff paper discussing basic considerations relating to the choice of variables, formula specification, and weights of variables.

[3]Amendments to the PRGF Trust and the PRGF-HIPC Trust approved in September 2001 provide for the transfer of subsidy resources from the PRGF-HIPC Trust to the Subsidy Account of the PRGF Trust to subsidize the continuation of PRGF lending after subsidy resources currently available in the PRGF Trust are fully utilized.

Table 6.2
New PRGF Loan Resources Committed by Lenders, as of February 21, 2002
(In millions of SDRs)

Belgium	150
China	100
Egypt	56
France	1,000
Germany	1,000
Italy	550
Japan	785
Netherlands	200
Spain	300
Switzerland	250
Total	**4,390**

debt relief for the world's heavily indebted poor countries. By end-April 2002, the IMF and the World Bank had brought 26 HIPC-eligible members to their decision points under the enhanced Initiative and 1 (Côte d'Ivoire) under the original Initiative.

The IMF provides HIPC Initiative assistance in the form of grants or interest-free loans that are used to service part of member countries' debt to the IMF. As of end-April 2002, the IMF had committed SDR 1.6 billion in HIPC Initiative grants to 27 eligible countries (Benin, Bolivia, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, and Zambia). Four members (Bolivia, Burkina Faso, Mozambique, and Tanzania) reached their completion points under the enhanced HIPC Initiative during FY2002. Under the enhanced Initiative, a portion of the resources committed at the decision point can be disbursed before a country reaches its completion point. Such interim assistance from the IMF may be up to 20 percent annually and 60 percent in total (25 percent and 75 percent, respectively, in exceptional circumstances) of the committed amount of HIPC assistance. As of end-April 2002, total disbursements of HIPC Initiative assistance by the IMF amounted to SDR 688.7 million (Table 6.3).

Financing of the HIPC Initiative and PRGF Subsidies

The financing of the IMF's participation in the enhanced HIPC Initiative and the subsidy requirements of the PRGF are administered through the PRGF-HIPC Trust and the PRGF Trust, respectively. The total resources required for these purposes are estimated at SDR 7.5 billion, of which HIPC Initiative assistance is estimated to amount to about SDR 2.2 billion and the cost of subsidies for PRGF lending is estimated at SDR 5.3 billion.

These resource requirements are expected to be fully met by bilateral contributions from member countries and by the IMF.

Bilateral pledges for the PRGF-HIPC Trust and the Subsidy Account of the PRGF Trust from member countries amount to about SDR 3.8 billion and come from a wide cross-section of the IMF's membership, demonstrating the broad support for the HIPC and PRGF initiatives. Altogether, 93 countries have pledged support: 27 advanced countries, 57 developing countries, and 9 countries in transition. As of end-April 2002, total effective bilateral contributions amounted to SDR 3.7 billion, of which contributions to the PRGF-HIPC Trust amounted to SDR 1.2 billion (Appendix II, Table II.11).

The IMF's own contributions amount to SDR 2.6 billion, of which the contributions to the PRGF-HIPC Trust amount to SDR 2.2

Table 6.3
Commitments and Disbursements of HIPC Initiative Assistance, as of April 30, 2002
(In millions of SDRs)

	Amount[1]			Amount[1]	
Member	**Committed**	**Disbursed**	**Member**	**Committed**	**Disbursed**
Benin	18.4	7.4	Malawi	23.1	2.3
Bolivia	65.5	65.5	Mali	44.4	17.2
Burkina Faso	44.0	33.0	Mauritania	34.8	16.9
Cameroon	28.5	2.5	Mozambique	108.0	108.0
Chad	14.3	2.9	Nicaragua	63.0	—
Côte d'Ivoire[2]	16.7	—	Niger	21.6	1.5
Ethiopia	26.9	4.0	Rwanda	33.8	9.1
Gambia, The	1.8	0.1	São Tomé and Príncipe	—	—
Ghana	90.1	9.9			
Guinea	24.2	2.4	Senegal	33.8	8.2
Guinea-Bissau	9.2	0.5	Sierra Leone	98.5	23.6
Guyana	56.2	31.7	Tanzania	96.4	96.4
Honduras	22.7	4.5	Uganda	121.7	121.7
Madagascar	16.6	2.1	Zambia	468.8	117.2
Twenty-seven members, of which 26 are under the enhanced HIPC framework[2]				**1,582.9**	**688.7**

[1]Amounts may include interest on assistance committed but not disbursed during the interim period.

[2]Côte d'Ivoire reached its decision point under the original HIPC Initiative.

billion. The bulk of this contribution—SDR 1.76 billion—comes from investment income on the net proceeds generated from off-market transactions of 12.9 million troy ounces of gold. The off-market transactions were completed in April 2000, generating net proceeds of SDR 2,226 million. These funds have been placed in the Special Disbursement Account (SDA) and invested for the benefit of the HIPC Initiative.

The IMF also contributes about SDR 0.8 billion by means of a one-time transfer from the SDA and by forgoing compensation from the PRGF Reserve Account for the administrative expenses related to PRGF operations for the financial years 1998 through 2004, with the equivalent amount being instead transferred to the PRGF-HIPC Trust. In addition, part of the interest surcharge on financing provided in 1998 and 1999 under the Supplemental Reserve Facility related to activation of the New Arrangements to Borrow was also transferred to the PRGF-HIPC Trust. The contributions by the IMF's membership and the IMF itself are expected to be supplemented by investment income earned on such contributions.

Investment of SDA, PRGF, and PRGF-HIPC Resources

In March 2000, the IMF initiated a new investment strategy for SDR 6.4 billion in resources supporting the PRGF and HIPC initiatives with the objective of supplementing returns over time while maintaining prudent limits on risk. Supplemental income will be used to help meet the financial requirements of the PRGF and HIPC initiatives.

Under the new approach, the maturity of investments was lengthened by shifting the bulk of assets previously invested in short-term SDR-denominated deposits with the Bank for International Settlements (BIS) to portfolios of bonds and other medium-term instruments structured to reflect the currency composition of the SDR basket. Remaining short-term deposits are held at a level sufficient to meet liquidity requirements and to conform with the administrative arrangements agreed with certain contributors.

The performance benchmark for the portfolio of bonds and medium-term instruments is a customized index comprising one- to three-year government bond indices for Germany, Japan, the United Kingdom, and the United States, with each market weighted to reflect the currency composition of the SDR basket. Regular portfolio rebalancing ensures that the currency composition of the investment portfolio matches as closely as practicable the currency composition of the SDR basket. Following a temporary shortening of the average maturity of the portfolio in mid-January 2002, the benchmark was also changed temporarily to a customized index based on three-month deposit rates and zero-one year government bonds. The new strategy is implemented on the IMF's behalf by the BIS, the World Bank, and three private investment managers.

Table 6.4
Contributions to Subsidize Post-Conflict Emergency Assistance, as of April 30, 2002
(In millions of SDRs)

Contributor	Contribution Pledged	Contribution Received	Subsidy Disbursed
Belgium	1.0	—	—
Netherlands	1.6	—	—
Sweden	0.8	0.8	0.2
Switzerland	0.8	—	—
United Kingdom	2.8	0.6	0.6
Total	**7.0**	**1.4**	**0.8**

In the 24 months since its inception, the new investment strategy added 392 basis points (on an annualized basis, net of fees) to returns over the previous approach of investing in SDR-denominated deposits and generated supplemental income of SDR 250 million in support of PRGF and PRGF-HIPC operations.

Post-Conflict Emergency Assistance

The IMF provides emergency assistance to countries that are emerging from conflict through loans subject to the IMF's basic rate of charge. An administered account was established on May 4, 2001, to accept contributions by bilateral donors that would enable the IMF to provide such assistance at a concessional rate of charge of 0.5 percent for PRGF-eligible members.[4] As of April 30, 2002, Sweden and the United Kingdom had provided grants to the account, and Belgium, the Netherlands, and Switzerland had also committed to providing such resources. Total pledged grant contributions amounted to about SDR 7 million, of which SDR 1.4 million had been paid. Disbursements totaled SDR 0.8 million to subsidize the rate of charge on post-conflict emergency assistance for six countries (Albania, the Republic of Congo, Guinea-Bissau, Rwanda, Sierra Leone, and Tajikistan) (Table 6.4).

Special Drawing Rights

The SDR is a reserve asset created by the IMF in 1969 and allocated to members in proportion to their IMF

[4]If, in any quarter, the assets of the account are insufficient to subsidize the charge of all subsidy beneficiaries to ½ of 1 percent on an annual basis, the subsidy to each beneficiary will be prorated to bring the effective rate of charge paid after subsidization to the closest common percentage to ½ of 1 percent.

Box 6.6

SDR Valuation and Interest Rate

Valuation. The value of the SDR is based on the weighted average of the values of a basket of major international currencies. The method of valuation is reviewed at five-yearly intervals. The latest review was completed in FY2001, and the Executive Board decided on a number of changes to take account of the introduction of the euro as the common currency for a number of European countries and the growing role of international financial markets. Currencies included in the valuation basket are among the most widely used in international transactions and widely traded in the principal foreign exchange markets. Currencies selected for inclusion in the SDR basket for the period 2001–05 are the U.S. dollar, the euro, the Japanese yen, and the pound sterling (Table 6.5).

Interest rate. The IMF also reviewed the method for determining the SDR interest rate in FY2001 and decided to continue to set the weekly interest rate on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. However, the financial instruments used to determine the representative interest rate for the euro and the Japanese yen were modified to reflect financial market developments. The SDR interest rate evolved during the year in line with developments in the major money markets, declining during the first three quarters of the year and stabilizing thereafter, averaging 2.79 percent over the course of FY2002 (see Figure 6.2).

Table 6.5

SDR Valuation

(As of April 30, 2002)

Currency	Amount of Currency Units	Exchange Rate[1]	U.S. Dollar Equivalent
Euro	0.4260	0.90110	0.383869
Japanese yen	21.0000	128.45000	0.163488
Pound sterling	0.0984	1.45680	0.143349
U.S. dollar	0.5770	1.00000	0.577000
			1.267706

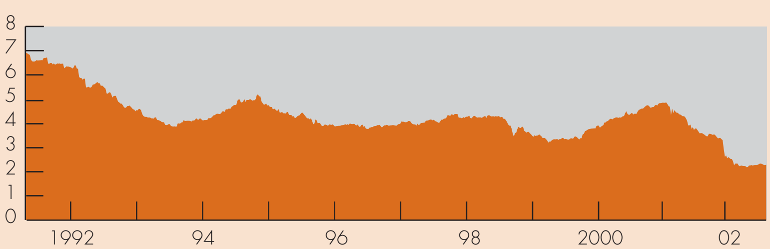
Memorandum:
SDR 1 = US$1.267706
US$1 = SDR 0.788826

[1]Exchange rates in terms of U.S. dollars per currency unit except for the Japanese yen, which is currency units per U.S. dollar.

Figure 6.2

SDR Interest Rates, 1992–2002

(In percent)



quotas to meet a long-term global need to supplement existing reserve assets. A member may use SDRs to obtain foreign exchange reserves from other members and to make payments to the IMF. Such use does not constitute a loan; members are allocated SDRs unconditionally and may use them to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations. However, a member that makes net use of its allocated SDRs pays the SDR interest rate, while a member that acquires SDRs in excess of its allocation receives interest at the SDR rate. A total of SDR 21.4 billion has been allocated to members, including SDR 9.3 billion in 1970–72 and SDR 12.1 billion in 1978–81. The value of the SDR is based on the weighted average of the values of a basket of major international currencies and the SDR interest rate is an average of interest rates on short-term instruments in the markets of the currencies in the valuation basket (see Box 6.6). The SDR also serves as the unit of account for the IMF, and the SDR interest rate provides the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF.

- *General allocations of SDRs.* Decisions on general allocations are made in the context of five-year basic periods and require a finding that an allocation would meet a long-term global need to supplement existing reserve assets. A decision to allocate SDRs requires an 85 percent majority of the total voting power. During the financial year, the IMF Executive Board considered whether to undertake a general allocation of SDRs in light of current and prospective conditions in the world economy. A number of Directors argued that the constellation of factors relevant to consideration of an SDR allocation was stronger today than it had been for many years, and in this regard they pointed to the difficulty and high cost of obtaining reserves through borrowing in more risk-averse capital markets. Other Directors emphasized that the global need for reserve supplementation had to be considered in a medium-term perspective. According to this view, current projections for the evolution of the world economy over the five years of the next basic period did not support the case for an SDR allocation. Consequently, the Managing Director reported to the IMF Board of Governors that there was not sufficiently broad support to make a specific proposal for an SDR allocation during the eighth basic period. However, in view of the interest in further consideration of the issues, the Managing Director indicated the intention to bring the issue of a general allocation of SDRs before the Executive Board for further discussion when appropriate.

