CHAPTER 5

The Fight Against Poverty in Low-Income Countries

The central objective of the IMF's operations in low-income countries is deep and lasting poverty reduction, which requires sustained economic growth and policies directed toward the needs of the poor. These are most likely to come about when, first, policies are sound, tailored to the needs and circumstances of individual countries, country-owned, and supported by strong institutions; and, second, when such national efforts are reinforced by a supportive global economic environment and international assistance. When these other conditions are in place, international assistance can be highly effective.

This "two-pillar" strategy was firmly endorsed by the international community in the Monterrey Consensus and reaffirmed at the Johannesburg Summit on Sustainable Development.[1] The strategy is based on the need for a sense of responsibility and determination in low-income countries to pursue sound policies and good governance, and it stresses that this must be matched by better and stronger international support—through increased and more effective aid, technical assistance, and a supportive international environment, including better market access for developing countries' exports and the phasing out of trade-distorting subsidies.

The IMF is committed to the fight against world poverty. The IMF's involvement in this crucial effort is within its mandate, pragmatic, and guided by considerations of effectiveness and practicality. First, the instruments, policies, and procedures that the IMF brings to this effort must not only be consistent with its institutional mandate but also be attuned to the special needs of low-income countries. Second, to be effective, the IMF must focus on its core areas of responsibility and competence, where it has a clear comparative advantage—macroeconomic policies and their supporting institutions, which are critical to establishing and maintaining conditions for sustainable growth, the promotion of sound financial sectors, the development of financial markets and the private sector, and the stability of the international financial system. In the process of its involvement in poverty reduction efforts, the IMF must also clearly define its expected contribution and delineate its role relative to those of other development partners, particularly the World Bank, which has the lead institutional role in poverty reduction. The Executive Board discussed a number of aspects of the IMF's support for low-income countries during the financial year—the subject of this chapter—and will be deepening this work program in FY2004.

As part of the second pillar of the poverty reduction strategy, the IMF supports its poorest members in several important areas:

- Helping them to develop and implement economic adjustment and reform programs aimed at accelerating sustainable growth. The IMF's contribution to these programs is in its areas of core expertise, set within the Poverty Reduction Strategy Paper (PRSP) approach (see Box 5.1), and supported in many cases through concessional loans from the IMF's Poverty Reduction and Growth Facility (PRGF). In recent years, the IMF has also contributed through its technical assistance activities—including through regional technical assistance centers delivering fiscal, financial, monetary, statistical, and institution-building training in the Pacific and Caribbean regions and in Africa (see Chapter 6). In addition, the IMF is cosponsor of a targeted effort to assist the seven poorest countries of the former Soviet Union—the CIS-7 Initiative (Box 5.2).
- Helping the Heavily Indebted Poor Countries (HIPC) address the burden of unsustainable debt through the enhanced HIPC Initiative.
- Advocating better market access for developing countries' exports and elimination of trade-distorting subsidies.
- Supporting the call for increased and better-targeted support by the international community, and the system for monitoring actions aimed at the achievement of the Millennium Development Goals (MDGs).

Other initiatives include collaborating with the World Bank on financial sector work in the areas of microfinance, finance for small and medium-sized

[1]The Conference on Financing for Development was held in Monterrey, Mexico, in March 2002. The World Summit on Sustainable Development took place in Johannesburg, South Africa, in late August 2002.

Box 5.1
What Is a PRSP?

Poverty Reduction Strategy Papers (PRSPs) are prepared by low-income countries through a participatory process involving domestic stakeholders and external development partners, and are endorsed by the IMF and the 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.

enterprises, long-term finance, stock markets, and access to international capital markets, especially foreign direct investment. To promote private sector development, the World Bank and the IMF are setting up pilot investment councils. Such councils have been established in Ghana, Tanzania, and Senegal.

Aligning PRGF-Supported Programs and the PRSP Approach

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

Box 5.2
The CIS-7 Initiative

The CIS-7 Initiative was launched at the Spring Meetings of the IMF and World Bank in April 2002, following a seminar in London in February 2002. The initiative—sponsored by the IMF, World Bank, Asian Development Bank, and the European Bank for Reconstruction and Development—seeks to draw attention to the plight of the seven low-income members of the Commonwealth of Independent States (CIS)—Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan. During FY2003, two international conferences were organized and a joint assessment of progress was made by the Initiative sponsors in April 2003.

Third Forum on Poverty Reduction Strategies for CIS-7 Countries

The Third Forum on Poverty Reduction Strategies for CIS–7 countries was held in Almaty, Kazakhstan, in December 2002. It was organized by the World Bank, the IMF, and the United Nations Development Program, and received financial support from the government of Switzerland. Representatives of the donor community also included the Asian Development Bank, the European Bank for Reconstruction and Development (EBRD), the European Union (EU), the International Labor Organization, the Islamic Development Bank, France, Germany, Japan, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

Forum participants shared experiences in designing and implementing poverty reduction strategies. Because most of the countries were close to finalizing, or had already finalized, their Poverty Reduction Strategy Papers (PRSPs), participants—especially the PRSP teams—were able to concentrate on the challenges they would face as they began to implement these strategies. In particular, the forum focused on:

- *Strategies for equitable growth*—the investment climate, trade as an engine of growth and poverty reduction, rural development strategies, and policies to support social inclusion.
- *Improvements in the design, implementation, and monitoring of PRSPs*—the use of poverty and social impact analysis systems for poverty monitoring, linking PRSPs to the budget, and donor alignment in support of PRSP implementation.
- *Institutionalization of the PRSP to strengthen governance and accountability*—the roles and responsibilities of various groups within civil society: community groups, parliament, local government, and the media.

A key message from the forum was the need to ensure that the PRSP becomes fully integrated into the regular business of government, including budget preparation. This effort would require continued capacity building for better analysis of the social impact of policies, and to support improved design and monitoring of policies. A particular concern for several countries was to ensure that disadvantaged groups—children, the disabled, women, internally displaced persons, and migrant workers—would benefit from economic growth.

Lucerne Conference on the CIS-7 Initiative

Meeting in Lucerne, Switzerland, in January 2003, representatives from the governments and civil society organizaprocedures are evolving in response to lessons learned and the needs and capacities of individual countries. Following up recommendations in the Board's reviews of the PRSP and PRGF lending in FY2002 (see *Annual Report 2002*, Chapter 5), increased attention is being paid in country programs to creating the right environment for investment and growth. In addition, efforts are under way to bring poverty and social impact analysis (PSIA) more systematically to bear in the formulation of poverty reduction strategies and under PRGF lending, and to strengthen public expenditure management, especially in collaboration with the World Bank (Box 5.3).

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

- an effort to incorporate more realistic projections and assumptions;
- rationalization of documentation under the PRGF loan program to demonstrate clearly how the PRGF supports the goals of the PRSP plan, indicate how policy choices have been made, and reduce overall reporting requirements; and
- greater coherence between PRSP plans and the budget process in low-income countries, and closer synchronization of the cycle of PRGF-supported programs with those of the PRSP and national budgets.

The harmonization of donor procedures with the budget and PRSP processes will have a critical role to play in the success of this effort. Looking forward, staff will be deepening its work on related analytical issues, including the linkages between macroeconomic and structural policies and growth in low-income countries. A joint IMF-Bank research conference on this nexus of issues is planned for the first half of 2004.

tions of the CIS-7, multilateral organizations, donor countries, academia, and international nongovernmental organizations stressed donor coordination, good governance and country ownership of reforms, capacity building, and regional cooperation. The conference broadened and deepened the debate to include a range of economic, institutional, and social issues that must be tackled if the seven countries are to complete the transition process and secure a lasting reduction in poverty.

Although conference participants highlighted the long road ahead for the CIS-7 countries as they seek to become full-fledged market economies and improve living standards for their people, the country delegations were broadly optimistic about the future. Indeed, the pickup in growth during the past few years, despite weaknesses in the global economy, has led to some reduction in poverty, suggesting that these countries are on the right path.

The consensus that emerged at the Lucerne conference was that further concerted action would be needed to enhance donor coordination and financial assistance—including debt relief where necessary—for countries following appropriate policies.

Assessment of Progress

Progress under the CIS-7 Initiative was reviewed in an April 2003 report prepared jointly by the European II Department of the IMF, the Europe and Central Asia Region of the World Bank, the Banking Department and Office of the Chief Economist of the EBRD, and the East and Central Asia Regional Department of the Asian Development Bank.

The sponsors of the initiative found that results from its first year were promising. Most of the countries made significant advances in designing and carrying out programs in the context of the PRGF/PRSP process, and that process provided a useful framework for coordinating donor support. Progress was also made in addressing the debt issue, albeit at a slower pace than hoped for by some participants. Paris Club reschedulings for Georgia and the Kyrgyz Republic provided valuable cash-flow relief in those countries. Bilateral reschedulings—notably agreements between Russia and Armenia, and agreements signed by Kazakhstan, Russia, and Uzbekistan with Tajikistan—also provided essential relief. Fiscal positions in the region had generally improved, but debt burdens remained high in some countries.

The report noted that understanding of trade issues among the CIS-7 countries was improving due to the extensive analytical work, but concrete results were less visible in this area. Improving regional cooperation to promote rather than prevent transit trade is key to unlocking the growth potential of the countries. Access to the EU and other industrial country markets remains a pressing issue.

Finally, although the CIS-7 countries will continue to share many common issues for years to come, there is a growing divergence of policies and performance. The report concluded that it would be useful to reexamine the benefits of grouping all seven countries under the same initiative. The next meeting of the CIS-7, donor governments, and the sponsoring international financial institutions is slated for the spring of 2004.

Box 5.3
IMF–World Bank Collaboration on Public Expenditure Issues

Following the 2002 Monterrey Conference, the Development Committee of the World Bank and the IMF indicated that the two institutions would scale up and intensify efforts to assist countries to mobilize domestic resources and improve the quality of public spending. In March 2003, the IMF's Executive Board considered a joint IMF–World Bank staff paper on the two institutions' collaboration on public expenditure issues.

While each country has primary responsibility for its own economic and social development, Directors emphasized that the IMF and the Bank, guided by their respective mandates, had an important role to play in supporting country-led strategies on public spending reform. Although the two institutions have different approaches to public expenditure work, reflecting their different mandates and time horizons, their experience suggests that a clear government vision of reform could make their approaches more complementary. At the same time, Directors stressed that this vision would need to be buttressed by close World Bank–IMF collaboration to ensure that actual assistance and policy advice were consistent and complementary. Directors underscored the importance of developing processes that would enable a government and its development partners to formulate an agreed reform program and a common understanding of the sequencing of reforms.

Although a survey of stakeholders had rated Bank–IMF collaboration as between adequate and effective, Directors noted that there was scope for improvement. They highlighted, in particular, the need to better plan staff missions so as to reduce the burden on country authorities, to better coordinate the different time frames of IMF and Bank work on public expenditure issues, and to strengthen the collaboration with donors on country-led reform strategies.

Directors endorsed a new framework for better collaboration among development partners. Centered on strong country ownership, the framework focuses on:

- the articulation by the government of public expenditure reform strategies in PRSPs or other country-owned documents;
- an integrated and well-sequenced program of technical and financial assistance from development partners (including diagnostic work), to support countries' public expenditure reform strategies; and
- periodic reporting by countries of their performance in public expenditure policy, financial management, and procurement.