- *Special one-time allocation.* In September 1997, the IMF Board of Governors proposed an amendment to the Articles of Agreement to allow a special one-time allocation of SDRs to correct for the fact that more than one-fifth of the IMF membership has never received an SDR allocation. The special allocation of SDRs would enable all members of the IMF to participate in the SDR system on an equitable basis and would double cumulative SDR allocations to SDR 42.87 billion. The proposal will become effective when three-fifths of the IMF membership (110 members) having 85 percent of the total voting power have accepted the proposal. As of April 30, 2002, 118 members having 73 percent of the total voting power had agreed and only the acceptance by the United States was required to implement the proposal.
- *SDR operations and transactions.* All SDR transactions are conducted through the SDR Department. SDRs are held largely by member countries with the balance held in the IMF's GRA and by official entities prescribed by the IMF to hold SDRs. Prescribed holders do not receive SDR allocations but can acquire and use SDRs in operations and transactions with IMF members and with other prescribed holders under the same terms and conditions as IMF members.[5] Transactions in SDRs are facilitated by 13 voluntary arrangements under which the parties stand ready to buy or sell SDRs for currencies that are readily usable in international transactions, provided that their own SDR holdings remain within certain limits. These arrangements have helped ensure the liquidity of the SDR system.[6]

The total level of transfers of SDRs continued to decrease in FY2002—to SDR 14.0 billion, compared with SDR 18.7 billion in the previous year and the peak of SDR 49.1 billion in FY1999, when the volume of SDR transactions increased significantly because of payments for the quota increase (see Table 6.6). By end-FY2002, the IMF's own holdings of SDRs, which had risen sharply as a result of payments for quota subscriptions in 1999, had fallen to SDR 1.5 billion from SDR 2.4 billion a year earlier, in the targeted range of SDR 1.0–1.5 billion in which the IMF seeks to maintain its SDR holdings. SDRs held by prescribed holders amounted to SDR 0.4 billion. Consequently, SDR holdings by participants increased to SDR 19.6 billion from SDR 18.7 billion in FY 2001. SDR holdings of the industrial and net creditor countries relative to their net cumulative allocation increased from a year earlier. This increase was mainly due to large interest (remuneration) payments made to those members. SDR holdings of nonindustrial members increased to 56.9 percent of their net cumulative allocations from 54.6 percent a year earlier.

Income, Charges, Remuneration, and Burden Sharing

The IMF, like other financial institutions, earns income from interest charges and fees levied on its loans and uses the income to meet funding costs and pay for administrative expenses. The IMF's reliance on capital subscriptions and internally generated resources provide some flexibility in setting the basic rate of charge. However, the IMF also needs to ensure that it provides creditors with a competitive rate of interest on their IMF claims. As an additional safeguard, the IMF's Articles of Agreement set limits on the interest rate paid to creditors in relation to the SDR interest rate.

The basic rate of charge on regular lending is determined at the beginning of the financial year as a proportion of the SDR interest rate to achieve an agreed net income target for the year. This rate is set to cover the cost of funds and administrative expenses as well as add to the IMF's reserves. The specific proportion is based on projections for income and expenses for the year and can be adjusted at midyear in light of actual net income and if income for the year as a whole is expected to deviate significantly from the projections. At the end of the year, any income in excess of the tar-

[5]There are 16 prescribed holders of SDRs: the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Development Bank, Bank of Central African States, Bank for International Settlements, Central Bank of West African States, East African Development Bank, Eastern Caribbean Central Bank, European Central Bank, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Latin American Reserve Fund, and Nordic Investment Bank. The European Central Bank became the latest prescribed holder on November 15, 2000.

[6]Under the designation mechanism, participants whose balance of payments and reserve positions are deemed sufficiently strong may be obliged, when designated by the IMF, to provide freely usable currencies in exchange for SDRs up to specified amounts. Owing to the existence of voluntary arrangements, the designation mechanism has not been used since 1987.

Table 6.6
Transfers of SDRs
(In millions of SDRs)

	Financial Years Ended April 30								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Transfers among participants and prescribed holders									
Transactions by agreement[1]	3,122	8,987	8,931	7,411	8,567	13,817	6,639	5,046	3,669
Prescribed operations[2]	406	124	1,951	88	86	4,577	293	544	290
IMF-related operations[3]	436	301	704	606	901	756	684	922	866
Net interest on SDRs	121	174	319	268	284	289	214	302	228
Total	**4,085**	**9,586**	**11,905**	**8,372**	**9,839**	**19,439**	**7,831**	**6,814**	**5,053**
Transfers from participants to General Resources Account									
Repurchases	642	1,181	5,572	4,364	2,918	4,761	3,826	3,199	1,631
Charges	1,425	1,386	1,985	1,616	1,877	2,806	2,600	2,417	2,304
Quota payments	71	24	70	—	—	8,644	528	65	—
Interest received on General Resources Account holdings	336	262	53	51	44	35	138	118	56
Assessments	4	4	4	4	4	3	3	2	2
Total	**2,478**	**2,857**	**7,683**	**6,035**	**4,844**	**16,249**	**7,094**	**5,800**	**3,993**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	2,676	5,970	6,460	4,060	4,243	9,522	3,592	3,166	2,361
Repayments of IMF borrowings	300	862	—	—	—	1,429	—	—	—
Interest on IMF borrowings	162	97	—	—	—	46	18	—	—
In exchange for other members' currencies– Acquisitions to pay charges	166	99	49	224	20	545	1,577	1,107	1,130
Remuneration	958	815	1,092	1,055	1,220	1,826	1,747	1,783	1,361
Other	108	51	259	27	90	74	1,008	31	93
Total	**4,370**	**7,894**	**7,859**	**5,366**	**5,574**	**13,442**	**7,942**	**6,087**	**4,945**
Total transfers	**10,933**	**20,336**	**27,448**	**19,773**	**20,256**	**49,130**	**22,867**	**18,702**	**13,991**
General Resources Account holdings at end of period	**6,038**	**1,001**	**825**	**1,494**	**764**	**3,572**	**2,724**	**2,437**	**1,485**

[1]Transactions by agreement are transactions in which participants in the SDR Department (currently all members) and / or prescribed holders voluntarily exchange SDRs for currency at the official rate as determined by the IMF. These transactions are usually arranged by the IMF.

[2]Operations involving prescribed SDR holders. A prescribed SDR holder is a nonparticipant in the SDR Department that has been prescribed by the IMF as a holder of SDRs.

[3]Operations in SDRs between members and the IMF that are conducted through the intermediary of a prescribed holder are referred to as "IMF-related operations." The IMF has adopted a number of decisions to prescribe SDR operations under the Trust Fund, the SFF Subsidy Account, the SAF, the ESAF, the PRGF, and the HIPC Initiative.

get is refunded to the members that paid interest charges during the year and shortfalls are made up in the following year.

The IMF imposes level-based surcharges on credit extended after November 28, 2000, to discourage unduly large use of credit in the credit tranches and under Extended Fund Arrangements. The IMF also imposes surcharges on shorter-term loans under the SRF and CCL that vary according to the length of time credit is outstanding. Income derived from surcharges is placed in the IMF's reserves and is not taken into account in determining the income target for the year.

The IMF also receives income from borrowers in the form of service charges, commitment fees, and special charges. A one-time service charge of 0.5 percent is levied on each loan disbursement from the General Resources Account. A refundable commitment fee is charged on Stand-By and Extended Fund Facility credits, payable at the beginning of each 12-month period, on the amounts that may be drawn during that period, including amounts available under the SRF or CCL. The fee is 0.25 percent on amounts committed up to 100 percent of quota and 0.10 percent for amounts exceeding 100 percent of quota. The commitment fee is refunded when credit is used in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and charges that are overdue by less than six months.

The IMF pays interest (remuneration) to creditors on their IMF claims (reserve positions) based on the

SDR interest rate. The basic rate of remuneration is currently set at 100 percent of the SDR interest rate (the maximum permitted), but the IMF's charter allows it to be set as low as 80 percent of the SDR interest rate (the lower limit).

Since 1986, the rates of charge and remuneration have been subject to a burden-sharing mechanism that distributes the cost of overdue financial obligations between creditor and debtor members. Loss of income from unpaid interest charges overdue for six months or more is recovered through upward adjustments to the rate of charge and downward adjustments to the rate of remuneration. The amounts thus collected are refunded when the overdue charges are settled. Additional adjustments to the basic rates of charge and remuneration are made to generate resources for a Special Contingent Account (SCA-1), which was established specifically to protect the IMF against the risk of loss resulting from overdue obligations. Resources in the SCA-1 are refundable after all arrears have been eliminated but can be refunded earlier by a decision by the IMF. In FY2002, the combined adjustment for unpaid interest charges and the allocation to the SCA-1 resulted in an increase to the basic rate of charge of 14 basis points and a reduction in the rate of remuneration of 15 basis points. The adjusted rates of charge and remuneration averaged 3.39 percent and 2.65 percent, respectively, for the financial year.

In April 2001, the basic rate of charge for FY2002 was set at 117.6 percent of the SDR interest rate to achieve the agreed income target. The IMF's net income, net of refunds of interest charges (see below), in FY2002 totaled SDR 360 million. This included income from surcharges of SDR 314 million, net of the annual expenses of administering the PRGF Trust. As initially agreed in FY1998, the IMF was not reimbursed for the expenses of administering the PRGF Trust in FY2002; instead, an equivalent amount (SDR 62 million) was transferred from the PRGF Trust through the Special Disbursement Account to the PRGF-HIPC Trust. As agreed at the beginning of the financial year, SDR 17 million of net income in excess of the income target was returned to members that paid interest charges at the end of FY2002, retroactively reducing the FY2002 rate of charge to 116.4 percent of the SDR interest rate. In addition, SDR 94 million generated through the burden sharing mechanism described above was placed in the SCA-1.

Following the retroactive reduction in the rate of charge, SDR 360 million was added to the IMF's reserves, of which SDR 314 million of surcharge income went to the General Reserve and the remainder to the Special Reserve. Total reserves rose to SDR 3.6 billion as of April 30, 2002, from SDR 3.3 billion a year earlier.

In April 2002, the Executive Board decided to continue the financial mechanism in place and set the basic rate of charge for FY2003 at 128.0 percent of the SDR interest rate.

Safeguarding IMF Resources and Dealing with Arrears

The IMF's efforts to safeguard its resources were strengthened in FY2002 by expanding and making permanent the process of Safeguards Assessments introduced in 2000 to improve the internal control, accounting, reporting, and auditing systems of the central banks of countries making use of IMF resources. Moreover, the legal and operational framework for dealing with misreporting of information was extended to include the HIPC Initiative. Finally, the IMF's strategy for dealing with arrears was also extended to PRGF loans, and the timeliness of public disclosure of arrears cases was improved.

Safeguards Assessments

In FY2002, the IMF continued to intensify efforts to safeguard its resources by conducting Safeguards Assessments of borrowing member countries' central banks, typically the recipients of IMF disbursements. Safeguards Assessments, which had been introduced in March 2000 on an experimental basis, were adopted as a permanent IMF policy by the Executive Board in March 2002 (see Box 6.7). The safeguards policy, initiated against the background of several instances of misreporting to the IMF and allegations of misuse of IMF resources, aims at supplementing conditionality, technical assistance, and other means that have traditionally ensured the proper use of IMF loans. In particular, Safeguards Assessments aim to provide reasonable assurance to the IMF that a central bank's framework of reporting and controls is adequate to manage resources, including IMF disbursements.

Safeguards Assessments apply to all countries with arrangements for use of IMF resources approved after June 30, 2000. Member countries with arrangements in effect before June 30, 2000 were subject to an abbreviated assessment that examined only one key element of the safeguards framework, namely that central banks publish annual financial statements that are independently audited by external auditors in accordance with internationally accepted standards. Although Safeguards Assessments do not formally apply to countries with Staff Monitored Programs (SMPs), countries under an SMP are encouraged to undergo an assessment on a voluntary basis, because in many cases these programs are followed by a formal arrangement with the IMF. In FY2002, 49 Safeguards Assessments were completed, including those subject to an abbreviated assessment.