Directors observed, however, that in the absence of adequate government commitment, even enhanced collaboration between the IMF and the World Bank would not ensure substantial progress on expenditure reform.

Box 5.4
How the HIPC Initiative Works

To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. It needs to establish a track record of good performance (normally, for a three-year period), and develop a Poverty Reduction Strategy Paper or an Interim-PRSP. Its efforts are complemented by concessional aid from all relevant donors and institutions and traditional debt relief from bilateral creditors, including the Paris Club.

In this phase, the country's external debt situation is analyzed in detail. If its external debt ratio, after the full use of traditional debt relief, is above 150 percent for the net present value (NPV) of debt to exports (or, for small open economies, above 250 percent of government revenue), it qualifies for HIPC relief. At the *decision point*, the IMF and the World Bank formally decide on the country's eligibility, and the international community commits to reducing the country's debt to a sustainable level. A country reaches its *completion point* once it has met the objectives set up at the decision point. It then receives the balance of the debt relief committed. This means all creditors are expected to reduce their claims on the country, measured in NPV terms, to the agreed sustainable level.

Once it qualifies for HIPC relief, the country must continue its good track record with the support of the international community, satisfactorily implementing key structural policy reforms, maintaining macroeconomic stability, and adopting and implementing a poverty reduction strategy. Paris Club bilateral creditors reschedule obligations coming due, with a 90 percent reduction in NPV terms, and other bilateral and commercial creditors are expected to do the same. The IMF and the World Bank and some other multilateral creditors may provide interim debt relief between the decision and completion points.

Debt Sustainability in Heavily Indebted Poor Countries

Through the HIPC Initiative, the IMF and World Bank are assisting heavily indebted low-income countries to qualify for debt relief, within a policy framework that can contribute to long-term debt sustainability (Box 5.4). In addition, the IMF and World Bank are helping these countries to grapple with issues of incomplete creditor participation, HIPC-to-HIPC debt relief (that is, debt relief in the context of claims held by one heavily indebted poor country against another), and creditor litigation.

To date, the HIPC Initiative, together with traditional and other debt relief initiatives, has resulted in debt reduction of about $40 billion in net present value terms for 26 countries—representing about two-thirds of these countries' outstanding stock of external debt. Commitments of HIPC assistance by the IMF have totaled SDR 1.6 billion thus far, or about $2.1 billion at the end-April 2003 SDR/dollar exchange rate (Table 5.1). The debt relief provided to date has helped these countries increase annual social spending

Table 5.1
Status of Commitments of HIPC Assistance as of April 30, 2003
(In millions of SDRs; for definitions, see below)

Member	Decision Point	Completion Point	Amount Committed	Amount Disbursed[1]
Benin	Jul. 2000	Mar. 2003	18.4	20.1
Bolivia	Sep. 1997[2]	Sep. 1998	21.2	21.2
Bolivia	Feb. 2000	Jun. 2001	41.1	44.2
Burkina Faso	Sep. 1997[2]	Jul. 2000	16.3	16.3
Burkina Faso	Jul. 2000	Apr. 2002	27.7[3]	18.1
Cameroon	Oct. 2000	Floating	28.5	2.5
Chad	May 2001	Floating	14.3	4.3
Côte d'Ivoire	Mar. 1998[2]	—	16.7[4]	—
Ethiopia	Nov. 2001	Floating	26.9	8.2
Gambia, The	Dec. 2000	Floating	1.8	0.1
Ghana	Feb. 2002	Floating	90.1	9.9
Guinea	Dec. 2000	Floating	24.2	5.2
Guinea-Bissau	Dec. 2000	Floating	9.2	0.5
Guyana	Dec. 1997[2]	May 1999	25.6	25.6
Guyana	Nov. 2000	Floating	30.7	10.3
Honduras	Jun. 2000	Floating	22.7	4.5
Madagascar	Dec. 2000	Floating	16.6	5.0
Malawi	Dec. 2000	Floating	23.1	2.3
Mali	Sep. 1998[2]	Sep. 2000	10.8	10.8
Mali	Sep. 2000	Feb. 2003	34.7	38.5
Mauritania	Feb. 2000	Jun. 2002	34.8	38.4
Mozambique	Apr. 1998[2]	Jun. 1999	93.2	93.2
Mozambique	Apr. 2000	Sep. 2001	13.7	14.8
Nicaragua	Dec. 2000	Floating	63.0	1.9
Niger	Dec. 2000	Floating	21.6	3.3
Rwanda	Dec. 2000	Floating	33.8	10.0
São Tomé and Príncipe	Dec. 2000	Floating	—	—
Senegal	Jun. 2000	Floating	33.8	8.2
Sierra Leone	Mar. 2002	Floating	98.5	47.3
Tanzania	Mar. 2000	Nov. 2001	89.0	96.4
Uganda	Apr. 1997[2]	Apr. 1998	51.5	51.5
Uganda	Feb. 2000	May 2000	68.1	70.2
Zambia	Dec. 2000	Floating	468.8	351.6
27 members, of which 26 members received commitments of enhanced HIPC assistance			1,570.3	1,034.3

Definitions: **Decision point**: Point at which the IMF decides whether a member qualifies for assistance under the HIPC Initiative (normally at the end of the initial three-year performance period) and decides on the amount of assistance to be committed. **Completion point**: Point at which the country receives the bulk of its assistance under the HIPC Initiative, without any further policy conditions. Under the enhanced HIPC Initiative, the timing of the completion point is linked to the implementation of preagreed key structural reforms (i.e., floating completion point). **Amount committed**: Amount of HIPC assistance determined, in consultation with the World Bank, at the decision point to be made available by the IMF. **Amount disbursed**: Resources disbursed to the member to help meet debt-service payments to the IMF. Disbursements are normally dependent on receipt of sufficient financing assurances from other creditors.

[1]Includes interest on amounts committed.

[2]Original HIPC decision point.

[3]Includes commitment of additional enhanced HIPC assistance of SDR 10.93 million subject to receipt of satisfactory financing assurances from other creditors.

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

Box 5.5
Social Aspects of IMF Financing

By pursuing its mandate to promote global monetary cooperation, the balanced growth of international trade, and a stable system of exchange rates, the IMF contributes to long-lasting economic and human development. The IMF recognizes that to be successful, a macroeconomic program must include policies that directly address poverty and social concerns. The reason for attention to social policy issues is twofold: it reflects the recognition both that "country ownership" is necessary if the programs are to succeed, and that good health and education contribute to, and benefit from, growth and poverty reduction.

The IMF is committed to integrating poverty and social impact analysis in programs supported by lending under the PRGF. The purpose of this analysis is to assess the implications of key policy measures on the well-being of different social groups, especially the vulnerable and the poor.

When analysis indicates that a particular measure (for example, currency devaluation) may harm the poor, the impact is addressed through the choice or timing of policies, the development of countervailing measures, or social safety nets. Safety nets built into IMF-supported programs have included:

- subsidies or cash compensation for particularly vulnerable groups;
- improved distribution of essential commodities, such as medicines;
- temporary price controls on some essential commodities;
- severance pay and retraining for public sector employees who have lost their jobs; and
- employment through public works programs.

In pursuing this aspect of its work, the IMF collaborates extensively with other institutions, including regional development banks, the United Nations Development Program, the International Labor Organization, the World Health Organization, and especially, as mentioned, the World Bank. Drawing on these institutions' expertise, the IMF advises countries on how social and sectoral programs aimed at poverty reduction can be accommodated and financed, both domestically and externally, within a growth-enhancing macroeconomic framework. It does so by identifying unproductive spending that should be reduced to make more money available for basic health care and primary education. At the same time, it highlights key categories of public spending that must be maintained or increased. Through policy discussions and technical assistance, the IMF also plays a role in improving the transparency of governments' decision making and their ability to monitor poverty-reducing spending and social developments.

from around 6 percent of GDP on average in 1999 to about 8½ percent in 2002, more than three times the amount of debt service (Boxes 5.5 and 5.6).

- By the end of April 2003, 8 countries had reached their completion points under the enhanced HIPC Initiative and received a reduction in the stock of debt. (Not all the envisaged debt relief has been delivered to these countries.)
- Another 18 countries have passed their decision points and begun to receive interim debt relief on a flow basis. Some of these countries have experienced delays in reaching their completion points, owing to the time needed to prepare high-quality PRSP plans, program interruptions, and slower-than-expected implementation of other completion point triggers.
- As expected, it is proving difficult to make progress in bringing the 12 countries remaining to be considered under the Initiative to their decision points, particularly because most of them have been affected by armed conflicts.

Debt indicators for a number of countries have worsened because of the weakened global economic environment. The HIPC Initiative has flexibility to provide additional debt relief at the completion point, if a country has suffered a fundamental change in economic circumstances owing to exceptional outside shocks. (At the request of both the World Bank and IMF Executive Boards, the IMF staff has undertaken further analysis of the costs and benefits of different calculations of "topping up" HIPC relief at completion points.) But, more generally, the economies of many HIPCs will continue to remain vulnerable to both domestic and external shocks. In addition to HIPC debt relief, the achievement and maintenance of a sustainable debt situation will require sound economic policies, good governance, and prudent debt management, as well as sufficiently concessional terms for all new financing. The IMF provides technical assistance in this regard (almost 17 person-years of HIPC-associated field delivery in FY2003); see Chapter 6. For details of the IMF's own financial contributions as well as the bilateral contributions from 94 countries, see "Financing of the HIPC Initiative and PRGF Subsidies" in Chapter 8.

Looking beyond the HIPC Initiative, IMF staff are developing an analytical framework for assessing debt sustainability in low-income countries, to complement the new procedures adopted during the financial year for other IMF members (see Chapter 2). In this context, staff will be working with the World Bank and interested partner agencies to reach a consensus on the ways in which debt sustainability concerns should be reflected in the design of these countries' financing strategies and the programs supported by the IMF—including decisions on borrowing limits and the appropriateness of loan versus grant financing.

Trade and Market Access

An essential element of the fight against world poverty is a greater effort to ensure that developing countries

Box 5.6
HIPC Initiative Debt Relief at Work in Ghana

Citizens of Ghana can assess for themselves how their country is benefiting from participation in the enhanced Heavily Indebted Poor Countries (HIPC) Initiative—because the authorities are publicly signposting some of the results of Ghana's HIPC involvement (see photograph in Highlights, page iii). As construction projects funded by HIPC relief have started, authorities have erected signs at the sites that designate the projects as HIPC Initiative benefits. Ghanaians therefore see, at an early stage, physical evidence that the $2.2 billion in HIPC assistance committed by all the country's creditors is producing tangible results and is not merely a ledger entry in the government accounts, thereby increasing a sense of public ownership of the country's poverty reduction strategy.

Ghana reached its HIPC "decision point" in February 2002, which means that the country has established a track record of adjustment and reform under IMF- and World Bank-supported programs and has been formally named as eligible for HIPC relief. By attaining its decision point, Ghana took a large stride toward reaching the final stage of qualification for full HIPC debt relief—its "completion point." At the decision point, Ghana agreed to adopt and implement a poverty reduction strategy developed through a broadly based participatory process. The government duly prepared a Ghana Poverty Reduction Strategy, which was published in February 2003.

At the decision point, Ghana also became eligible for interim debt relief, which is designed to sustain a reforming heavily indebted country until it qualifies for full debt relief at its HIPC completion point. It is this interim debt relief that is at work at the signposted construction sites and project locations around the country. In 2002, Ghana received a total of $276 million in interim HIPC assistance, comprising $10 million from the IMF, $33 million from the World Bank, $214 million from the Paris Club of official creditors, and $19 million from other creditors. Of the interim relief total, the authorities have treated $174 million as assistance that Ghana would have received under traditional debt relief mechanisms, and therefore have used the resources for general purposes. One-fifth of the remaining $102 million is devoted to reducing the stock of domestic debt, leaving just over $80 million earmarked specifically for increasing the level and proportion of spending on poverty reduction.

The Ghanaian authorities have specified that the country's poverty-related spending for the period 2001–03 will be devoted primarily to basic education, with funds also allocated to primary health care, agriculture, rural water supply and sanitation, feeder roads, and rural electricity provision.

secure improved market access for their exports and that trade-distorting subsidies are phased out. While action by industrial countries will be particularly important in this regard, developing countries will also benefit from a reduction of their own trade barriers. The IMF's work on trade issues during the financial year included Board discussion of a report on progress with the Doha agenda (Box 5.7); a review of the IMF's trade policy advice during the remainder of 2003; a greater focus in IMF surveillance on market access issues facing developing countries; and fuller inclusion of trade policy considerations in PRSPs. To enrich the last effort, joint PRSP learning events were planned with the World Bank and through the Integrated Framework for Trade-Related Technical Assistance to LDCs.

The IMF has also cooperated with the World Trade Organization (WTO) on ways to enhance the coherence of the work of the two organizations, and stood ready to contribute to developing proposals for an agricultural trade agenda for Africa.[2] The IMF staff has also provided the WTO with its analytical perspective in the Fund's areas of expertise on certain proposals for special and differential treatment.

Monitoring Progress Toward the Millennium Development Goals

At its Spring 2003 meeting, the Development Committee of the IMF and World Bank considered a framework, prepared jointly by World Bank and IMF staff, for regular monitoring, in the areas of Bank and IMF institutional mandates, of the main policies and actions that developing and industrial countries are implementing to promote the achievement of the MDGs and related development outcomes.

As proposed, the approach would assess the adequacy of policies, institutions, and governance in developing countries; the macroeconomic, aid, and trade policies of developed countries, which are essential for fostering the global partnership for development envisaged under Goal Eight of the MDGs; the quality and effectiveness of development assistance; and the effectiveness of the international financial institutions in promoting a strong global economic environment and supporting country efforts to meet their development goals. The approach was designed to complement and support the work of the United Nations and other agencies in monitoring progress toward the achievement of the MDGs.

[2]Proposals for such an agenda were made by President Chirac of France (also president of the G-8) at the 22nd conference of Heads of State of Africa and France on February 21, 2003, and covered harmonization of G-8 preferential trading regimes for sub-Saharan Africa; ensuring that OECD agricultural export support policies do not disrupt local production; and reducing the vulnerability of the poorest producers to commodity price volatility. The IMF has been requested to participate in a G-8 working group on the last topic.

Box 5.7

Improving Market Access for Developing Countries' Exports

The multilateral trade negotiations launched at the World Trade Organization (WTO) in late 2001 were termed the *Doha Development Agenda* to signify the importance of the role that developing countries and development objectives would play in the multilateral trading system. This role, however, depends on industrial countries lowering trade barriers and reducing trade-distorting subsidies, thus improving market access to the exports of developing countries. While the world's trading system is far more liberal than it was 40 years ago, it still discriminates against the poor, partly because they work in sectors such as agriculture that are most affected by industrial-country tariffs and subsidies.

Executive Directors considered a joint IMF–World Bank staff report, "Market Access for Developing Country Exports—Selected Issues," in September 2002. They agreed that the levels of protection in Organization for Economic Cooperation and Development (OECD) countries came at considerable cost both to the OECD countries and to developing countries. The Board noted that the estimated global welfare gains from the elimination of tariff and quota restrictions on merchandise trade—in both industrial and developing countries—ranged from $250 billion to $680 billion annually, with the gains to developing countries far outweighing annual aid.

At a September press conference marking the public release of the report, Nicholas Stern, Chief Economist of the World Bank, embodied the report's findings in more vivid terms. The average European cow, Stern said, receives about $2.50 a day in subsidy; the average Japanese cow about $7.50. In contrast, 75 percent of the people living in sub-Saharan Africa subsist on less than $2.00 a day. Kenneth Rogoff, Economic Counsellor and Director of the IMF's Research Department, was equally critical, calling the magnitude of support given to farmers in rich countries "stunning."

Support for reducing trade barriers also came from the IMFC, which said in its September communiqué that substantial trade liberalization in the Doha Round was vital for global growth. Urgent progress in enlarging market access for developing countries and phasing out trade-distorting subsidies in developed countries was essential, the Committee pointed out. Developing countries, for their part, should also further liberalize their trade regimes to maximize growth and development opportunities.

At the Annual Meetings in September 2002, the IMF and World Bank sponsored a seminar to discuss how developing countries could use trade to promote their development and how industrial countries might help them take advantage of the opportunities created by the global trading system. Panelists—representatives from academia, the World Bank, nongovernmental institutions, and both industrial and developing country governments—concluded that any easing of trade barriers must happen multilaterally, with reciprocal north-south negotiation during the Doha Round, and that global trade liberalization, despite concerted international efforts, would be a long, drawn-out process.

Looking Ahead

As part of the IMF's ongoing monitoring of its assistance, early in FY2004 the Board will review the ways in which the Fund engages with low-income countries. One aspect will be the role of the IMF in low-income countries over the medium term and its help to members (especially low-income countries) dealing with shocks. Another aspect will be how IMF assistance to low-income countries can best balance its commitment to supporting the PRSP process and the achievement of the MDGs with the need to preserve the IMF's focus and effectiveness, as well as the concerns underscored by the IMF's Independent Evaluation Office about the impact of prolonged IMF financial engagement on the Fund and its members. Major issues of concern include the appropriate time frame for IMF engagement; consequences of the linkage of many forms of donor assistance to the existence of an IMF arrangement; and ways in which the IMF can signal its views to donors on countries' economic policies in cases where there may be little need for the use of IMF resources.

Chapter 6

Technical Assistance and Training

Sound economic policymaking and implementation require know-how and effective institutions of government. Many developing countries, in particular, need help to build up expertise in economic management and advice about what policies, reforms, and institutional arrangements are appropriate and have worked well elsewhere. Help of this kind is provided by the IMF through technical assistance. This is a benefit of IMF membership, provided at no charge except for countries that can afford to reimburse the IMF. (The framework used to allocate resources for technical assistance is outlined in Box 6.1.)

The IMF's technical assistance aims partly to help countries strengthen their policymaking capacity—both human skills, and institutional organization and procedures—and partly to help with the design of particular polices, including reforms. Macroeconomic policy reform may involve reform of public expenditure, overhaul of the budget and tax systems, improvements to the management of money and credit, a change in the exchange rate regime, or help in the area of international standards and codes of transparent policymaking. Training is provided to strengthen the skills of officials in the institutions responsible for policymaking, such as finance ministries and central banks.

Member countries attach great importance to the role of technical assistance in reinforcing the effectiveness of the Fund's work both in surveillance and crisis prevention, and in crisis management and resolution, including its lending operations. For example, many governments in low-income countries are developing poverty reduction strategies but need technical assistance to draw up an operational plan and put it into effect. Such strategies can pinpoint capacity-building needs and help mobilize adequate technical assistance. And crucial for lasting poverty reduction is that local expertise be developed, especially in the management of public resources.

The IMF has also given considerable technical assistance to countries and territories that have had to reestablish government institutions following severe civil unrest or war. Recently, countries or territories receiving this kind of help include Afghanistan, Albania, Bosnia and Herzegovina, Kosovo, and Timor-Leste (East Timor).

External Financing for Technical Assistance

The IMF finances its technical assistance mainly from its own resources, but external financing is also an important source of support. Such external financing is provided as grant contributions mainly under the IMF's Framework Administered Account for Technical Assistance Activities, but also through cost-sharing arrangements under United Nations Development Program (UNDP) projects and, in a small number of cases, direct reimbursement arrangements. There were 12 active subaccounts under the umbrella Framework Account in FY2003, including two new multidonor subaccounts to support the *Pacific Financial Technical Assistance Center* (PFTAC) and the two *Africa*

Box 6.1

A Framework for Selecting Projects

The IMF's Executive Board in FY2001 put in place a formal framework to allocate resources for technical assistance more effectively and better align technical assistance with policy priorities. Under this framework, IMF technical assistance is divided into five "main program areas": crisis prevention, poverty reduction, crisis resolution and management, post-conflict/post-isolation cases, and regional/multilateral arrangements. These program areas are complemented by three categories of "filters," as follows:

- *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 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 delivered regionally, benefit several recipients, draw on multiple financial sources, or complement third-party assistance.

Box 6.2
New Technical Assistance Subaccounts

The *Pacific Financial Technical Assistance Center (PFTAC) Subaccount* was established in May 2002 to administer contributions from donors to finance activities of PFTAC that seek to enhance the capacity of Pacific island countries and territories to formulate and implement policies in the Fund's core areas. Contributions have been received from Australia ($1 million), New Zealand ($0.4 million), and the Asian Development Bank ($0.4 million).

The *Africa Regional Technical Assistance Centers (AFRITACs) Subaccount* was established in August 2002 to administer contributions from donors to finance activities of the AFRITACs that support the PRSP process in sub-Saharan African countries through fostering their capacity for sound macroeconomic management, strong fiscal institutions and financial systems, and timely and accurate collection and dissemination of economic data, including training and activities that strengthen the legal and administrative framework in these core areas. Eleven donors have committed just over $12 million—African Development Bank, Canada, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Russia, Sweden, and the United Kingdom.

The *Sweden Technical Assistance Subaccount* was established in November 2002 to enhance the capacity of members, also in the Fund's core areas. The initial contribution of 10 million kronor ($1.2 million) provided by Sida, the Swedish International Development Cooperation Agency, is to finance the IMF's technical assistance work in Afghanistan in the areas of monetary, exchange, and financial policies and operations.

Regional Technical Assistance Centers (AFRITACs).[1] Box 6.2 describes the new subaccounts set up in the past financial year.

In FY2003, external financing accounted for about 30 percent of total assistance delivered by the IMF. Japan remained the largest single donor, providing some 70 percent of this external financing. Other bilateral donors included Australia, Canada, Denmark, France, Germany, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Russia, Sweden, Switzerland, the United Kingdom, and the United States. Multilateral donors included the Asian Development Bank, the Inter-American Development Bank, the UNDP, and the World Bank.

IMF technical assistance is coordinated and supervised by the Office of Technical Assistance Management in the Office of the Managing 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,* available on the IMF's website.

Recent Developments

At its June 2002 meeting to review IMF technical assistance policy and experience, the Executive Board endorsed measures to (1) introduce an institution-wide methodology for monitoring and evaluating technical assistance activities, and for implementing a formal three-year rolling program of evaluations; and (2) set up a comprehensive financial accounting system to capture the full cost of technical assistance delivery, both in the field and at headquarters.