Box 6.7

IMF Executive Board Reviews Experience with Safeguards Assessments

In March 2002, the Executive Board reviewed the safeguards framework and the collective experience with Safeguards Assessments since the implementation of the policy in March 2000. The Executive Board was assisted by a panel of eminent external experts who independently evaluated the effectiveness of the new policy.

The Executive Board, noting that central banks had widely embraced the findings of Safeguards Assessments, declared the introduction of the safeguards policy an unqualified success and adopted the safeguards framework as a permanent policy. The review of experience with Safeguards Assessments demonstrated that the policy had enhanced the IMF's reputation and credibility as a prudent lender, while helping to improve the operations and accounting procedures of central banks. The findings of Safeguards Assessments indicated that significant, but avoidable, risks to IMF resources may have existed in certain cases and the Executive Board welcomed the steps that many central banks had taken to mitigate identified vulnerabilities.

Safeguards Assessments have revealed that, despite improvements in central banks' safeguards over the past few years, significant vulnerabilities remain in the controls employed by a number of central banks of borrowing member countries. The identified vulnerabilities could lead to possible misreporting to the IMF or misuse of central bank resources, including IMF disbursements. In particular, Safeguards Assessments revealed that (1) a substantial number of central banks' financial statements were not subject to an independent and external audit conducted in accordance with internationally accepted standards; (2) several central banks had poor controls over foreign reserves and data reporting to the IMF; and (3) a number of central banks had adopted an unclear financial reporting framework and inadequate accounting standards.

The review of experience with Safeguards Assessments resulted in several enhancements to the policy, including the strengthening of internal and external communications during the safeguards process and removing the distinction between Stage One (off-site) and Stage Two (on-site) assessment reports. Also, the coverage of Safeguards Assessments was extended slightly to cover member countries that augment an existing IMF arrangement or that have a Rights Accumulation Program. Safeguards Assessments will continue to be a requirement for all new IMF arrangements, even where a previous assessment has been conducted. However, it is expected that the main focus of the safeguards work will shift from initial Safeguards Assessments to the monitoring of previous assessments.

The staff's and the expert panel's papers supporting the review by the Executive Board of experience with Safeguards Assessments, a summary of the Executive Board's discussion, and additional background information are available on the IMF website.

Safeguards Assessments follow an established set of procedures to ensure consistency in application. All central banks subject to an assessment provide a standard set of documents to IMF staff members, who review the information and communicate as needed with central bank officials and the external auditors. The review may be supplemented by an on-site visit to the central bank to obtain or clarify information necessary to draw conclusions and make recommendations. Such visits are conducted by IMF staff with possible participation of technical experts drawn from the IMF's membership. The review also takes into account the findings and timing of a previous Safeguards Assessment, including the results of any follow-up monitoring.

The outcome of a Safeguards Assessment is a confidential report that identifies vulnerabilities, assigns risk ratings, and makes recommendations to mitigate the identified risk. Country authorities, who have the opportunity to comment on all Safeguards Assessment reports, are expected to implement the safeguards recommendations, possibly under program conditionality. The conclusions and agreed-upon remedial measures are reported in summary form to the IMF's Executive Board either when an arrangement is approved or by no later than the first review of the arrangement. The implementation of safeguards recommendations is monitored periodically by IMF staff.

Misreporting

In FY2002, the IMF also continued strengthening its legal and operational framework dealing with misreporting of information. In February–March 2002, a new framework was established to handle revisions of information on economic and external debt data that underlies the IMF's HIPC Initiative decisions. In February, the Board approved an amendment to the HIPC Trust Instrument that provides for the exclusion from the stock of a member's external debt in the Debt Sustainability Analysis (DSA) of amounts owed to the IMF that are found under the IMF's Misreporting Guidelines to constitute noncomplying purchases/ disbursements. In March, the Board approved a framework that provides for the amount of debt relief to be adjusted upward or downward (subject to a minimum threshold) in the event that the DSA used to determine the amount of assistance committed at the decision point turns out to be incorrect. The framework also permits the Board to ask for the return to the PRGF-HIPC Trust Fund of interim assistance disbursed on the basis of inaccurate information pertaining to the member's track record but not yet used to service debt

Table 6.7
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 2002
(In millions of SDRs)

		By Type				By Duration	
	Total	General Department (incl. SAF)	SDR Department	Trust Fund	PRGF	Less than 6 months	More than 6 months
Afghanistan, Islamic State of	7.3	—[1]	7.3	—	—	0.5	6.9
Congo, Democratic Rep. of the	402.3	382.8	19.3	—	—	4.3	397.9
Iraq	49.7	—	49.6	—	—	1.6	48.1
Liberia	493.5	440.9	22.5	30.0	—	3.9	489.6
Somalia	214.2	196.9	9.4	7.9	—	1.9	212.2
Sudan	1,094.3	1,015.6	0.3	78.3	—	6.8	1,087.6
Zimbabwe	93.8	51.3	—	—	42.5	40.7	53.1
Total	**2,355.0**	**2,087.5**	**108.4**	**116.2**	**42.5**	**59.6**	**2,295.4**

[1]Less than SDR 50,000.

obligations. The framework does not allow for remedial action after a country reaches its completion point, or for countries that reached their decision points prior to approval of the framework. In the interest of transparency, and in line with existing policies, the IMF will make public and share with other creditors relevant information on each case.

Arrears to the IMF

In FY2002, total overdue financial obligations to the IMF increased to SDR 2.36 billion from SDR 2.24 billion a year earlier, mainly reflecting the continued accumulation of new arrears by Zimbabwe (Table 6.7). Zimbabwe represents the first new case of significant arrears to the GRA since 1993 and the first case of arrears to the PRGF Trust.

At end-April 2002, more than 97 percent of the total arrears to the IMF were protracted (outstanding for more than six months), about evenly divided between overdue principal and overdue charges and interest; almost 90 percent of arrears were to the GRA.

Five countries with the largest protracted arrears to the IMF—the Democratic Republic of the Congo, Liberia, Somalia, Sudan, and Zimbabwe—account for almost 98 percent of the overdue financial obligations to the IMF.[7] Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against the countries with protracted arrears to the IMF.[8]

During FY2002, 22 instances of short-term arrears were cleared quickly and did not result in the application of any remedial measures.

In FY2002, net deferrals of charges to the GRA of the protracted arrears countries, for which the IMF is compensated through the burden-sharing mechanism, amounted to SDR 33 million, raising the balance of deferred charges to SDR 1.1 billion.

The IMF's strategy on overdue financial obligations was reviewed on August 22, 2001, and the Executive Board adopted strengthened remedial procedures for arrears to the PRGF Trust paralleling, to the extent possible, the timetable of remedial measures for arrears to the GRA.[9] The Board also decided to strengthen transparency with respect to arrears by agreeing that (1) information on arrears be published on the IMF's website when they have been outstanding for three months (instead of six months as under the previous policy), and (2) a press release be issued on the occasion of each substantive Board action related to specific arrears cases. The Board also agreed that information on missed repurchase expectations would be made public on the IMF's website at the three-month stage.

The Executive Board conducted several reviews of member countries' overdue financial obligations to the IMF during FY2002:

- In reviewing the Democratic Republic of the Congo's overdue financial obligations to the IMF on July 13, 2001, the Executive Board welcomed the authorities' intention to implement a staff-

[7]The overdue net SDR charges of the Islamic State of Afghanistan and Iraq account for the remaining less than 3 percent.

[8]In some cases (the Islamic State of Afghanistan, the Democratic Republic of the Congo, Iraq, and Somalia) application of remedial measures has been delayed or suspended because of civil conflicts, the absence of a functioning government, or international sanctions.

[9]A fully parallel treatment of GRA and PRGF arrears is not possible, because the former are breaches of obligations under the Articles of Agreement and are subject to sanctions under Article XXVI whereas arrears to the PRGF are not.

monitored program and make efforts to improve relations with the international community.

- The Board reviewed Liberia's overdue financial obligations to the IMF on February 25, 2002, and determined that Liberia had not cooperated adequately with the IMF in resolving its overdue financial obligations to the IMF in the areas of policy implementation and payments. The Board also noted that it was the Managing Director's intention to initiate promptly the procedure to suspend Liberia's voting and related rights in the IMF. On April 16, 2002, the Board agreed to consider, on a later date, the complaint by the Managing Director with respect to the suspension of Liberia's voting and related rights in the IMF.
- The Executive Board reviewed Sudan's overdue financial obligations on November 24, 2001, and expressed regret over the delays that had occurred in Sudan's monthly payments to the IMF and the policy slippages under the staff-monitored program in the first half of 2001. However, the Board noted that Sudan had been affected by an adverse external environment and indicated that it was prepared to consider Sudan's request for a modification of the level of payments to the IMF to reflect Sudan's payments capacity in the context of a new staff-monitored program.
- Zimbabwe first incurred arrears to the IMF on February 14, 2001; a complaint was issued on May 15, 2001; and on September 24, 2001 the country was declared ineligible to use the general resources of the IMF and removed from the list of PRGF-eligible countries. The Executive Board reviewed the overdue financial obligations of Zimbabwe to the IMF on three occasions during FY2002 (June 8, 2001, September 24, 2001, and December 14, 2001). At the third review, the Board regretted Zimbabwe's continued failure to meet its financial obligations to the IMF and agreed to consider the application of further remedial measures on the occasion of the next review of Zimbabwe's arrears to the IMF.

During FY2002, the Board held no reviews of the overdue financial obligations of the Islamic State of Afghanistan, Iraq, and Somalia.

At the end of April 2002, the Democratic Republic of the Congo, Liberia, Somalia, Sudan, and Zimbabwe were ineligible under Article XXVI, Section 2*(a)* to use the general resources of the IMF. Declarations of noncooperation—a further step under the strengthened cooperative arrears strategy—were in effect for the Democratic Republic of the Congo and Liberia, and the voting rights of the Democratic Republic of the Congo remained suspended.

CHAPTER 7

Technical Assistance and Training

Besides its policy advice and financing, the IMF provides technical assistance and training to its member countries in its areas of expertise—including revenue administration and expenditure management, central banking, financial sector sustainability, exchange rate systems, economic and financial statistics, and related legal fields. Technical assistance is an important benefit of IMF membership and is free in most cases, except when provided to countries that can afford to defray the costs incurred in dispensing the assistance. The IMF's technical assistance aims at strengthening the design and implementation of sound macroeconomic and financial policies, and at transferring know-how in the process. By doing this, the IMF seeks to bolster the institutional capacity of its members and endeavors to deliver assistance that will have lasting benefits for the member's economy, including on sustainable growth and on poverty alleviation in the case of poorer member countries. Technical assistance helps countries to adopt and implement effective reforms, benefiting from the IMF's worldwide experience in addressing similar problems in other countries and from its high-caliber experts, drawn from the staff as well as from top public and private institutions, central banks, and economic agencies around the world.

The IMF's membership has, in the past few years, attached increasing importance to technical assistance to reinforce the effectiveness of the IMF's surveillance and program work. Technical assistance is also expected to play a central role in supporting the work of the IMF in crisis prevention and management; in capacity building for low-income countries; and in restoring macroeconomic stability in postcrisis situations. For example, systematically following up recommendations relating to the Financial Sector Assessment Program (FSAP), adopting international standards, tracking public expenditure and other indicators for the Heavily Indebted Poor Countries (HIPC) Initiative, and combating money laundering and the financing of terrorism (Box 7.1) have all led to increased demand for technical assistance.

Against this background, the IMF's Executive Board has emphasized the need for linking IMF technical assistance to institutional priorities; for improving the efficiency of technical assistance delivery; and for mobilizing additional external resources. In the face of the limited supply of technical assistance, effective coordination and collaboration among providers—especially the international financial and development institutions and bilateral development agencies—have become even more important.

In recognition of the increasing impact of technical assistance on the IMF's other core operational activities—surveillance and use of financial resources—management decided to strengthen its oversight of IMF technical assistance by upgrading the former *Technical Assistance Secretariat* to a separate office under the Office of the Managing Director in June 2001. The Office was renamed the *Office of Technical Assistance Management* (OTM), was expanded, and is now headed by a Director.