By the end of FY2003, progress had been made in these areas as follows:

- *Institution-wide methodology for monitoring and evaluation.* Work neared completion on a comprehensive approach that takes into account international best practices and, where appropriate, builds on existing systems.
- *Evaluation program for FY2004–FY2005.* Ten projects have been identified for the program, focusing on the three main policy issues—the link between technical assistance and the IMF's surveillance and policy work; the contribution of regional assistance centers and the regional approach to technical assistance delivery; and activities designed to respond to new initiatives and calls for international assistance.
- *Resource management.* A three-year resource management project will begin implementation in early FY2004. The accountability and transparency of technical assistance will be improved by this new financial accounting system.

In response to a request made by African heads of state for enhanced IMF support in fostering capacity building, the IMF in FY2003 worked with donor partners and participating African countries to establish two *Africa Regional Technical Assistance Centers* (AFRITACs). Drawing on positive experience in the Pacific and the Caribbean regions, the centers take a regional approach to building capacity by maximizing technical assistance delivery among neighboring countries with similar needs. The first—covering six countries in East Africa (Eritrea, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda) and based in Dar es Salaam—was inaugurated in October 2002. The second—covering ten countries in West Africa (Benin,

[1]The bilateral subaccounts comprise: 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, the Italy Technical Assistance Subaccount, and the Sweden Technical Assistance Subaccount.

Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo)—was inaugurated in May 2003. Originally planned for Abidjan, it was temporarily relocated to Bamako because of civil unrest in Côte d'Ivoire.

A team of resident experts at each center cover the core areas of the IMF's competence. They assist member countries to develop and implement their capacity-building programs, guided by each country's Poverty Reduction Strategy Paper (PRSP). They help to carry out and monitor ongoing technical assistance programs, facilitate donor coordination of ongoing capacity-building activities, and provide technical advice.

Each center will work under the policy guidance of a Steering Committee consisting of representatives of member countries and donors. This is intended to ensure, on the one hand, full ownership of activities by countries and, on the other, accountability to and close coordination with donor partners. After the first two centers are independently evaluated, the IMF will consider whether to establish three additional centers to cover the rest of sub-Saharan Africa.

Technical Assistance Delivery in FY2003

One way the IMF measures its technical assistance is by tracking the time spent helping countries. In FY2003, the IMF provided the equivalent of 356 person-years of technical assistance. This was some 2½ percent higher than in FY2002 and about 100 person-years higher than a decade earlier (262.6 person years in FY1994).

Reflecting new needs within program areas, in FY2003 technical assistance increased for post-

Box 6.3

IMF Technical Assistance in Post-Conflict Recovery: Afghanistan

In 1995, the IMF extended its policy on emergency technical assistance to include countries recovering from war and civil strife. About 20 percent of total IMF field assistance in recent years has been delivered in post-conflict situations, including in Burundi, Timor-Leste, Kosovo, Bosnia and Herzegovina, Sierra Leone, Republic of Congo, Tajikistan, Rwanda, and, most recently, Iraq.

In the Islamic State of Afghanistan in 2002, an estimated seven million people faced famine and millions more were displaced from their homes. After more than 20 years of conflict, the key economic institutions of state—treasury, tax collection and customs, statistics, civil service, and judicial systems—were in disarray or simply missing. The central bank (Da Afghanistan Bank) was a makeshift institution attempting to reconstruct a shattered monetary system operating completely in cash. The Taliban kept few records and reportedly took millions of dollars when they fled in November 2001. With three national currencies, foreign currencies, and barter systems simultaneously in use, the incoming interim government had no idea of the amount of money actually in circulation.

IMF technical assistance teams and the Afghan authorities began working together in January 2002. The Fund provided approximately six person-years (equivalent to $1.4 million) of direct assistance by the end of FY2003. Support was provided in core areas of IMF strength, with an emphasis on capacity building in the Ministry of Finance/Treasury, Da Afghanistan Bank, and the Central Statistical Office.

- *Financial sector*. Strengthening Afghanistan's banking system started, literally, with vault repairs and refurbishment of security doors. The rudimentary banking system was functioning mostly without benefit of licenses, regulations, or supervision. Decisions were needed on which currencies to use, exchange rates, and how to ensure liquidity and build confidence in a new national currency, the afghani. The basics of monetary control, banking laws and regulations, bank supervision, and licensing all needed to be strengthened or reestablished. A payments system was needed to facilitate commercial transactions and essential services of the government.
- *Fiscal strengthening*. In contrast to the central bank, the Ministry of Finance had basic systems, laws, and procedures that could be used over the near term but needed to be made operational. The role of the IMF was to provide a framework for fiscal management covering public expenditure management and detailed revenue policy and administration recommendations. The authorities subsequently worked with other donors to implement these recommendations. As a result, the ministry developed a computerized treasury system that includes expenditure control and reporting. On the revenue side, the IMF is working with both the authorities and donors on customs legislation and its implementation, and the development of a tax administration.
- *Statistics*. Statistical systems in Afghanistan were underdeveloped, with an urgent need for data. IMF technical assistance helped to compile and disseminate the macroeconomic and financial data necessary for fiscal and monetary management. Technical assistance involved setting up systems for accounts, GDP calculations, consumer price indices, and data relevant to the balance of payments.

It will take many years to complete the groundwork for sustainable growth. However, by the end of FY2003, IMF staff and the Afghan authorities were well on their way to developing and implementing a coordination plan for the many technical assistance initiatives in macroeconomic management and for cooperation among development partners.

conflict/isolation cases (see Box 6.3), regional initiatives, and crisis prevention. Anti-money laundering and terrorism emerged as very high priorities in FY2003. IMF technical assistance to fight money laundering and to combat the financing of terrorism (AML/CFT), as well as its continuing work on offshore financial centers, more than doubled. Technical assistance also rose for standards and codes and for the implementation of Financial Sector Assessment Program (FSAP) recommendations (see Table 6.1).

Geographically, sub-Saharan Africa continued to receive the largest, and an increasing, share of IMF technical assistance. This reflects the continuing priority of poverty reduction and capacity building in the region, also exemplified by the two new Africa Regional Technical Assistance Centers. Technical assistance also increased and has remained high in the Asia-Pacific region reflecting assistance for post-conflict cases, such as Cambodia and Timor-Leste, and support for reforms in China, Indonesia, and Mongolia. As it has over the past five years, technical assistance to European countries continued to decline, as most of the European transition economies no longer require the large amounts of technical assistance that were delivered to them a decade ago. Technical assistance to other geographical regions, as well as for interregional projects, remained broadly the same as over the past five years (see Table 6.2 and Figure 6.1).

The IMF's Monetary and Financial Systems Department[2] remained the IMF's largest technical assistance provider, increasing its delivery to some 120 person-years, reflecting the increase in activities linked to the emergence of the new international financial architecture. The Fiscal Affairs Department, the IMF's second-largest technical assistance provider, decreased its delivery to 94 person-years. The Statistics and Legal Departments both stepped up technical assistance by some 5 person-years each. The increase by the Legal Department was mainly a result of its involvement in anti-money laundering and combating the financing of terrorism (see Table 6.2 and Figure 6.2).

IMF Institute

Through a rich offering of courses and seminars, the IMF Institute trains officials from member countries in core areas—macroeconomic management and financial, fiscal, and external sector policymaking. These are delivered by Institute staff or by staff from other IMF departments, and occasionally by outside academics and experts. Training is delivered at IMF headquarters in Washington, D.C., and at various overseas locations. Some preference in acceptance is given to officials from developing and transition countries.

With the assistance of other departments, the IMF Institute delivered 119 courses, attended by over 3,800 participants, in FY2003 (see Table 6.3). About two-thirds of the courses and about half the participant-weeks were provided through the IMF's six regional institutes and programs, which are located in Austria, Brazil, China, Côte d'Ivoire,[3] Singapore, and the United Arab Emirates (see Table 6.4). Training in Washington remained important, generally offering longer courses and accounting for about 40 percent of participant-weeks. Training outside Washington and the IMF regional network was typically offered through ongoing collaborations between the IMF Institute and national or regional training programs.

Following a number of years of increases, the level of training in FY2003

Table 6.1
Technical Assistance Program Areas
(Field delivery in person-years)[1]

	FY2002	FY2003
Main program areas		
Poverty reduction	69.3	60.7
Regional	34.9	41.4
Crisis prevention	32.6	35.2
Crisis resolution and management	28.9	30.5
Post-conflict/isolation	23.2	26.5
Total	**188.8**	**194.3**
Key policy initiatives and concerns		
Policy reform/capacity building	144.7	142.5
Assistance on standards and codes, excluding FSAP	13.6	18.1
HIPC-associated	21.4	16.8
Offshore financial centers and AML/CFT	5.1	10.4
FSAP-related	3.4	6.0
Safeguarding IMF resources	0.6	0.5
Total	**188.8**	**194.3**

Source: IMF Office of Technical Assistance Management.

Note: FSAP = Financial Sector Assessment Program, HIPC = Heavily Indebted Poor Countries Initiative, AML/CFT = Anti-Money Laundering and Combating the Financing of Terrorism.

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

[2]Formerly the Monetary and Exchange Affairs Department (renamed as of May 1, 2003).

[3]In early 2003, in view of the security situation in Côte d'Ivoire, the Joint Africa Institute was moved temporarily to Tunisia.

Table 6.2
Technical Assistance Sources and Delivery, FY1999–FY2003
(In effective person-years)[1]

	FY1999	FY2000	FY2001	FY2002	FY2003
IMF technical assistance budget	**266.2**	**251.7**	**265.5**	**268.8**	**262.2**
Staff	164.0	158.5	171.8	172.2	174.1
Headquarters-based consultants	20.3	16.4	22.7	23.2	20.1
Field experts	81.8	76.9	71.0	73.4	68.0
External technical assistance resources	**99.2**	**85.5**	**77.7**	**77.8**	**93.5**
United Nations Development Program	14.3	8.7	8.4	9.6	9.6
Japan	70.3	68.0	59.5	56.2	61.9
Other cofinanciers	14.7	8.8	9.8	12.0	22.0
Total technical assistance resources	***365.4***	***337.2***	***343.3***	***346.6***	***355.7***
Technical assistance regional delivery	**308.5**	**282.2**	**275.8**	**280.0**	**286.5**
Africa	72.9	69.8	68.2	71.9	72.1
Asia and Pacific	57.9	44.4	57.0	63.1	67.5
Europe I	22.7	24.1	30.2	30.3	27.7
Europe II	44.9	40.4	40.8	32.6	25.1
Middle East	31.9	27.5	27.8	22.4	26.5
Western Hemisphere	32.5	28.2	23.7	28.0	32.6
Regional and interregional	45.8	47.9	28.0	31.7	35.1
Technical assistance nonregional delivery[2]	**56.9**	**55.1**	**67.5**	**66.6**	**69.2**
Total technical assistance delivery	***365.4***	***337.2***	***343.3***	***346.6***	***355.7***
Technical assistance delivery by department					
Monetary and Financial Systems Department	127.2	112.2	101.2	115.5	120.0
Fiscal Affairs Department	107.4	101.4	111.9	97.5	94.3
Statistics Department	48.9	49.1	48.2	49.2	55.7
IMF Institute	54.5	54.6	54.4	56.0	55.4
Legal Department	12.7	8.6	15.4	15.5	19.6
Other departments[3]	14.7	11.3	12.2	12.9	10.7
Total technical assistance delivery	***365.4***	***337.2***	***343.3***	***346.6***	***355.7***

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 Technology and General Services Department, and the Office of Technical Assistance Management.