A more complete description of the goals, scope, and operational methods of the IMF's technical assistance is available in a number of documents, including the *Policy Statement on IMF Technical Assistance* (2001), accessible on the IMF's website.

Prioritizing the IMF's Technical Assistance

During the previous financial year, the Board put in place a process to allocate resources for technical assistance more effectively and to better align technical assistance with policy priorities. The resulting framework is based on a set of "filters" used to assess the merit of individual technical assistance requests or projects and to help staff make allocation decisions.[1] IMF technical assistance has been divided into five *main program areas* covering crisis prevention, poverty reduction, crisis resolution and management, post-conflict / post-isolation cases, and regional / multilateral arrangements. These program areas are complemented by three further categories of filters, as follows:

[1]For a description of these filters, see the *Annual Report 2001*, Box 7.1, page 75.

Box 7.1

Combating Money Laundering and Financing of Terrorism: Technical Assistance and Coordination Efforts

Since April 2001, the IMF has intensified its work in the global efforts to combat money laundering. These efforts took on heightened importance in the wake of the events of September 11, 2001, as reflected in the November 2001 and April 2002 communiqués of the IMFC. Both communiqués underscored the need for enhanced technical assistance to help countries identify and remedy gaps in their efforts on combating money laundering and the financing of terrorism (AML / CFT). As a result, the IMF has intensified technical assistance for AML / CFT to member countries and is coordinating its activities with the World Bank and other organizations to enhance the effectiveness of assistance and avoid duplication of effort. (See Chapter 3.)

To align its technical assistance for AML / CFT with its mandate and core areas of expertise, the IMF has focused on strengthening financial sector supervision (both onshore and offshore sectors) and the legal and institutional framework for AML / CFT. These areas broadly include:

- Formulation of AML / CFT laws and regulations that meet international conventions and best practices;
- Development of the legal and institutional framework for financial intelligence units that meet Egmont Group requirements, including arrangements for cross-border cooperation;
- Strengthening the regulatory and supervisory frameworks for the financial sectors that focus on AML / CFT review, compliance, and control mechanisms; and
- Training and awareness programs on AML / CFT for the public and private sectors. An important element of IMF technical assistance is its work with national authorities and offshore financial centers to prevent abuse of their financial systems and territories by criminal elements.

As the pace of IMF and World Bank assessments accelerates, the need for closer coordination with donors and organizers of technical assistance will become critical. To this end, the IMF and the World Bank, in collaboration with the UN, the Financial Action Task Force (FATF), and the Egmont Group have begun a global coordination initiative to avoid duplication of effort and enhance the effectiveness of available resources. In April 2002, the IMF and the World Bank organized a meeting in Washington of representatives from institutions that are globally active in AML / CFT, including the FATF, the UN, the Egmont Group, regional FATF-style bodies, multilateral development banks, the Commonwealth Secretariat, and bilateral donors. The main aim of this meeting was to enable stakeholders to target their technical assistance efforts more effectively and to establish a network of contacts among participating organizations. This meeting also provided a forum for exchanging views on the priority areas for technical assistance and the need for resources to build institutional capacity, particularly for the regional FATF-style bodies.

- *Target filters*: the technical assistance must fall within the IMF's core areas of specialization, support a limited number of key program areas, or buttress policy priorities.
- *Effectiveness filters*: the technical assistance must be deemed likely to have a substantial impact and be effectively supported and implemented by the recipient country. It also should be sustainable in terms of financing and lasting in its effect.
- *Partnership filters*: technical assistance requests have preference when they are delivered regionally, benefit several recipients, draw on multiple financial sources, or complement third-party assistance.

Although the overall volume of technical assistance delivered was broadly stable during FY2001 and FY2002 at some 340 person-years, and in spite of the relatively short period of implementation of the prioritization system, some shift among activities has taken place, mainly toward work in crisis prevention, post-conflict / isolation cases, and regional initiatives (Table 7.1).

New Developments

In recent years, regional arrangements to deliver the IMF's technical assistance have taken on greater prominence, particularly for delivering training, facilitating countries' participation in the General Data Dissemination System (GDDS), and cooperating with established regional organizations. The IMF has also used regional technical assistance centers to enhance the delivery of assistance to members, especially those facing similar needs. This approach was originally conceived to provide technical assistance to small island economies in the Pacific region in 1993, with the establishment of the *Pacific Financial Technical Assistance Center* (PFTAC) in Suva, Fiji. Jointly established by the IMF and the United Nations Development Program (UNDP) as the regional office for the "Fiscal and Monetary Management Reform and Statistical Improvement Project" in 15 Pacific island countries, the center has been operating successfully ever since.

Modeled on the PFTAC, a new regional technical assistance center was established in the Caribbean—the *Caribbean Regional Technical Assistance Center* (CARTAC)—in November 2001 (Box 7.2). As with the Pacific island countries, the Caribbean governments have a strong voice in the formulation of technical assistance work plans to ensure that they reflect national priorities and realities and benefit from strong local ownership in their design, implementation, and follow-up. Member governments' representatives play an important role in guiding CARTAC's overall policies through their participation in its Steering Committee. Among other activities, the center is in the process of setting up an information-exchange website where stakeholders will be able to post information on current and proposed technical assistance activities.

Based on the positive experience with the Pacific and Caribbean Centers, the IMF adopted a similar approach in its new *Africa Capacity-Building Initiative*, launched in response to a request by African heads of state in 2001 for enhanced IMF support. The Initiative will involve establishing *Regional Technical Assistance Centers in Africa* (AFRITACs), with the first two to be opened in the fall 2002, on a pilot basis, in East and West Africa. If these are successful, another three centers will be added to cover the rest of sub-Saharan Africa. Each center will have a team of a center coordinator and up to five resident experts who will assist member countries to develop and implement their capacity-building programs, guided by the Poverty Reduction Strategy Paper (PRSP) each country has drawn up; help implement and monitor their ongoing technical assistance programs; facilitate donor coordination of ongoing capacity-building activities; and provide technical advice.

The IMF has increasingly assisted members with long-term capacity-building efforts; in addition to providing them with immediate policy advice, cooperation and coordination with other bilateral and multilateral providers of technical assistance have received greater emphasis. Such coordination has helped to avoid duplication of effort and to bring in technical assistance inputs that the IMF traditionally does not provide (for example, computer equipment, training equipment, and other materials, as well as hands-on, day-to-day support).

Cooperation between the IMF and other technical assistance providers covers many levels, from the simple exchange of information (for example, through the IMF's participation at regular consultative group or roundtable meetings to coordinate donor assistance for developing countries), through organizing the provision of complementary forms of assistance (such as working with the United Nations and other bilateral donors involved in reconstruction in immediate post-conflict situations, as in the case of Kosovo and East Timor), to a more comprehensive proactive role for the IMF in which it takes the lead in macroeconomic institution building—such as through comprehensive multiyear Technical Cooperation Action Plans (TCAPs).

Responding to calls from the IMFC, G-7, G-20, and the Financial Stability Forum, in April 2002 the IMF joined Canada, Switzerland, the United Kingdom, and the World Bank in launching the Financial Sector Reform and Strengthening (FIRST) Initiative, which will provide a mechanism for coordinating and mobilizing additional financing for technical assistance to help strengthen financial sectors and implement standards and codes. In addition, the IMF is now engaged with the World Bank, the UN, the Financial Action Task Force (FATF), and the Egmont Group in working out how best to coordinate, mobilize, and finance technical assistance efforts in combating money laundering and the financing of terrorism.

Although the IMF finances its technical assistance mainly from its own resources, external financing is an important source of additional support. Such external financing is provided as grant contributions under the IMF's Framework Administered Account for Technical Assistance Activities. There were nine active subaccounts under the umbrella Framework Account.[2] The Account was amended in December 2001 to permit the establishment of multidonor subaccounts to

Table 7.1

Technical Assistance Delivery Indicators for Main Program Areas and Key Policy Initiatives and Concerns

(Field delivery in person-years)[1]

	FY2001	FY2002
Main Program Areas		
Crisis prevention	28.6	32.6
Poverty reduction	77.3	69.3
Crisis resolution and management	35.9	28.9
Post-conflict / isolation	18.5	23.2
Regional	27.2	34.9
Total	187.4	188.8
Key Policy Initiatives and Concerns		
Assistance on standards and codes, excluding FSAP	16.2	13.6
FSAP-related	1.8	3.4
HIPC-associated	13.7	21.4
Safeguarding IMF resources	0.5	0.6
Offshore financial centers	1.4	5.1
Policy reform / capacity building	153.8	144.7
Total	187.4	188.8

Source: IMF Office of Technical Assistance Management.

Note: FSAP = Financial Sector Assessment Program; HIPC = Heavily Indebted Poor Countries Initiative.

[1]Excludes headquarters-based activities related to technical assistance.

[2]These include the Japan Advanced Scholarship Program Subaccount, the Australia-IMF Scholarship Program for Asia Subaccount, the Switzerland Technical Assistance Subaccount, the French Technical Assistance Subaccount, the Denmark Technical Assistance Subaccount, the Australia Technical Assistance Subaccount, the Netherlands Technical Assistance Subaccount, the UK-DFID Technical Assistance Subaccount, and the Italy Technical Assistance Subaccount.

Box 7.2

Caribbean Regional Technical Assistance Center

The Caribbean Regional Technical Assistance Center (CARTAC) provides technical assistance and training in economic and financial management for its member countries. Located in Barbados, the center was inaugurated in November 2001. It is organized as a UNDP regional program with the IMF as executing agency. The IMF manages the center's operations, provides its program coordinator, and recruits and technically supervises its resident advisors through its technical assistance departments. The center is designed to help Caribbean Community (CARICOM) members and the Dominican Republic strengthen economic and fiscal management; improve financial sector supervision and regulation; and compile more timely and useful economic, financial, and social statistics. Core areas of the center's technical assistance involve public expenditure management; tax / customs policy and administration; onshore and offshore financial sector regulation and supervision; and economic and financial statistics, as needs-assessments had shown that these were the areas in which improvements were most necessary. Because some of the Caribbean economies are small, and suitably qualified and skilled personnel are scarce, a regional approach was seen as the most cost-effective way of creating sustainable capacity.

The center provides assistance through a program coordinator and a team of five resident advisors, supplemented by short-term contractual specialists. It also features a strong training component, offering in-country workshops, regional training courses, and hands-on professional attachments (internship programs for mid-level government officials). CARTAC's training activities take place in cooperation with existing institutions, such as the University of the West Indies and the Eastern Caribbean Central Bank. Coordination and cooperation with other entities providing technical assistance in economic and financial management are an important aspect of CARTAC's work.

Canada contributes over 50 percent of CARTAC's funding. Other contributors include the U.K. Department for International Development, the Inter-American Development Bank, Ireland, the UNDP, USAID, and the World Bank. The Caribbean Development Bank is seconding a full-time economist. The participating countries contribute to the center's cost, while the host country provides office space and facilities.

Box 7.3

Recently Established Technical Assistance Subaccounts

Two new technical assistance subaccounts were established during FY2002.

- The *United Kingdom—Department for International Development (DFID) Technical Assistance Subaccount* was established in June 2001 to enhance the capacity of members to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields. Three contributions have been made to support the following specific projects: (1) Cambodia TCAP program ($1.2 million); (2) Distance Learning for African Countries ($0.9 million)—a 15-month project that will finance the participation of 80 officials in the IMF Institute's Financial Programming and Policies course using distance-learning techniques supplemented by a two-week residential component; and (3) General Data Dissemination System (GDDS) Project for Anglophone Africa ($2.4 million)—a two-year technical assistance project to help 14 countries in Anglophone Africa improve their capacity to produce and disseminate reliable and timely macroeconomic and social statistics using the GDDS as a framework.
- The *Italy Technical Assistance Subaccount* was established in November 2001 to enhance the capacity of member countries to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and projects that strengthen the legal and administrative reform frameworks in these areas. The first contribution of about $2 million is earmarked for financing technical assistance to strengthen the capacity to formulate and implement policies related to international standards and codes for financial, fiscal, and statistical management, including work related to combating money laundering and the financing of terrorism, in the countries of Central and Eastern Europe, the Baltics, Russia, and other members of the former Soviet Union.

support specific technical assistance programs, such as PFTAC and the AFRITACs. Box 7.3 describes the two subaccounts set up during FY2002.