Figure 6.1
Technical Assistance by Region, FY2003
(As a percent of total resources, in effective person-years)

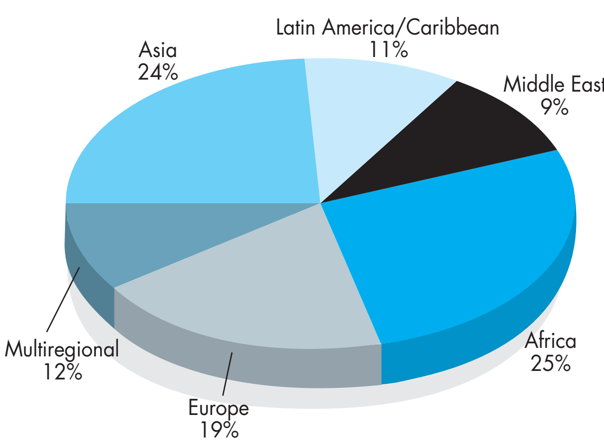


Figure 6.2
Technical Assistance by Function, FY2003
(As a percent of total resources, in effective person-years)

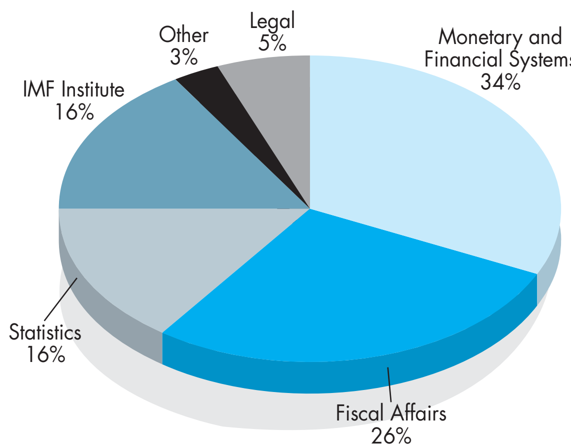


Table 6.3
IMF Institute Training Programs for Officials, FY1999–FY2003

Program	FY1999	FY2000	FY2001	FY2002	FY2003
Headquarters training					
Courses and seminars	20	22	22	21	23
Participants	676	776	798	759	808
Participant-weeks	3,837	3,623	3,671	2,900	3,224
Regional training institutes and programs[1]					
Courses and seminars	38	57	67	81	79
Participants	1,095	1,632	2,102	2,632	2,549
Participant-weeks	2,325	3,185	3,760	4,612	4,220
Other overseas training					
Courses and seminars	20	24	19	16	17
Participants	605	775	564	438	496
Participant-weeks	1,120	1,364	1,048	834	899
Distance learning					
Courses[2]	—	1	1	3	3
Participants[3]	—	50	50	134	114
Participant-weeks[4]	—	100	100	313	276
Total courses and seminars	78	103	108	118	119
Total participants	2,376	3,183	3,464	3,829	3,853
Total participant-weeks	7,282	8,272	8,579	8,659	8,619

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 in Côte d'Ivoire (1999), Joint China-IMF Training Program (2000), and Joint Regional Training Center for Latin America in Brazil (2001). Data for the Joint Africa Institute include courses delivered by the African Development Bank and the World Bank. Data for the Singapore Institute include a course for it delivered by the World Bank in FY2002 and FY2003.
[2]Excluded from the total course count below because the residential segment is included in the headquarters training activity.
[3]Those participants who were invited to the residential part of the courses are included both here and under headquarters training.
[4]Includes only participant-weeks for the distance part of the course. Participant-weeks for the residential part are included in headquarters training.

Table 6.4
IMF Institute Regional Training Programs

Regional Program	Date Established	Location	Cosponsors	Intended Participant 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	People's Bank of China	China
Joint Regional Training Center for Latin America	2001	Brazil	Government of Brazil	Latin American countries

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

stabilized to that in FY2002. In part, this reflected the planned completion of the IMF's network of regional training institutes in FY2002 (see *Annual Report 2002*, page 77), but also that a number of training activities were cancelled in FY2003 as a result of the security situation in Côte d'Ivoire, the war in Iraq, and the outbreak of Severe Acute Respiratory Syndrome (SARS) in Asia.

The IMF Institute continues to strengthen its curriculum. In FY2003, new courses were delivered on such topics as anti-money laundering, assessing financial system stability, fiscal sustainability and transparency, macroeconomic forecasting, and safeguards assessments for central banks. In Washington and its regional institutes and programs, the Institute provides high-level officials with short seminars tailored to their needs. Topics covered in FY2003 include current developments in monetary and financial law, exchange rate regimes and policies, financial market globalization, globalization in historical perspective, and the New Economic Partnership for Africa's Development (NEPAD).

An independent market research firm was contracted in FY2003 to assess the effectiveness and demand for training courses. A survey of national authorities indicated high satisfaction with the present training program as well as high unmet demand for more courses in Washington and regional locations.

Chapter 7

Transparency, Accountability, and Cooperation

Many of the reforms introduced at the IMF in recent years reflect a recognition that the institution's effectiveness depends largely on its ability to be transparent in developing and providing policy advice to its members; accountable for the advice it has given and lending decisions it has taken; responsive to lessons drawn from past experiences, particularly in program design; open to outreach and dialogue beyond official circles; and cooperative with other members of the international community in pursuing our common objective of promoting broadly shared, sustainable growth. These remain key objectives for the IMF on an ongoing basis.

Transparency of the IMF and Its Members

The IMF's Executive Board has adopted a series of measures that aim to improve the transparency of members' policies and data, and to enhance the institution's own transparency and external communications (see Box 7.1). In taking these steps to enhance the IMF's transparency, the Board has had to consider how to balance the Fund's responsibility to oversee the international monetary system with its role as a confidential advisor to its members.

As part of its regular reassessment of this balance, in September 2002 the Board concluded a review of the experience with the IMF's transparency policy and discussed next steps. Directors commended the increased availability of information about the institution and its assessments of members' policies, but emphasized that transparency is not an end in itself. The IMF's publication policy, Directors noted, formed an integral part of members' efforts to improve the transparency of their economic policies, with a view to increasing both accountability and the availability of reliable information to the public, including on the IMF's actions to encourage and assist its member countries. Thus, Directors considered the impact of transparency on countries' economic policies and on market participants as an important element in assessing the effectiveness of the IMF's publication policy, and they looked forward to further review.

The increased *publication of country documents* under the IMF's transparency policy was welcomed by the Board. Nearly all policy intention documents of countries requesting IMF financial assistance are published, and, in more than 50 percent of cases, country authorities consent to the voluntary publication of staff reports on Article IV consultations or the use of Fund resources.

In moving forward, Directors stressed that the IMF's transparency policy should not lessen the candor of the institution's dialogue with its members nor of the staff's reporting to the Board. While the experience in this respect appeared to be broadly satisfactory so far, many Directors were concerned that staff members sometimes face pressures to nuance report presentations, even while preserving the substance of assessments. Staff should continue to work to ensure a proper balance between candor and confidentiality, Directors emphasized.

Systematic and timely publication of country staff reports can help to mobilize public support for policy actions and enhance the IMF's accountability, Directors noted. In particular, release of Article IV staff reports can increase the effectiveness of the institution's surveillance. Release of staff reports on the use of Fund resources can, by providing the broader context for IMF-supported programs, strengthen the credibility of—and public confidence in—these programs, while also boosting program ownership.

Against this background, Directors welcomed the progress made under the policy of voluntary publication, and agreed that the release of staff reports should continue to be encouraged. In this context, they discussed the possibility of moving from a policy of voluntary to presumed publication for Article IV consultation reports and staff reports on the use of Fund resources. They noted that the observed high and rising publication rates for country staff reports already attest to the underlying positive momentum that has persuaded more and more members to agree voluntarily to publish staff reports. They considered that Directors' continued support would remain vital for further strengthening this momentum. In light of these considerations, it was agreed to reconsider a possible

Box 7.1

Key Elements of the IMF's Transparency Policy for Documents

- Voluntary publication of Article IV (country) and Use of Fund Resources staff reports.
- The presumption that Letters of Intent/Memoranda of Economic and Financial Policies and other documents stating a government's policy intentions would be published; however, a member may notify the Board of its decision not to consent to IMF publication of a document.
- Publication of Poverty Reduction Strategy Papers (PRSPs), Interim-PRSPs, and PRSP progress reports is required for management to recommend endorsement by the Executive Board.
- Voluntary publication of Public Information Notices (PINs) following Article IV consultations and Board discussions on regional surveillance papers, concluding mission statements, background documentation for Article IV consultation discussions, and documentation for staff-monitored programs.
- A presumption of publication of staff reports on policy issues, together with PINs (except on issues dealing with administrative matters of the IMF, for which publication can be decided on a case-by-case basis).
- Deletions to published documents should be limited to highly market-sensitive information, mainly exchange rate and interest rate matters. Corrections should be limited to factual changes and characterizations of the authorities' views.
- The member concerned has the right of reply and may publish a statement accompanying the staff report commenting on the staff or Executive Board assessment or both.
- Public access is given to the IMF's archives to Executive Board documents that are over 5 years old, to minutes of Executive Board meetings that are over 10 years old, and to other documentary materials that are over 20 years old, subject to certain restrictions.

move to a policy of presumed publication at the next Board review of transparency policy, to take place in June 2003. It would be useful and constructive, Directors agreed, for the IMF's governing bodies to be apprised periodically of the progress made with respect to release of staff reports within the present voluntary guidelines.

A range of views was expressed on the possibility of authorizing voluntary release of *Letters of Intent (LOIs) and Memoranda of Economic and Financial Policies (MEFPs)* after their circulation to the Board, but prior to the Board meeting. A number of Directors considered that advance publication of LOIs/MEFPs on a voluntary basis in response to the member's request could enhance public debate on the member's policy intentions. However, most Directors preferred to retain the current policy, in order not to pre-empt the approval by the Board of the understandings reached between a member and IMF management.

Directors considered the policy that *Public Information Notices (PINs) for Article IV consultations* concluded on a lapse-of-time basis should not include a reference to this procedure to avoid possible public misunderstanding as to the Board's ownership of the assessment. If consultations are concluded on a lapse-of-time or short-form basis, many Directors felt that this should be acknowledged in the PIN with an appropriate explanation, consistent with the objective of transparency, and the present policy would be adapted accordingly. Directors agreed that, in lapse-of-time cases, the "Executive Board Assessment" section of a PIN would be approved by the Board, based on the draft PIN circulated separately to the Board three days in advance of the lapse-of-time deadline.

In addition, Directors agreed to (1) allow references to overdue obligations in Article IV PINs and Chair statements, after a press release on such matters has been issued; (2) allow the release of information on amended repurchase expectations for the Contingent Credit Line and the Supplemental Reserve Facility through a Chair statement, PIN, press release, or staff report, if agreed to by the member; and (3) add Financial System Stability Assessments and stand-alone HIPC Debt Sustainability Analyses to the items in the publication decision that are authorized for publication.