In FY2002, external financing from bilateral and multilateral donor partners accounted for some 25 percent of total IMF technical assistance; Japan continued to be the largest donor, providing some 70 percent of this external financing. Other bilateral donors included Australia, Canada, Denmark, France, Italy, the Netherlands, New Zealand, Switzerland, the United Kingdom, and the United States. Multilateral donors included the Asian Development Bank, the European Union, the Inter-American Development Bank, the UNDP, and the World Bank.

Technical Assistance Delivery in FY2002

Changes in the geographical distribution of technical assistance delivery in FY2002 indicate how it has been

Table 7.2
Technical Assistance Sources and Delivery, FY1998–FY2002
(In effective person-years)[1]

	FY1998	FY1999	FY2000	FY2001	FY2002
IMF technical assistance budget	**257.1**	**266.2**	**251.7**	**265.5**	**268.8**
Staff	165.6	164.0	158.5	171.8	172.2
Headquarters-based consultants	22.0	20.3	16.4	22.7	23.2
Field experts	69.4	81.8	76.9	71.0	73.4
External technical assistance resources	**92.4**	**99.2**	**85.5**	**77.7**	**77.8**
United Nations Development Program	22.8	14.3	8.7	8.4	9.6
Japan	53.6	70.3	68.0	59.5	56.2
Other cofinanciers	16.0	14.7	8.8	9.8	12.0
Total technical assistance resources	***349.5***	***365.4***	***337.2***	***343.2***	***346.6***
Technical assistance regional delivery	**293.8**	**308.5**	**282.2**	**275.8**	**280.0**
Africa	64.5	72.9	69.8	68.2	71.9
Asia and Pacific	47.2	57.9	44.4	57.0	63.1
Europe I	24.8	22.7	24.1	30.2	30.3
Europe II	49.2	44.9	40.4	40.8	32.6
Middle East	29.2	31.9	27.5	27.8	22.4
Western Hemisphere	36.2	32.5	28.2	23.7	28.0
Regional and interregional	42.7	45.8	47.9	28.0	31.7
Technical assistance nonregional delivery [2]	**55.6**	**56.9**	**55.1**	**67.5**	**66.6**
Total technical assistance delivery	***349.5***	***365.4***	***337.2***	***343.2***	***346.6***
Technical assistance delivery by department					
Monetary and Exchange Affairs Department	121.9	127.2	112.2	101.2	115.5
Fiscal Affairs Department	103.2	107.4	101.4	111.9	97.5
IMF Institute	51.4	54.5	54.6	48.2	49.2
Statistics Department	47.2	48.9	49.1	54.4	56.0
Legal Department	10.5	12.7	8.6	15.4	15.5
Other departments[3]	15.4	14.7	11.3	12.2	12.9
Total technical assistance delivery	***349.5***	***365.4***	***337.2***	***343.2***	***346.6***

Source: IMF Office of Technical Assistance Management.
[1]An effective person-year of technical assistance is 260 days. New definitions used since 2001; data adjusted retroactively.
[2]Indirect technical assistance, including technical assistance policy, management, evaluation, and other related activities.
[3]Includes the Policy Development and Review Department, the Bureau of Information Technology Services, and the Office of Technical Assistance Management.

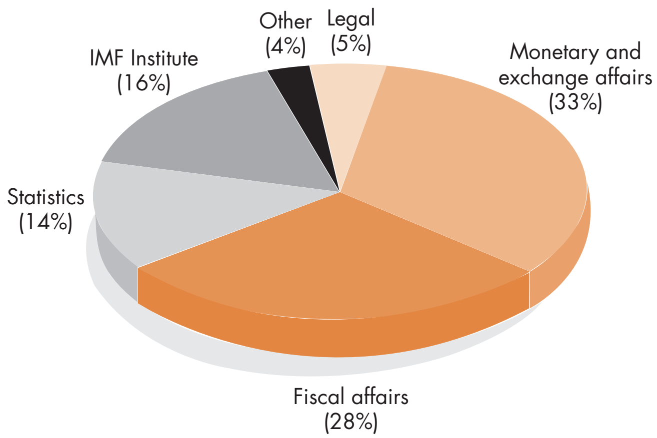
prioritized (Table 7.2 and Figures 7.1 and 7.2). With the added emphasis on poverty reduction over the last few years, sub-Saharan Africa's share rose, and in FY2002 received the largest share of technical assistance from the IMF. Technical assistance delivered to central and southern European transition countries peaked in FY2001, reflecting the large capacity-building effort in the Balkans, but has since started to decline. Consistent with the trend over the past five years, technical assistance for eastern European countries declined notably, as most of the transition economies no longer require the massive amounts of help that were delivered to them a decade ago. Technical assistance to the Asia-Pacific region has remained high, in spite of the waning impact of the 1997–98 financial crisis, reflecting a shift in delivery toward post-conflict cases, such as Cambodia and East Timor; a continued high level of assistance to support reforms in Indonesia and Mongolia; and increased technical assistance to China. The level of assistance to other geographical regions, as well as for interregional projects, has remained broadly the same.

The Monetary and Exchange Affairs Department was the IMF's largest technical assistance provider and increased its delivery in FY2002 by some 12 percent, to 114 person-years, reflecting the increase in activities linked to the emergence of the new international financial architecture. The Fiscal Affairs Department remained the IMF's second-largest technical assistance department, although its activities somewhat contracted. The IMF Institute (see below) and the Statistics Department provided the bulk of the remaining technical assistance delivered in FY2002.

Figure 7.1

Technical Assistance by Function, FY2002

(As a percent of total resources, in effective person-years)[1]



[1]An effective person-year of technical assistance is 260 days. For the IMF Institute, figure excludes training provided or coordinated by the Institute at headquarters.

Figure 7.2

Technical Assistance by Region, FY2002

(As a percent of total resources, in effective person-years)

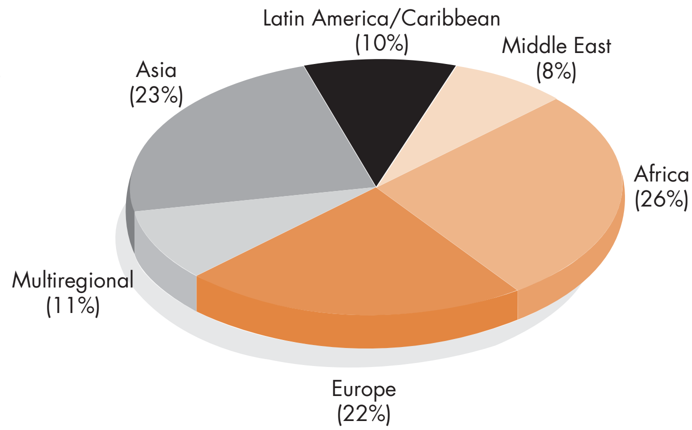


Table 7.3

IMF Institute Training Programs for Officials, FY1998–FY2002

Program	FY1998	FY1999	FY2000	FY2001	FY2002
Headquarters training					
Courses and seminars	19	20	22	22	21
Participants	658	676	776	798	819
Participant-weeks	3,628	3,837	3,623	3,671	2,982
Regional training institutes and programs[1]					
Courses and seminars	21	38	57	67	80
Participants	567	1,095	1,632	2,102	2,536
Participant-weeks	1,575	2,325	3,185	3,760	4,613
Other overseas training					
Courses and seminars	21	20	24	19	16
Participants	631	605	775	564	439
Participant-weeks	1,196	1,120	1,364	1,048	828
Distance learning					
Courses[2]	—	—	1	1	3
Participants[3]	—	—	50	43	134
Participant-weeks[4]	—	—	100	86	311
Total courses and seminars	61	78	103	108	117
Total participants	1,856	2,376	3,183	3,464	3,794
Total participant-weeks	6,399	7,282	8,272	8,565	8,734

Source: IMF Institute.

[1]Includes Joint Vienna Institute (established in 1992), IMF-Singapore Regional Training Institute (1998), IMF-AMF Regional Training Program in United Arab Emirates (1999), Joint Africa Institute (JAI) in Côte d'Ivoire (1999), Joint China-IMF Training Program (2000), and Joint Regional Training Center for Latin America in Brazil (2001). Data for JAI include courses delivered by the African Development Bank and the World Bank.

[2]These are not included in the total course count below as the residential segment is already reflected in the headquarters' training category.

[3]Those participants who were invited to the residential part of the courses are included both here and under headquarters training. They are counted only once in the totals below.

[4]Includes only participant-weeks for the distance part of the course. Participant-weeks for the residential part are included in headquarters training.

Expanded Training by the IMF Institute

In recent years, the IMF Institute has substantially increased the number of training courses for government officials, in response to the large demand from member countries. At the same time, it continued to pay close attention to the evolving needs of member countries in the mix of courses offered and in the development of new courses.

In FY2002, the IMF Institute delivered 117 courses and seminars for officials, providing over 8,700 participant-weeks of training (Table 7.3). The number of training activities and participants rose by 8 percent and 10 percent, respectively, over FY2001 levels, to double what they had been in FY1998. The number of participant-weeks of training rose by 36 percent over the past four years—a more modest increase than in the number of training activities, reflecting the greater emphasis in recent years on shorter and more specialized courses adapted to the needs of the IMF's member countries.

The expansion of IMF Institute training has been greatly facilitated by the development of a network of IMF regional training institutes and

Table 7.4
IMF Institute Regional Training Programs

Regional Program	Date Established	Location	Cosponsors	Participating Countries
Joint Vienna Institute	1992	Austria	Austrian authorities, Bank for International Settlements, European Bank for Reconstruction and Development, Organization for Economic Cooperation and Development, World Bank, and World Trade Organization[1]	Transition countries in Europe and Asia
IMF-Singapore Regional Training Institute	1998	Singapore	Government of Singapore	Developing and transition countries in Asia and the Pacific
IMF-AMF Regional Training Program	1999	United Arab Emirates	Arab Monetary Fund	Member countries of the Arab Monetary Fund
Joint Africa Institute	1999	Côte d'Ivoire	African Development Bank, World Bank	African countries
Joint China-IMF Training Program	2000	China	Peoples Bank of China	China
Joint Regional Training Center for Latin America	2001	Brazil	Government of Brazil	Latin American countries and Portugese-speaking African countries

[1]A number of other European countries and the European Union, although not formal sponsors of the JVI, provide financial support.

programs, following on the favorable experience with the Joint Vienna Institute (JVI), established in 1992 (Table 7.4). Five new regional institutes and programs began operations over the past four years: the IMF-Singapore Regional Training Institute (STI) in 1998, the IMF-AMF Regional Training Program (RTP) and the Joint Africa Institute (JAI) in 1999, the Joint China-IMF Training Program (CTP) in 2000, and the Joint Regional Training Center for Latin America (BTC) in 2001. The number of training activities at the regional programs rose from 21 in FY1998 to 80 in FY2002.

This regional approach has allowed the IMF Institute to increase training considerably without expanding its facilities in Washington and to tailor its programs to the needs of the different regions. It has also been a cost-effective way of addressing the large demand for training, as cosponsors of the regional training institutes and programs are making substantial financial contributions through cost-sharing arrangements.

New technology applications have also contributed to the expansion of training through a distance-learning Financial Programming and Policies course, delivered for the first time in FY2000. In FY2002, the IMF Institute provided three deliveries of this course, combining 9–10 weeks of Internet-based instruction with a two-week residential segment in Washington, D.C.

Although the principal focus of its overseas training is now on the IMF regional institutes and programs, the IMF Institute continues to see its cooperation with regional training institutes outside the IMF network as an important tool for capacity enhancement. At the same time, courses and seminars in Washington have remained a central part of the IMF Institute's program. Headquarters-based courses offer access to a broader range of staff experience and skills than can be marshaled for overseas activities, which is especially important for longer courses. Washington participants can more broadly compare experiences, develop a wider network of contacts, and more easily gain insights into the operations of the IMF.