On the *publication of Board discussions of policy issues*, Directors welcomed that the current policy has considerably widened public access to information about IMF policies. Most Directors supported a move to a presumption of release of policy papers and policy Public Information Notices that include the summing up of the Board meeting, but many Directors saw merit in publishing papers on administrative matters also.

Concerning the experience with implementing the policy on *deletions and corrections in staff reports*, Directors noted that the number of deletions had been limited and broadly confined to highly market-sensitive material, consistent with the policy. While there was broad agreement that the present deletions policy should be maintained, many Directors suggested that the policy be applied flexibly. In this context, a number of Directors proposed that consideration be given at the June 2003 review to the possibility of deleting highly politically sensitive information. Most Directors endorsed the staff proposal to allow deletion of highly market-sensitive performance criteria and structural benchmarks that could be communicated in side letters, as a useful step in harmonizing the application of the policy across documents.

The *high volume of corrections* in Article IV and Use of Fund Resources reports was seen mainly as reflecting the effort by both members and staff to provide the public with accurate information. A number of Directors nevertheless saw scope for greater parsimony and rigor in this regard, and also noted that corrections lead to publication lags.

Timely access to Executive Board minutes was an important element of the effort to improve the transparency of the IMF's decision making, Directors noted. They supported the proposal to reduce the current 20-year lag, although they had different views as to the appropriate shortening. While there was significant support for a shortening to 5 years of access to minutes of policy discussions, many Directors considered that, for country issues, the prospect of public access after 5 years might unduly restrain the candor of the Board debate. It was therefore agreed to shorten the period for access to minutes of Executive Board meetings to 10 years.

Review of the IMF's External Communications Strategy

In March 2003, the Board reviewed the IMF's external communications strategy, the third such discussion within five years.[1] The review took stock of recent progress in increasing the IMF's openness and enhancing its responsiveness to outside views, including concerns and criticism. Despite the significant improvements made, Directors agreed that challenges remain. They considered that continued efforts are needed to improve further the public's understanding of the IMF's work, so that it can better serve its member countries.

The IMF's relatively high media visibility offered a valuable opportunity to carry out external communications more effectively. Directors observed that although the IMF's work—based on its mandate to safeguard the macroeconomic and monetary foundations of economic growth—is vital to economic welfare and rising living standards worldwide, much of its work tends to attract controversy. This is not least because a prominent part of the IMF's job is to advise countries on how best to face economic reality in difficult circumstances, including when they need the IMF's financial support. In this context, Directors considered that improving understanding of the IMF's work and respect for its competence, and enhancing the credibility of its policies, are key objectives of its communications—and more so than increasing its popularity. A continuing, concentrated effort to improve understanding of the institution would, over time, be valuable in increasing support for its work in member countries even if progress may seem incremental and modest. Directors generally considered that more can be achieved by better focusing and prioritizing external communications activity within the existing budgetary envelope.

Focus and Coordination

The IMF's communications should be sharply focused, Directors agreed, and the main themes should be derived from guidance provided by the International Monetary and Financial Committee and from Executive Board decisions and work plans. Directors recognized that external communications are a shared responsibility of the Executive Board, management, and staff, and that the External Relations Department (EXR) necessarily plays a crucial role in ensuring that the IMF's external communications are well developed, coordinated, and delivered. The department's responsibilities include keeping staff informed about the key issues for external communications, drafting and revising material for public statements, and coordinating and advising on public speaking opportunities and interactions with the media. With the inevitable involvement of a rising number of IMF players in such activities, Directors believed that it would become increasingly important to ensure that consistent messages are being delivered.

Availability and Accessibility of Information

The IMF's transparency policy has led to the release of a greatly increased volume of policy and country papers and summaries of Board discussions, Directors observed, with the IMF's external website being the primary vehicle for dissemination. The IMF also publishes vast quantities of research and statistical data as well as comprehensive information on its finances. Directors acknowledged that the sheer volume of information released by the IMF, together with its technical and specialized content, increases the importance of providing clear and brief summaries and explanatory material for nonspecialists. Directors supported ongoing efforts to improve the drafting, editing, and summarizing of IMF material intended for public dissemination. They considered, however, that more needs to be done to make such material understandable—including by presenting it in plain English and reducing jargon. In a similar vein, Directors called for continued efforts to enhance the communication skills of all IMF staff, which would be important not only for improved interactions with the public but also for enhancing the learning culture of the institution more broadly. Many Directors underlined that senior staff across the IMF could make a positive contribution in external communications, and consideration is needed how best to advance in this respect.

[1]The IMF's "external communications" do not include its communications with the authorities and officials of member countries. Also excluded are its communications with other international organizations. The first Board discussion of the external communications strategy was in July 1998 and the second in February 2000.

Proactive Outreach and Dialogue

Directors shared the view of management and staff that the purposes of outreach and dialogue include listening and learning as well as informing and providing explanations for interlocutors. They acknowledged that the IMF now, more actively than in the past, seeks to take into account the views of its critics as well as supporters in developing and revising IMF policies, practices, and advice. The considerable expansion in recent years of the institution's communications with nonofficials, particularly legislators and civil society organizations, was welcomed (see Box 7.2). Going forward, Directors agreed that, given its limited resources, the IMF, like other international organizations, would need to be selective and set priorities for outreach and dialogue.

Most Directors supported giving priority to communications with legislatures, labor unions, and the private sector, in coordination with national authorities. They also supported a more active role for IMF resident representatives and mission chiefs in outreach, and noted the important impact of management speeches as well as visits by management to member countries. Directors welcomed the staff's proposal to prepare a guidance note for staff outreach to civil society organizations. While encouraging staff to highlight the IMF's successes, Directors considered that the IMF's public image and accountability can only benefit from the institution's willingness to learn lessons from its experience and to openly acknowledge mistakes when they do happen. Although Directors were generally supportive of prompt, vigorous responses to biased

Box 7.2

Engaging in Outreach and Dialogue

The purposes of the IMF's engagement in outreach and dialogue beyond official circles include *listening* and *learning* as well as *informing* and *persuading* interlocutors on Fund-related matters. Inviting comments from the public on IMF policy proposals via the external website and in specially convened meetings and conferences has become routine—some recent examples include Poverty Reduction Strategy Paper and Poverty Reduction and Growth Facility reviews, the development of the HIPC (debt reduction) policy, the review of Fund conditionality, the establishment and work program of the Independent Evaluation Office, and the proposal for a sovereign debt restructuring mechanism. In this way, the IMF supplements its formal processes of accountability to member countries—represented on the Board of Governors and Executive Board—through engagement with organizations that reflect the views of a variety of people.

Legislatures

The IMF has begun to increase its outreach to parliamentarians to promote better understanding of the Fund and its policies. Among other activities, it has started to hold seminars for legislators in individual countries. In March 2003, the IMF organized a seminar in Cameroon with legislators, provincial governors, representatives of civil society, and the media, to explain the role of the Fund in general and the IMF-supported program in particular. In April 2003, a similar event was organized with Ghanaian legislators. The IMF is also working jointly with the Parliamentary Network on the World Bank (an informal group of parliamentarians from both industrial and developing countries who are interested in development issues), including participating in visits by parliamentarians to PRSP countries. The Managing Director participated in the fourth annual conference of the Parliamentary Network, which included an hour-long question and answer session with legislators. In addition, management and staff have often met at IMF headquarters with visiting groups of legislators. The Managing Director has also spoken in capitals to members of national parliaments. In addition, the IMF has provided training to legislators.

Private Sector

The IMF's interactions with the private business and financial sector at the country level often include meetings by its mission teams and resident representatives with employer associations, private companies, banks, and other financial institutions. A recent survey of country outreach indicates that resident representatives, on average, meet with business and trade associations once every two months. Globally, the International Capital Markets Department maintains an extensive informal network of communications with private financial market participants. And at the management level, the semiannual meetings of the Capital Markets Consultative Group provide opportunities for informal discussion of key topics of mutual interest.

Civil Society Organizations (CSOs)

In recent years the IMF has significantly increased outreach and dialogue with civil society—labor organizations, some business associations, nongovernmental organizations (NGOs), faith-based organizations, and academic and policy research institutions ("think tanks"). IMF staff and management now meet often with such organizations both at headquarters and in member countries. In low-income countries, the PRSP process has firmly established CSOs as participants in formulating and implementing better policies to fight poverty. In many Article IV consultation missions, efforts are made to consult with broad elements of civil society on the economic situation. The terms of reference for IMF offices abroad and resident representatives often include maintaining contact and dialogue with CSOs. This dialogue covers a wide range of issues, including macroecoor inaccurate media reports regarding the IMF and its activities, they recognized that a key objective should be to provide consistent long-term messages to opinion leaders throughout the world.

Broadening the Reach of IMF Communications

The significant contribution to communications and outreach being made by the availability of vast amounts of information on the IMF's external website was welcomed by Directors. They favored continued development and expansion of the website, which should focus on the quality of information provided and maintain its ease and speed of access for users everywhere. Directors supported efforts to expand distribution of the IMF's print publications, especially in developing countries. They also welcomed efforts under way by EXR and area departments to better plan and coordinate the IMF's external communications programs for specific regions and countries, taking into account the differing circumstances and perceptions from one country to another and without ignoring any region. Within a given country, Directors noted, the impact of IMF communication will vary across groups and institutions, and communication efforts must be geared to the particular background and concerns of different audiences.

Publications in Languages Other than English

Directors discussed the conclusions of a report from an interdepartmental task force on IMF publications in languages other than English (the IMF's working language). They agreed that increased publication of IMF documents and other information in languages other than English, including local languages as well as the

nomic policy and other related policies, structural adjustment and the poor, debt relief and poverty reduction, trade and capital account liberalization, globalization and the governance of the global economy (including discussions on new rules for the global financial system), promoting good governance, and fighting corruption.

Staff contact with national labor unions in the context of Article IV or program discussions has become much more common in recent years. About 70 percent of IMF missions had contacts with labor unions or other labor representatives at least once in the previous two years, for the purposes of hearing the views of labor unions and explaining and discussing the IMF's policy advice. In addition, the IMF maintains a constructive dialogue with the international labor movement, represented mainly by the International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labor, through workshops, regional seminars, and leadership meetings held in Washington, D.C., jointly with the World Bank. The most recent leadership meeting was held in October 2002 and included 90 trade union representatives from 40 countries.

Although the IMF does not have an NGO consultative group, it has increased its efforts at dialogue with NGOs engaged in research and policy advocacy on development, debt, environmental, and other related economic issues. The IMF's practice is to respond positively, resources permitting, to all requests from NGOs interested in engaging in constructive dialogue but to concentrate upon communications with NGOs having a leadership role.

At the international level, a number of major advocacy NGOs are in regular touch with IMF staff to discuss policies and programs. Numerous meetings on a variety of issues ranging from debt relief and PRSPs to transparency, governance, and the environment take place regularly in Washington and in Europe (about 310 meetings with NGOs and other civil society organizations were held at IMF headquarters in 2002). NGOs are also invited to participate actively in reviews of IMF policies—recent examples include their involvement in the conditionality, transparency, trade, and PRSP reviews—and are often invited to conferences organized around these reviews.