The IMF Institute pays close attention to curriculum development. In FY2002, new courses on Inflation Targeting and Banking Supervision were delivered, and courses on Assessing Financial System Stability, Financial Market Analysis, Fiscal Sustainability and Transparency, and Macroeconomic Forecasting were under development for delivery in FY2003. The IMF Institute has also continued to tailor programs on key current issues to the needs of high-level officials. In FY2002, these included seminars on exchange rate regimes, investor relations, fiscal rules, and poverty reduction strategies. The active research program maintained by the staff of the IMF Institute, together with the research contributions of visiting scholars, has helped to ensure that programs are topical and state of the art.

CHAPTER 8

Organization, Budget, and Staffing

Financial year 2002 saw several major changes within the institution. During the year the IMF bid farewell to First Deputy Managing Director Stanley Fischer and to Economic Counsellor and Director of the Research Department Michael Mussa and welcomed their successors—Anne Krueger and Kenneth Rogoff. Jack Boorman, who stepped down as Director of the Policy Development and Review (PDR) Department, retained his position as Counsellor and became a Special Adviser to the Managing Director. He was succeeded as PDR director by Timothy Geithner. Gerd Häusler joined the IMF as Counsellor and Director of the new International Capital Markets Department, which came into being in FY2002. In addition, the Independent Evaluation Office (IEO) under Montek Singh Ahluwalia became operational.

External experts provided the impetus for other significant developments. In June 2001 a panel of outside experts presented a report to the Executive Board on the IMF's internal budgeting processes. The report recommended a number of changes to the IMF's budget system, several of which have already been put into practice. Other reforms will be made in FY2003 and FY2004. And in early 2002, the Board was presented with a report by a panel of experts on the systems and procedures for resolving employment-related disputes between the IMF and its staff members. While generally supportive of the IMF's existing policies, the report made a number of suggestions for improvement, nearly all of which were accepted by management and will be implemented during FY2003.

In addition, the IMF reviewed its Emergency Operations and Business Continuity Plans, and tested both its short- and long-run plans. As a result, the IMF is improving its computer backup capabilities and business continuity plans.

Organization

The IMF is governed by its Board of Governors, and its business is conducted by an Executive Board, a Managing Director, a First Deputy Managing Director, two other Deputy Managing Directors, and a staff of international civil servants whose sole responsibility is to the IMF. The institution's founding Articles of Agreement require that staff appointed to the IMF demonstrate the highest standards of efficiency and technical competence and reflect the organization's diverse membership.

Executive Board

The IMF's 24-member Executive Board, as the IMF's permanent decision-making organ, conducts the institution's day-to-day business. In calendar year 2001, the Board held 129 formal meetings, 8 seminars, and 111 informal, committee, and other meetings.

The Executive Board's discussions are largely based on papers prepared by IMF management and staff. In 2001, the Board spent about 70 percent of its time on member country matters (especially Article IV consultations and reviews and approvals of IMF arrangements); 20 percent of its time on multilateral surveillance and policy issues (such as the world economic outlook, developments in international capital markets, global financial stability reports, IMF financial resources, strengthening the international financial system, the debt situation, and issues related to IMF lending facilities and program design); and its remaining time on administrative and other matters.

Departments

The IMF staff is organized mainly into departments with regional (or area), functional, information and liaison, and support responsibilities (Figure 8.1). These departments are headed by directors who report to the Managing Director.

Area Departments

Six area departments—*African*, *Asia and Pacific*, *European I*, *European II*, *Middle Eastern*, and *Western Hemisphere*—advise management and the Executive Board on economic developments and policies in countries in their region. Their staffs are responsible also for putting together financial arrangements to support members' economic reform programs and for reviewing performance under these IMF-supported programs. Together with relevant functional departments, they provide member countries with policy advice and technical assistance and maintain contact with regional organizations and multilateral institutions in their geographic areas. Supplemented by staff in functional departments, area departments carry out much of the IMF's country surveillance work through direct contacts with member countries. In addition, 86 area department staff are assigned to members as IMF resident representatives (see Box 8.1).

Box 8.1
IMF Resident Representatives

At the end of April 2002, the IMF had 86 resident representatives covering 87 member countries in Africa, Asia, Europe, the Middle East, and the Western Hemisphere, and plans were under way to open new posts in Afghanistan, Kosovo, and the Democratic Republic of the Congo. These posts—usually filled by one IMF employee supported by local staff—help to enhance IMF policy advice and are often set up in conjunction with a reform program. The representatives, who typically have good access to key national policymakers, can have a major impact on the quality of IMF country work. In particular, resident representatives contribute to the formulation of IMF policy advice, monitor performance—especially under IMF-supported programs—and coordinate technical assistance. They can also alert the IMF and the host country to potential policy slippages, provide on-site program support, and play an active role in IMF outreach in member countries. Since the advent of enhanced initiatives for low-income countries, resident representatives have helped members develop their poverty reduction strategies by taking part in country-led discussions on the strategy and presenting IMF perspectives. They also support monitoring of program implementation and institution building, working with different branches of government, civil society organizations, donors, and other stakeholders.

Functional and Special Services Departments

The *Fiscal Affairs Department* is responsible for activities involving public finance in member countries. It participates in area department missions on fiscal issues, reviews the fiscal content of IMF policy advice and IMF-supported adjustment programs, and provides technical assistance in public finance. It also conducts research and policy studies on fiscal issues, as well as on income distribution and poverty, social safety nets, public expenditure policy issues, and the environment.

The *International Capital Markets Department* (ICM), established in May 2001, assists the Executive Board and management in overseeing the international monetary and financial system and enhances the IMF's crisis prevention and crisis management activities. As part of surveillance, the ICM prepares a quarterly *Global Financial Stability Report* (see Box 2.2) that assesses developments and systemic issues in international capital markets. The department liaises with private capital market participants, national authorities responsible for financial system policies, and official forums dealing with the international financial system. In addition, the department plays a leading role in the IMF's conceptual and policy work related to international capital market access and gives technical advice to members on access to, and how to benefit from, interactions with international markets, as well as on strategies for external debt management.

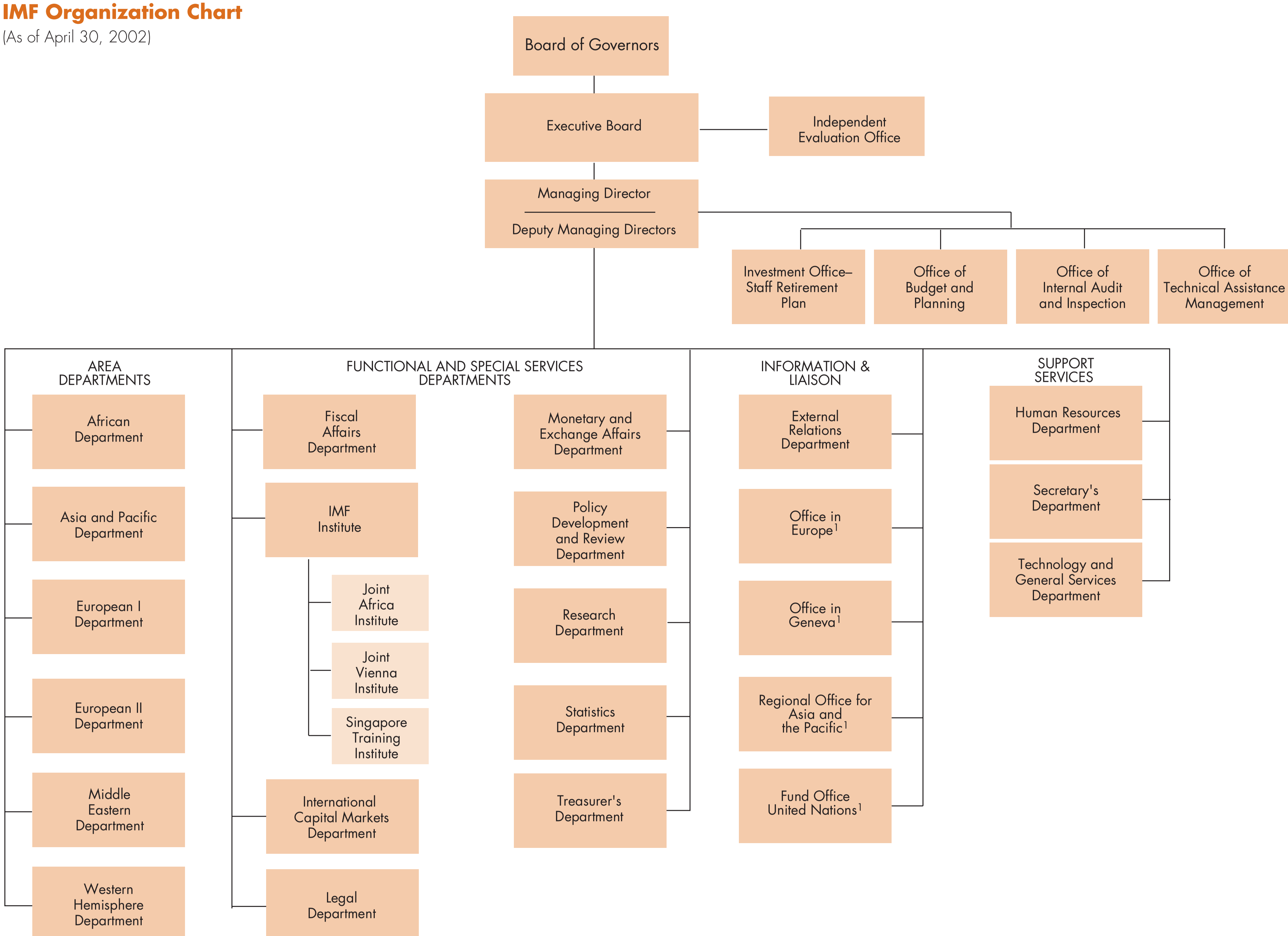
The *IMF Institute* provides training for officials of member countries—particularly developing countries—in such areas as financial programming and policy, external sector policies, balance of payments methodology, national accounts and government finance statistics, and public finance. The Institute also conducts an active program of courses and seminars in economics, finance, and econometrics for IMF economists. (See Chapter 7.)

The *Legal Department* advises management, the Executive Board, and the staff on the applicable rules of law. It prepares most of the decisions and other legal instruments necessary for the IMF's activities. The department serves as counsel to the IMF in litigation and arbitration cases, provides technical assistance on legislative reform, assesses the consistency of laws and regulations with selected international standards and codes, responds to inquiries from national authorities and international organizations on the laws of the IMF, and arrives at legal findings regarding IMF jurisdiction on exchange measures and restrictions.

The *Monetary and Exchange Affairs Department* provides analytical and technical support, including development and dissemination of good policies and best practices, to member countries and area departments on issues related to financial sector systems and soundness—including prudential regulation, supervision, and systemic restructuring; central banking, monetary, and exchange policies and instruments; and capital flows and exchange measures and systems. In surveillance activities and requests for the use of IMF resources, the department reviews issues related to its areas of competence and provides its expertise in policy assessment and development. It also delivers and administers technical assistance in these areas, coordinating with collaborating central banks, supervisory agencies, and other international organizations.

The *Policy Development and Review Department* (PDR) plays a central role in the design and implementation of IMF financial facilities, surveillance, and other policies. Through its review of country and policy work, PDR ensures the consistent application of IMF policies

Figure 8.1
IMF Organization Chart
(As of April 30, 2002)



[1]Attached to the Office of Managing Director.

throughout the institution. In recent years, the department has spearheaded the IMF's work in strengthening the international financial system, in streamlining and focusing conditionality, and in developing the Poverty Reduction and Growth Facility and the HIPC Initiative. With area department staff, PDR economists participate in country missions and assist member countries that are making use of IMF resources by helping to mobilize other financial resources. The department plays a key role in the preparation of meetings of the IMFC and the Development Committee, as well as representing the IMF in other groups (e.g., Group of Twenty-Four) and at other institutions (especially the World Bank).

The *Research Department* conducts policy analysis and research in areas relating to the IMF's work. The department plays a prominent role in surveillance and in developing IMF policy concerning the international monetary system and cooperates with other departments in formulating IMF policy advice to member countries. It coordinates the semiannual World Economic Outlook exercise and prepares analysis for the surveillance discussions of the Group of Seven, Group of Twenty, and such regional groupings as the Asia Pacific Economic Cooperation (APEC) forum, and the Executive Board's seminars on world economic and market developments. The department also maintains contacts with the academic community and with other research organizations.