To the extent that resources and other priorities allow, the IMF organizes workshops and seminars for NGOs (especially in the southern hemisphere), often in collaboration with resident representatives and regional offices, to explain the IMF and the role it plays in the formulation of policies in program countries. The IMF also sends a quarterly newsletter to NGOs and other CSOs by mail and e-mail to some 700–800 recipients around the world in English, French, Spanish, and Russian and posts it on the Fund's external website.

The IMF has had limited, sporadic communications and meetings with faith-based organizations in the past, which have generally been cordial and constructive. The World Council of Churches has shown renewed interest in dialogue with the Fund, and the proposed work program of the World Faiths Development Dialogue includes efforts to promote the Millennium Development Goals and to engage faith groups in Poverty Reduction Strategy consultations.

The IMF communicates with academic researchers and "think tanks" to broaden and deepen the understanding among influential policy analysts of the Fund's policies, as well as to bring outside views and expertise into the Fund. The Economic Forum series also serves to expand policy dialogue. The IMF organizes 10 to 12 Economic Forums at headquarters each year to promote informed discussion on issues confronting the Fund and the international community. Recent topics have included the euro, IMF governance, direct foreign investment in China, social safety nets, capacity building, crisis early warning systems, and transparency.

most widely used international languages, can be very helpful for increasing understanding and support for IMF policies and advice as well as fostering country ownership. For country policy intentions documents available in local languages in the original, the practice of linking to authorities' websites, or posting on the IMF website in the case of the major languages for which links exist on the homepage, should be encouraged. In other cases, translation costs may be significant. Most Directors considered that this should be accommodated within existing budget ceilings on an as-needed and case-by-case basis. They encouraged the staff to identify low-cost options and cases where the benefits of publishing translated material are likely to be high relative to costs.

Role of the Executive Board

Directors expressed a range of views on the role of Executive Directors in external communications. Several Directors noted the complexities involved in playing a prominent public relations role, as this entails balancing their roles as representatives of their countries and as officers of the IMF. The suggestion was made that Directors could be guided by a code of conduct that the Board itself could subsequently develop.

The Independent Evaluation Office

The Independent Evaluation Office (IEO) was established in July 2001 to conduct objective and independent assessments of issues of relevance to the mandate of the IMF, in a way that complements the institution's internal review and evaluation functions. Through this work the IEO is expected to enhance the learning culture within the IMF, strengthen the institution's external credibility, promote greater understanding of the IMF's work throughout the membership, and support the Executive Board's institutional governance and oversight responsibilities.

The IEO's work program for FY2002/2003 consisted of three evaluation projects: (1) the prolonged use of IMF financial resources and its implications; (2) the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia, and Korea); and (3) fiscal adjustment in IMF-supported programs in a group of low- and middle-income countries. The evaluation report for the first project—on prolonged use of IMF resources—was broadly endorsed by the Board in September 2002 and subsequently published. The report offered a series of recommendations designed to minimize prolonged use and its adverse consequences. These recommendations covered the rationale for IMF-supported programs (including the need for alternative methods of signaling an IMF "seal of approval" to other donors and creditors); program design; strengthening political information and analysis; and human resource management. IMF management set up a task force to propose how best to address issues raised by the evaluation. IEO also provided the task force with comments received through its process of external outreach. The report of the task force was discussed by the Executive Board in March 2003, and a specific set of follow-up steps was agreed. (See Chapter 4 for details.)

The evaluation report on the three capital account crisis cases was sent to management for comments, and simultaneously to the Evaluation Committee of the Executive Board, in April 2003. The evaluation report on fiscal adjustment in IMF-supported programs was scheduled to be circulated in May 2003.

Looking forward, the work program for FY2004 was finalized by the Director of IEO following an extensive program of consultation with a broad range of internal and external stakeholders and was subsequently reviewed and welcomed by the Board. The work program includes: (1) an evaluation of the IMF's experience with Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility (PRSP/PRGF); (2) an evaluation of the IMF's role in Argentina, assessing the 2000 and 2001 programs but also taking a longer view of the IMF's involvement from 1991 onwards; and (3) an evaluation of IMF technical assistance.

The PRSP/PRGF evaluation is already under way. It is being conducted along with a parallel evaluation of the World Bank's experience by its Operations Evaluation Department. The final terms of reference have been posted on the IEO website, following a process of consultation with internal and external stakeholders on an earlier issues paper. Issues papers for the other two evaluation projects will be posted on the website for comments early in FY2004.

The IEO has undertaken wide-ranging outreach efforts, including building ties with the academic and aid evaluation communities and representatives of civil society. A series of seminars was organized to disseminate the results of the first evaluation project on prolonged use of IMF resources, which was generally received by external stakeholders as a candid and constructive assessment. The IEO website is now being used by a wide range of subscribers, and significant efforts have been made to ensure that key outputs of the office are available in languages other than English.

Strengthening the Voice and Representation of Developing Countries

In September 2002, the Development Committee requested that the World Bank and IMF prepare a background document to facilitate consideration, at its Spring 2003 Meeting, of ways to broaden and strengthen the voice and participation of developing countries and transition economies in the two institutions. The strength and effectiveness of participation in decision making at the institutions has several dimensions. The most straightforward of these is voting strength. Another important dimension is the degree to which countries are fully equipped to use the available opportunities to present their views at the institutions. This latter dimension of "voice" is quite important for large multicountry constituencies—especially those with a significant number of countries with IMF-supported programs or HIPCs, given the volume and complexity of associated issues requiring their input.

During their initial discussion of the joint background paper on this topic, Directors underscored the importance of enhancing the voice and participation of developing and transition countries. They highlighted the initiatives that have already been taken to enhance the voice of developing countries and the listening culture in the IMF—including the ongoing development of the PRSP process, strengthened support for capacity building, and emphasis on country ownership of reforms—and looked forward to building on these ongoing efforts. Because rapid progress can be made on a number of possible administrative measures for enhancing voice, the Board has already begun to consider steps that could be taken in the short run to address staffing and technological constraints of the two sub-Saharan African constituencies, whose needs are most pressing. Progress on these issues will allow the Development Committee to focus on the voting strength dimension of voice and participation, which requires further careful consideration and consensus-building efforts among the membership in the period ahead. The IMFC will have an opportunity to return to these issues at the 2003 Annual Meetings, based on a status report from the Executive Board on its discussions in connection with the Thirteenth General Review of Quotas.

CHAPTER 8

Financial Operations and Policies in FY2003

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

Regular Operations. The IMF provides loans to countries 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 external financing difficulties (see Box 8.1). These loans are extended under a variety of policies and facilities designed to address specific balance of payments problems (see Table 8.1). Interest is charged on the loans at market-related rates, and repayment periods vary depending on the lending facility.

Concessional Financing. The IMF lends at a very low interest rate to poor countries to help them restructure their economies to promote growth and reduce poverty. The IMF also provides grants to eligible poor countries to help them achieve sustainable external debt positions. The principal for concessional loans is funded by bilateral lenders to the IMF at market-based rates, with the IMF acting as a trustee. Resources to subsidize the rate charged to borrowers, and grants for debt relief, are financed through contributions by member countries and income from the IMF's own resources.

Special Drawing Rights. 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. The SDR also serves as the

Box 8.1

The IMF's Financing Mechanism

The IMF's regular lending is financed from the 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 its 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 8.3).

A 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 8.6) and imposes surcharges depending on the amount and maturity 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) by the borrower with reserve assets, these funds are transferred to the creditor countries in exchange for their currencies and the creditor's claim on the IMF is extinguished.

The "purchase/repurchase" approach to IMF lending affects the composition of the Fund's resources but not the overall size. An increase in loans outstanding will reduce the IMF's holdings of reserve assets and the currencies of members that are financially strong and increase the IMF's holdings of the currencies of countries that are borrowing from the Fund. The amounts of the IMF's holdings of reserve assets and the currencies of financially strong countries determine the Fund's lending capacity (liquidity) (see Box 8.4).

Detailed information on various aspects of the IMF's financial structure and regular updates of its financial activities are available on the IMF's website at *http://www.imf.org/external/fin.htm*.

Table 8.1
IMF Financial Facilities

Credit Facility	Purpose	Conditions	Phasing and Monitoring[1]
Credit Tranches and Extended Fund Facility[4]			
Stand-By Arrangements (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions
Extended Fund Facility (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character	Adopt 3-year program, with structural agenda, with annual detailed statement of policies for the next 12 months	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions
Special Facilities			
Supplemental Reserve Facility (1997)	Short-term assistance for balance of payments difficulties related to crises of market confidence	Available only in context of Stand-By or Extended Arrangements with associated program and with strengthened policies to address loss of market confidence	Facility available for one year; frontloaded access with two or more purchases (disbursements)
Contingent Credit Line (1999)	Precautionary line of defense that would be made readily available against balance of payments difficulties arising from contagion	Eligibility Criteria: (1) absence of balance of payments need from the outset, (2) positive assessment of policies by the IMF, (3) constructive relations with private creditors and satisfactory progress in limiting external vulnerability, (4) satisfactory economic program	Resources approved for up to one year. Small amount (5–25 percent of quota) available on approval but not expected to be drawn. Presumption that one-third of resources are released on activation, with the phasing of the remainder determined by a postactivation review
Compensatory Financing Facility (1963)	Medium-term assistance for temporary export shortfalls or cereal import excesses.	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory	Typically disbursed over a minimum of six months in accordance with the phasing provisions of the arrangement
Emergency Assistance	Quick, medium-term assistance for balance of payments difficulties related to:		None, although post-conflict assistance can be segmented into two or more purchases
(1) Natural Disasters (1962)	(1) Natural disasters	(1) Reasonable efforts to overcome balance of payments difficulties	
(2) Post-Conflict (1995)	(2) The aftermath of civil unrest, political turmoil, or international armed conflict	(2) Focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF	
Facility for Low-Income Members			
Poverty Reduction and Growth Facility (1999) Note: Replaced the Enhanced Structural Adjustment Facility	Longer-term assistance for deep-seated balance of payments difficulties of structural nature; aims at sustained poverty-reducing growth	Adopt 3-year PRGF-supported program. PRGF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process, and integrating macroeconomic, structural, and poverty reduction policies	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews

[1]The IMF's lending is financed from the capital subscribed by member countries; each country is assigned a *quota* that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or SDRs—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower *purchasing* foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower *repurchasing* its currency from the IMF with foreign currency. See Box 8.1 on the IMF's Financing Mechanism.

[2]The *basic rate of charge* on funds disbursed from the General Resources Account (GRA) is set as a proportion of the weekly interest rate on SDRs and is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition to the basic rate plus surcharge, an up-front commitment fee (25 basis points on committed amounts up to 100 percent of quota, 10 basis points thereafter) is charged on the amount that may be drawn during each (annual) period under a Stand-By or Extended Arrangement. The fee is, however, refunded on a proportionate basis as subsequent drawings are made under the arrangement. A one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the General Resources Account, other than reserve tranche drawings, at the time of the transaction.