The *Statistics Department* maintains databases of country, regional, and global economic and financial statistics and reviews country data in support of the IMF's surveillance role. It is also responsible for developing statistical concepts in balance of payments, government finance, and monetary and financial statistics, as well as producing methodological manuals. The department provides technical assistance and training to help members develop statistical systems and produces the IMF's statistical publications. In addition, it is responsible for developing and maintaining standards for the dissemination of data by member countries.

The *Treasurer's Department* formulates the IMF's financial policies and practices; conducts and controls financial operations and transactions in the General Department, SDR Department, and Administered Accounts; controls expenditures under the administrative and capital budgets; and maintains IMF accounts and financial records. The department's responsibilities also include quota reviews, IMF financing and liquidity, borrowing, investments, the IMF's income, and operational policies on the SDR and is the lead department for the conduct of safeguards assessments of member country central banks.

Information and Liaison

The *External Relations Department* plays a key role in promoting public understanding of and support for the IMF and its policies. It aims to make the IMF's policies understandable through many activities aimed at transparency, communication, and engagement with a wide range of stakeholders. It prepares, edits, and distributes most IMF publications and other material, promotes contacts with the press and other external groups, such as civil society organizations and parliamentarians, and manages the IMF's website (see also Appendix V).

The IMF's offices in Asia, Europe, and at the United Nations maintain close contacts with other international and regional institutions (see Appendix IV). The UN Office also makes a substantive contribution to the Financing for Development process.

Support Services

The *Human Resources Department* helps ensure that the IMF has the right mix of staff skills, experience, and diversity to meet the changing needs of the organization, and that human resources are managed, organized, and deployed in a manner that maximizes their effectiveness, moderates costs, and keeps the workload and stress at acceptable levels. The department develops policies and procedures that help the IMF achieve its work objectives, manages compensation and benefits, recruitment, and career planning programs, and supports organizational effectiveness by assisting departments with their human resources management goals.

The *Secretary's Department* organizes and reports on the work of the IMF's governing bodies and provides secretariat services to them, as well as to the Group of Twenty-Four. In particular, it assists management in preparing and coordinating the work program of the Executive Board and other official bodies, including scheduling and assisting in the conduct of Board meetings. The department also manages the Annual Meetings, in cooperation with the World Bank.

The *Technology and General Services Department* manages and delivers a wide range of services essential for the IMF's operation. These include information services (information technology; telecommunications; documents, records, and archives management; and library services); facilities construction and management; general administrative services (travel management, conference and catering services, graphics, procurement services, and Headquarters, field, and information technology security); and language services (translation, interpretation, and publications in languages other than English). In the wake of the terrorist attacks of September 11, 2001, in New York City and Washington and given the heightened awareness of security over the past few years, the department formed a new division to coordinate its security services.

The IMF also has *offices* responsible for internal auditing and review of work practices, budget matters, technical assistance, and investments under the staff retirement plan.

Table 8.1
Recommended Reforms to IMF Internal Budgeting

Recommendation	Status
Management to develop a top-down budget stance.	Adopted
Departments to prepare business plans.	Adopted
Identify outputs and output groups as focus of IMF activity.	Under review by Task Force
Distinguish between line and central departments, along with the full costing of resources allocated to outputs.	Under review by Task Force
Establish a better time and activity reporting system.	Under review by Task Force
Establish forward estimates by departments where first-year forward estimate becomes the starting point for the next budget.	To be implemented for FY2003 budget
Incorporate cost of all new activities into budget and forward estimates at the time of the policy decision.	Adopted
Develop measures of performance and zero-based reviews of outputs.	Under review by Task Force
Further review the scope for outsourcing.	In process
Maintain staff ceiling tables as an adjunct to the budget process.	Adopted

Independent Evaluation Office

Established by the International Monetary Fund's Executive Board in July 2001, the Independent Evaluation Office (IEO) provides objective and independent evaluation on issues related to the IMF. The office operates independently of IMF management and at arm's length from the IMF's Executive Board. The IEO enhances the learning culture of the IMF, promotes understanding of the IMF's work, and supports the IMF's Executive Board in its governance and oversight.

The IEO's work program for FY2003 was made final following extensive consultation with government authorities, nongovernment organizations, members of the academic community, and representatives of the financial sector, as well as the staff, management, and Executive Board. The first three projects chosen are (1) an investigation of prolonged use of IMF financial resources and its implications for the IMF; (2) an examination of fiscal adjustment in IMF-supported programs in a group of low- and middle-income countries; and (3) an evaluation of the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia, and Korea). A description of the work program and terms of reference and issues papers for the first three projects are available on the IEO's website.

Administrative and Capital Budgets

Budget Reforms

A panel of external experts reviewed the IMF's internal budget processes in 2001. Their report contained a number of recommendations aimed at improving the transparency, accountability, and efficiency of the IMF's budget system. At a Board seminar held in June 2001, Executive Directors broadly supported a number of immediate reforms including:

- a shift to total resource costing, while retaining a staff ceiling;
- a comprehensive costing of new proposals to avoid future underfunded mandates;
- the reintroduction of a medium-term framework; and
- the preparation of departmental business plans.

In line with the evaluators' report, Executive Directors called for further work to assess how to achieve a greater focus on outputs in formulating the budget. Management established a task force to investigate such reforms and develop specific proposals. Table 8.1 lists the main recommendations and their status of implementation as of end-April 2002. Some reforms will be undertaken in FY2003, while others are under review for implementation in FY2004. The capital budget regime was also reformed to improve its transparency and efficiency.

Budgets and Actual Expenditure in FY2002

The IMF's Administrative Budget for the financial year that ended April 30, 2002 (FY2002) authorized total expenditure of $736.9 million (or $695.4 million net of estimated reimbursements). The FY2002 Capital Budget of $40 million included $14.8 million for building facilities projects, $15.4 million for information technology equipment, and $9.8 million for major software development. Actual gross administrative expenditures during the year totaled $721.3 million ($676.7 million net of reimbursements), and capital project disbursements totaled $61.5 million (Table 8.2).

Thus, actual administrative expenses fell below authorized spending by $18.7 million. The main factors that account for the underspent administrative budget in FY2002 are:

- the receipt of one-time credits totaling some $8 million due to past overpayments into the Medical Benefits Plan and the Group Life Insurance program;
- lower-than-budgeted travel expenditure in the aftermath of the attacks on September 11, 2001; and
- cancellation of the 2001 Annual Meetings.

The above were partially offset, however, by expenditures on heightened security measures.

Budgets in FY2003

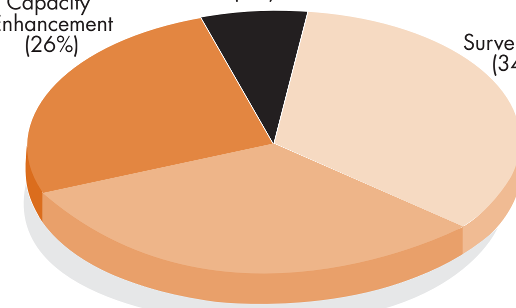
In April 2002, the Executive Board approved a gross Administrative Budget of $794.3 million for FY2003

($746.4 million net of estimated reimbursements). This represents a 7.8 percent increase in gross terms (7.3 on a net basis) over the approved budget of the previous year. Three factors account for the increase: intensified work on combating money laundering and the financing of terrorism; higher expenditures on security; and the establishment of two regional technical assistance centers in Africa (AFRITACs; see Chapter 7). The cost of all other substantive and administrative policy changes were more than fully offset by efficiency savings secured during budget discussions.

The external evaluators' report on internal budgeting discussed above recommended that the budget process pay attention to outputs as well as inputs. Based on available information, the estimated share of resources allocated to four output groups—surveillance, use of Fund resources, capacity enhancement (including technical assistance and external training), and research—is shown in Figure 8.2.

For the Capital Budget, the Executive Board approved an appropriation of $215.0 million for expenditures over the next three years, covering projects beginning in FY2003 as well as the completion of projects started in earlier years. Of this amount, $43.2 million is for building facilities and $42.5 million for information technology systems. The remaining $129.3 million is provided for the second headquarters building (HQ2), bringing the total budget for the HQ2 building to $149.3 million.

Figure 8.2
Share of Resources by Output Category, FY2003
(As a percent of total costs)



Medium-Term Framework

Management's goal for the medium term is to consolidate, not expand, the size of the institution while seeking efficiency savings and cutbacks on lower-priority work to accommodate new priorities and reduce staff stress. A nominal increase of about 4.5 percent in

Table 8.2
Administrative and Capital Budgets, Financial Years 2000–2003[1]
(Values expressed in millions of U.S. dollars and SDRs)

	Financial Year Ended April 30, 2000: Actual Expenses	Financial Year Ended April 30, 2001: Actual Expenses	Financial Year Ended April 30, 2002: Actual Expenses	Financial Year Ending April 30, 2003: Budget
Administrative Budget		*(In millions of U.S. dollars)*		
I. Personnel Expenses				
Salaries	267.7	292.1	320.7	348.2
Other Personnel Expenses	149.4	154.0	161.0	173.7
Subtotal	**417.1**	**446.1**	**481.7**	**521.9**
II. Other Expenses				
Travel	84.5	91.3	94.4	112.9
Other Expenses	122.7	138.1	145.3	159.5
Subtotal	**207.2**	**229.4**	**239.6**	**272.4**
III. Reimbursements	(41.3)	(37.5)	(44.6)	(47.9)
Total Administrative Budget	**583.0**	**638.0**	**676.7**	**746.4**
Capital Budget				
Capital projects	39.5	34.6	61.5	215.0
Memorandum item		*(In millions of SDRs)*		
Administrative expenses reported in the financial statements[2]	448.4	384.6	530.8	585.0

[1]Administrative and capital budgets as approved by the Board for the financial year ending April 30, 2003, compared with actual expenses for the financial years ended April 30, 2000, April 30, 2001, and April 30, 2002.

[2]The IMF's financial statements are prepared in SDRs in accordance with International Accounting Standards (IAS). They include depreciation of some capital budget projects and account for employee benefits in accordance with IAS 19 and other reconciled differences to the budget in U.S. dollars.

Table 8.3
Distribution of Professional Staff by Nationality
(In percent)

Region[1]	1980	1990	2001
Africa	3.8	5.8	6.6
Asia	12.3	12.7	16.3
Japan	1.4	1.9	1.3
Other Asia	10.9	10.8	15.0
Europe	39.5	35.1	29.7
France	6.9	5.5	3.9
Germany	3.7	4.3	3.7
Italy	1.7	1.4	2.2
United Kingdom	8.2	8.0	6.2
Russia and countries of the former Soviet Union	. . .	. . .	2.0
East Europe and Baltic countries			1.9
Other Europe	19.0	15.9	9.8
Middle East	5.4	5.5	4.5
Western Hemisphere	39.1	41.0	42.9
Canada	2.6	2.8	3.2
United States	25.9	25.9	25.4
Other Western Hemisphere	10.6	12.3	14.3
Total	**100.0**	**100.0**	**100.0**

[1]Regions are defined on the basis of the country distribution of the IMF's area departments. The European region includes countries in both the European I and European II area departments. The Middle East region includes countries in North Africa.

the administrative budget in both FY2004 and FY2005 is established as the estimated cost of existing policies.

Changes in Management and Senior Staff

- ***First Deputy Managing Director.*** On August 31, 2001, FDMD Stanley Fischer left his position, which he had held since 1994. His successor, Anne Krueger, Stanford University professor and former Vice President of the World Bank, took up her duties on September 1, 2001.
- ***Economic Counsellor and Director of the Research Department.*** After 10 years of IMF service, Michael Mussa relinquished his post on June 29, 2001. Harvard University professor Kenneth S. Rogoff, an authority on international economics, succeeded Mr. Mussa on August 2, 2001.
- ***Director of the Policy Development and Review Department.*** Long-serving PDR Director and latterly Counsellor Jack Boorman relinquished his director's position on November 30, 2001. His successor, Timothy Geithner, former U.S. Treasury Undersecretary for International Affairs and Senior Fellow for International Economics at the Council on Foreign Relations, assumed the duties of Director on December 3, 2001.
- ***Director of the International Capital Markets Department.*** Gerd Häusler, formerly chairman of Dresdner Bank AG's investment banking arm and a member of the banking group's Managing Board, became Counsellor and the first Director of the new International Capital Markets Department on August 1, 2001.
- ***Director of Special Operations.*** Anoop Singh, formerly Deputy Director of the Asia and Pacific Department, was appointed to the newly created position of Director of Special Operations on February 25, 2002, with responsibility for leading the IMF staff team working with the Argentine authorities. (Subsequently, on June 10, it was announced that Mr. Singh would succeed Claudio Loser as Director of the Western Hemisphere Department and that Special Operations would by the end of the summer be integrated into the IMF's organizational structure.)

Staff

The Managing Director appoints a staff whose sole responsibility is to the IMF, whose efficiency and technical competence are expected to be, as set forth in the Articles of Agreement, of the "highest standards," and whose diversity by nationality reflects its membership and gives "due regard to the importance of recruiting personnel on as wide a geographical basis as possible." In accordance with these high standards, the IMF has put in place a financial disclosure process for staff.

To provide the continuity and institutional memory from which the membership benefits, the IMF has an employment policy designed to recruit and retain a corps of international civil servants interested in spending a career, or a significant part of a career, at the IMF. At the same time, the IMF recognizes the value of shorter-term employment and recruitment of midcareer professionals consistent with the changing labor market and the benefit of fresh perspectives. In the case of a number of skills and jobs—relating mainly to certain services and highly specialized economic and financial skills—business considerations have called for shorter-term appointments or for outsourcing activities.

As of December 31, 2001, the IMF employed 787 staff at the assistant level and 1,846 professional staff (about two-thirds of whom were economists). In addition to its regular staff, the IMF had 343 contractual employees on its payroll, including technical assistance experts, consultants, and other short-term staff not included in the regular staff ceiling. Of the IMF's 183 member countries, 133 were represented on the staff. (See Table 8.3 for the evolution of the nationality distribution of IMF professional staff since 1980.)

Recruitment and Retention

Over the course of 2001, 324 new staff members joined the IMF—231 external recruits and 93 conversions to staff status. The 231 external hires (125 economists, 37 hires in professional and managerial grades in specialized career streams, and 69 assistants) represent an increase of 2 over the 229 staff members hired in 2000. Of the external hires in 2001, 78 were midcareer economists and 36 (plus one internally recruited) entered the Economist Program. The two-year Economist Program serves to familiarize entry-level economists with the work of the IMF by placing them in two different departments, each for a 12-month period, and then offering regular staff appointments to those who perform well.

During 2001, 146 staff separated from the organization. The separation rate of staff in professional and managerial grades was 5.5 percent (101 staff) in 2001. This represents an increase from 5.1 percent (88 staff) in 2000 and a decline from 5.9 percent (92 staff) in 1999.

Table 8.4
IMF Staff Salary Structure
(In U.S. dollars, effective May 1, 2002)

Grade	Range Minimum	Range Maximum	Illustrative Position Titles
A1	22,210	33,350	Not applicable (activities at this level have been outsourced)
A2	24,900	37,320	Driver
A3	27,850	41,790	Staff Assistant (Clerical)
A4	31,200	46,840	Staff Assistant (Beginning Secretarial)
A5	34,990	52,470	Staff Assistant (Experienced Secretarial)
A6	39,100	58,720	Senior Secretarial Assistant, Other Assistants (e.g., Editorial, Computer Systems, Human Resources
A7	43,860	65,800	Research Assistant, Administrative Assistant
A8	49,120	73,700	Senior Administrative Assistants (e.g., Accounting, Human Resources)
A9	52,240	78,400	Librarian, Translator, Research Officer, Human Resources Officers
A10	60,100	90,140	Accountant, Research Officer, Administrative Officer
A11	69,010	103,550	Economist (Ph.D. entry level), Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A12	77,280	115,940	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A13	86,580	129,840	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A14	96,950	145,450	Deputy Division Chief, Senior Economist
A15/B1	109,560	164,380	Division Chief, Deputy Division Chief
B2	126,310	183,270	Division Chief
B3	150,100	195,310	Assistant Department Director, Advisor
B4	174,920	218,640	Deputy Department Director, Senior Advisor
B5	205,980	247,260	Department Director

Note: The above salary structure for IMF staff is intended to be internationally competitive to enable the IMF to secure highly qualified staff from all member countries. The salaries are reviewed annually by the Executive Board. They are kept in line with the salaries for equivalent grades and positions in private sector financial and industrial firms and in representative public sector agencies, mainly in the United States. Because IMF staff other than U.S. citizens are usually not required to pay income taxes on their IMF compensation, the salaries are set on a net-of-tax basis, which is generally equivalent to the after-tax take-home pay of the employees of the public and private sector firms from which IMF salaries are derived.

Dispute Resolution

Early in 2001, management appointed an external panel of three independent experts to carry out a comprehensive review of its systems and procedures for resolving employment-related disputes arising between the IMF and staff members. The panel reported to management in early 2002. It concluded that the IMF has developed a large internal body of law that appropriately covers employment terms and conditions as well as the duties, obligations, and rights of staff members. In addition, it has set up comprehensive formal and informal systems for employees to raise concerns regarding rules and regulations on employment terms and conditions and to resolve employment-related disputes. Nevertheless, the panel recommended a number of changes or clarifications in the current system and current procedures. Nearly all of the recommendations were accepted by management and are being implemented during 2002. A report outlining management's views on the recommendations was presented to the Executive Board in April 2002.

Salary Structure

To recruit and retain the staff it needs, the IMF has developed a compensation and benefits system designed to be competitive, to reward performance, and to take account of the special needs of a multinational and largely expatriate staff. The IMF's staff salary structure is reviewed annually and, if warranted, adjusted on the basis of a comparison with salaries paid by selected private financial and industrial firms and public sector organizations in the United States, France, and Germany. After analyses of updated comparator salaries, the salary structure was increased 4.8 percent for FY2002, and the Board approved an increase of 4.0 percent for FY2003 (Table 8.4).

Management Remuneration

Reflecting the responsibilities of each management position and the relationship between the management

Table 8.5
Distribution of Staff by Gender

Staff	1980 Number	1980 Percent	1990 Number	1990 Percent	2001[1] Number	2001[1] Percent
All Staff						
Total	1,444	100.0	1,774	100.0	2,633	100.0
Women	676	46.8	827	46.6	1,224	46.5
Men	768	53.2	947	53.4	1,409	53.5
Support Staff						
Total	613	100.0	642	100.0	787	100.0
Women	492	80.3	540	84.1	662	84.1
Men	121	19.7	102	15.9	125	15.9
Professional staff						
Total	646	100.0	897	100.0	1,494	100.0
Women	173	26.8	274	30.5	513	34.3
Men	473	73.2	623	69.5	981	65.7
Economists						
Total	362	100.0	529	100.0	936	100.0
Women	42	11.6	70	13.2	211	22.5
Men	320	88.4	459	86.8	725	77.5
Specialized career streams						
Total	284	100.0	368	100.0	558	100.0
Women	131	46.1	204	55.4	302	54.1
Men	153	53.9	164	44.6	256	45.9
Managerial staff						
Total	185	100.0	235	100.0	352	100.0
Women	11	5.9	13	5.5	49	13.9
Men	174	94.1	222	94.5	303	86.1
Economists						
Total	99	100.0	184	100.0	287	100.0
Women	4	4.0	9	4.9	31	10.8
Men	95	96.0	175	95.1	256	89.2
Specialized career streams						
Total	86	100.0	51	100.0	65	100.0
Women	7	8.1	4	7.8	18	27.7
Men	79	91.9	47	92.2	47	72.3

[1]Includes only staff on duty.

and staff salary structures, the salary structure for management, as of July 1, 2001, is as follows:

Managing Director	$327,880[1]
First Deputy Managing Director	$279,596
Deputy Managing Directors	$266,276

Management remuneration is subject to a combination of periodic structural reviews by the Executive Board and annual revisions. It is autonomous and not formally linked to remuneration in other international organizations.

Executive Board Remuneration

Upon the recommendation of the Board of Governors' Committee on the Remuneration of Executive Directors, the Governors approved from July 1, 2001, increases of 4.3 percent in the remuneration of Executive Directors and their Alternates. The remuneration of Executive Directors is $175,910.[2] The remuneration of Alternate Executive Directors is $152,160.[3]

Diversity

The Executive Board continued to emphasize staff diversity as important for improving the IMF's effectiveness as an international institution. The IMF's Senior Advisor on Diversity, who reports to the Managing Director, further developed indicators to monitor and strengthen nationality and gender diversity (Tables 8.3, 8.5, and 8.6), as well as diversity management in the organization. In line with the IMF's diversity strategy, during calendar year 2001, the Human Resources Department (HRD) focused on integrating diversity into its human resource management policies and practices, including performance competencies and management development, and initiated work on new programs and benchmarks to guide the IMF's diversity efforts.

The Senior Advisor works closely with HRD and other departments to identify needs and opportunities for promoting diversity and carrying out departmental action plans, which have been prepared and monitored every year since 1996. In FY2002, departments integrated these action plans into comprehensive human resource plans, which in the future will provide a framework for the IMF's diversity efforts. Typically, diversity actions include initiatives

[1]In addition, a supplemental allowance of $58,680 is paid to cover expenses.

[2]In determining the salary adjustments for Executive Directors for 2001, the committee took into consideration the percentage change in remuneration of the highest-level civil servant in the ministry of finance and central bank for selected member countries, and that country's change in its consumer price index.

[3]These figures do not apply to the U.S. Executive Director and Alternate Executive Director, who are subject to U.S. congressional salary caps.

in recruitment and career development, orientation and mentoring programs for newcomers, and measures to improve communication and increase the transparency of human resource policies, procedures, and statistics.

In addition to diversity-specific measures to address and prevent problems, the IMF is placing more emphasis on people management skills and diversity sensitivity in the performance assessment of supervisors and in recruitment and promotion decisions, which are of particular importance in an institution with a diverse workforce. To promote family-friendly work arrangements and benefits, the IMF opened a day care center and extended most benefits to domestic partners.

The departmental annual progress reports submitted to HRD in FY2002 and the supplementary input from departments to the Senior Advisor on Diversity showed improvements in diversity awareness and skills, more systematic and structured approaches, and better people management practices. Progress was also achieved in the recruitment, promotion, and overall representation of underrepresented staff groups. Progress toward having more women at the managerial level moved ahead after having stalled in 2001, but the number of developing country staff at the managerial level dropped slightly. Achieving satisfactory diversity of staff in an institution that emphasizes career employment is a continuing goal that requires concerted effort. Progress is monitored and problems are reported in a very transparent manner, including in the Diversity Annual Report on the IMF's website.

Table 8.6
Distribution of Staff by Developing and Industrial Countries

	1990		2001	
Staff	**Number**	**Percent**	**Number**	**Percent**
All Staff				
Total	1,774	100.0	2,633	100.0
Developing countries	731	41.2	1,129	42.9
Industrial countries	1,043	58.8	1,504	57.1
Support Staff				
Total	642	100.0	787	100.0
Developing countries	328	51.1	439	55.8
Industrial countries	314	48.9	348	44.2
Professional staff				
Total	897	100.0	1,494	100.0
Developing countries	343	38.2	586	39.2
Industrial countries	554	61.8	908	60.8
Economists				
Total	529	100.0	936	100.0
Developing countries	220	41.6	385	41.1
Industrial countries	309	58.4	551	58.9
Specialized career streams				
Total	368	100.0	558	100.0
Developing countries	123	33.4	201	36.0
Industrial countries	245	66.6	357	64.0
Managerial staff				
Total	235	100.0	352	100.0
Developing countries	60	25.5	104	29.5
Industrial countries	175	74.5	248	70.5
Economists				
Total	713	100.0	287	100.0
Developing countries	274	38.4	92	32.1
Industrial countries	439	61.6	195	67.9
Specialized career streams				
Total	51	100.0	65	100.0
Developing countries	6	11.8	12	18.5
Industrial countries	45	88.2	53	81.5

New Building

Planning is well under way to construct a second headquarters building on property owned by the IMF adjacent to the existing headquarters building. In April 2002 the District of Columbia's Zoning Commission voted to approve rezoning for the project, and demolition of the existing building has begun. After reviewing bids for construction and selecting a contractor, the IMF's development manager expects to begin construction in the fall of 2002. Under current projections, the new building will accommodate all staff within the headquarters complex, reducing overall costs by eliminating the need to lease office space. The project is expected to be completed by 2006.