Access Limits[1]	Charges[2]	Repurchase (Repayment) Terms[3] Obligation schedule (Years)	Expectation schedule (Years)	Installments
Annual: 100% of quota; cumulative: 300% of quota	Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300%)[5]	3¼–5	2¼–4	Quarterly
Annual: 100% of quota; cumulative: 300% of quota	Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300%)[5]	4½–10	4½–7	Semiannual
No access limits; access under the facility only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit	Basic rate plus surcharge (300 basis points rising by 50 basis points a year after first disbursement and every 6 months thereafter to a maximum of 500 basis points)	2½–3	2–2½	Semiannual
No access limits, but commitments are expected to be in the range of 300–500% of quota	Basic rate plus surcharge (150 basis points rising by 50 basis points at the end of the first year and every 6 months thereafter to a maximum of 350 basis points)	2–2½	1–1½	Semiannual
45% of quota each for export and cereal components. Combined limit of 55% of quota for both components	Basic rate	3¼–5	2¼–4	Quarterly
Generally limited to 25% of quota, though larger amounts can be made available in exceptional cases	Basic rate	3¼–5	Not applicable	Quarterly
140% of quota; 185% of quota in exceptional circumstances	0.5%	5½–10	Not applicable	Semiannual

[3]For purchases made after November 28, 2000, members are expected to make repurchases (repayments) in accordance with the schedule of expectations; the IMF may upon request by a member amend the schedule of repurchase expectations if the Executive Board agrees that the member's external position has not improved sufficiently for repurchases to be made.

[4]*Credit tranches* refer to the size of purchases (disbursements) in terms of proportions of the member's quota in the IMF; for example, disbursements up to 25 percent of a member's quota are disbursements under the *first* credit tranche and require members to demonstrate reasonable efforts to overcome their balance of payments problems. Requests for disbursements above 25 percent are referred to as *upper* credit tranche drawings; they are made in installments as the borrower meets certain established performance targets. Such disbursements are normally associated with a Stand-By or Extended Arrangement. Access to IMF resources outside of an arrangement is rare and expected to remain so.

[5]Surcharges are applied to the combined amount of outstanding credit resulting from purchases made after November 2000 in the credit tranches and under the EFF.

Table 8.2
IMF Financial Assistance Approved in FY2003

Member	Type of Arrangement	Date of Approval	Amount Approved[1] *(In millions of SDRs)*
Albania	3-year PRGF	June 21, 2002	28.0
Argentina	7-month Stand-By	January 24, 2003	2,174.5
Bolivia	1-year Stand-By	April 2, 2003	85.8
Bosnia and Herzegovina	15-month Stand-By	August 2, 2002	67.6
Brazil	16-month Stand-By	September 6, 2002	22,821.1
Burundi	Emergency Assistance (Post-Conflict)	October 9, 2002	9.6
Colombia	2-year Stand-By	January 15, 2003	1,548.0
Congo, Democratic Republic of	3-year PRGF	June 12, 2002	580.0
Croatia, Republic of	14-month Stand-By	February 3, 2003	105.9
Dominica	1-year Stand-By	August 28, 2002	3.3
Ecuador	13-month Stand-By	March 21, 2003	151.0
Gambia, The	3-year PRGF	July 18, 2002	20.2
Grenada	Emergency Assistance (Natural Disaster)	January 27, 2003	2.9
Guyana	3-year PRGF	September 20, 2002	54.6
Jordan	2-year Stand-By	July 3, 2002	85.3
Macedonia, Former Yugoslav Republic of	14-month Stand-By	April 30, 2003	20.0
Malawi	Emergency Assistance (Natural Disaster)	September 3, 2002	17.4
Nicaragua	3-year PRGF	December 13, 2002	97.5
Rwanda	3-year PRGF	August 12, 2002	4.0
Senegal	3-year PRGF	April 28, 2003	24.3
Serbia and Montenegro	3-year EFF	May 14, 2002	650.0
Sri Lanka	3-year EFF	April 18, 2003	144.4
Sri Lanka	3-year PRGF	April 18, 2003	269.0
Tajikistan	3-year PRGF	December 11, 2002	65.0
Uganda	3-year PRGF	September 13, 2002	13.5
Uruguay [2]	Augmentations of Stand-By	June 25 and August 8, 2002	1,534.2
Zambia	Augmentation of PRGF	May 29, 2002	24.5

[1] For augmentations, only the amount of the increase is shown.
[2] Augmentation amount is net of cancellation of remaining balance (SDR 257.4 million) under the SRF.

IMF's unit of account, and its value is based on a basket of four 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.

Among the key financial developments in FY2003 were the following:

- The IMF completed a review of members' capital subscriptions (quotas) and concluded that no general increase in its capital base was necessary for the time being.
- Outstanding IMF credit to members increased as capital flows to emerging market countries continued to decline and several members with very large external financing needs faced reduced access to international capital markets.
- The IMF continued its efforts to assist its poorest members to reduce their debt burdens and to focus the Fund's concessional lending activities more explicitly on poverty reduction.

Regular Financing Activities

The IMF's regular lending activity is conducted through the General Resources Account (GRA), which holds the quota subscriptions of members. The bulk of the financing is provided under Stand-By Arrangements, which address members' short-term, cyclical balance of payments difficulties, 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 (see *http://www.imf.org/external/np/tre/lend/terms.htm*).

Lending

New IMF commitments in FY2003 were dominated by a large Stand-By Arrangement for Brazil. In addition, new large arrangements for Colombia and Argentina, as well as augmentations of the existing arrangement for Uruguay, kept the level of total commitments in FY2003 relatively high, with new commitments amounting to SDR 29.4 billion compared with SDR 39.4 billion in FY2002.[1]

The IMF approved ten new Stand-By Arrangements involving commitments totaling SDR 27.1 billion, and the commitment to Uruguay under the Stand-By Arrangement already in place was augmented by SDR 1.5 billion. In addition, two EFF arrangements were approved in FY2003: SDR 0.7 billion for Serbia and Montenegro and SDR 0.1 billion for Sri Lanka (see Table 8.2). Burundi, Grenada, and Malawi made small purchases under the IMF's policy of emergency assistance. No commitments were made under the IMF's Compensatory Financing Facility (CFF) or Contingent Credit Line (CCL) during the year.

The arrangement for Brazil, the largest in the IMF's history, was approved in September 2002. This arrangement supports the government's economic program through December 2003. The total commitment of SDR 22.8 billion included SDR 7.6 billion under the SRF. In January 2003, the IMF approved a seven-month, SDR 2.2 billion Stand-By Arrangement for Argentina, which replaced the previous arrangement approved in March 2000. Another large arrangement was also approved in January 2003, a two-year, SDR 1.5 billion Stand-By Arrangement for Colombia.

Of the current 15 Stand-By Arrangements, three are being treated as precautionary, with borrowers having indicated that they do not intend to draw on the funds committed to them by the IMF. 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 18 of the 29 Stand-By and Extended Arrangements in place during the year (see Appendix II, Table II.3). At the end of April 2003, undrawn balances under the 18 Stand-By and Extended Arrangements still in effect amounted to SDR 23.6 billion, about half of the total amount committed under those arrangements (SDR 47.2 billion).

During the financial year, the IMF disbursed SDR 21.8 billion in loans from its GRA. The amount of new credit exceeded the repayment of loans extended in earlier years. Total repayments were SDR 7.8 billion, including advance repayments by Croatia (SDR 0.1 billion, which eliminated its outstanding IMF credit), Thailand (SDR 0.1 billion), and Estonia and Lithuania.[2] Consequently, IMF credit outstanding at the end of the financial year amounted to a record high SDR 66.0 billion, SDR 13.9 billion higher than a year earlier.

In February 2003, the repurchase (repayment) expectations introduced at the time of a review of IMF facilities completed in FY2001 (see Box 8.2) began to take effect. In FY2003, repurchase expectations arose

Box 8.2

Expectations Versus Obligations

The IMF's Articles of Agreement (Article V, Section 7 *(b)*) specify that members are expected to make "repurchases" (repayments of loans), in connection with "purchases" (loan disbursements) made previously, as their balance of payments and reserve position improves. To encourage early repayment, the Review of Fund Facilities carried out in FY2001 introduced *time-based repurchase expectations* on purchases made after November 28, 2000, in the credit tranches, under the Extended Fund Facility, and under the Compensatory Financing Facility. Purchases under the Supplemental Reserve Facility have been subject to repurchase expectations since that facility's inception; in March 2003, the maturities of SRF expectations and obligations were extended by one year and six months, respectively. The expectations schedule entails earlier repayments than the original obligations schedule, as shown in the table.

At the request of the member, the IMF Executive Board can approve repayment on the obligations date if the country's external position is not strong enough to meet repurchase expectations without undue hardship or risk.

If the member's request is granted, all extended repurchase expectations in the credit tranches and under the CFF become due on the date of the corresponding repurchase obligations. That is, due dates for each individual repayment are extended by one year. Under the SRF, repayment periods may be extended for six months. A new schedule for repayments under the EFF would be decided on a case-by-case basis, taking into account the overall profile of repayments.

Credit Facility	Obligations Schedule *(Years)*	Expectations Schedule *(Years)*
Stand-By Arrangements	3¼–5	2¼–4
Compensatory Financing Facility (CFF)	3¼–5	2¼–4
Extended Fund Facility (EFF)	4½–10	4½–7
Supplemental Reserve Facility (SRF)	2½–3	2–2½

[1] As of April 30, 2003, SDR 1 = US$1.383913.

[2] The advance repayments by Estonia and Lithuania were less than SDR 50 million.

Box 8.3
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 Fund'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, 2003, the 44 members listed below were participating in financing IMF transactions.

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

for four members: Argentina, Bosnia and Herzegovina, Pakistan, and Turkey. In February–March 2003, Bosnia and Herzegovina, Pakistan, and Turkey repurchased SDR 0.1 billion on the expectations schedule. For Argentina, repurchase expectations arising in FY2003 (SDR 0.3 billion) and in FY2004 (SDR 0.4 billion) have been extended by one year in the context of the program approved in January 2003. Repurchase expectations arising in FY2004 have also been extended for Ecuador, Sri Lanka, and Uruguay. As of April 30, 2003, IMF financing amounting to SDR 32.9 billion was subject to early repurchase expectations under the policies adopted in November 2000; in addition, SDR 28.7 billion was subject to the new surcharges on high levels of IMF credit also introduced at that time.

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.[3] General reviews of IMF quotas are conducted at five-year intervals, during which adjustments may be 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.

Only a portion of the paid-in capital is 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 Box 8.3). The base of usable resources increased during the financial year because four additional members (India, Malaysia, Mauritius, and Mexico) were considered sufficiently strong for their currencies to be included in the IMF's financial transactions plan.

The IMF's liquidity position remained adequate throughout the year to meet the needs of its members. The one-year forward commitment capacity (FCC), a new measure of liquidity introduced during FY2003, amounted to SDR 61 billion on April 30, 2003, compared with SDR 59 billion a year earlier (see Box 8.4 and Figure 8.1). During the first half of the financial year, the FCC weakened significantly following the approval of the large arrangement for Brazil, but recovered thereafter following the expiry and cancellation of two arrangements with substantial undrawn balances (Colombia and Argentina) and an increase in repayments projected over the 12-month forecast period.

Quota Developments

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

Directors continued their exchange of views on the implications for the size of the IMF of globalization, the integration of financial markets, and the IMF's efforts to strengthen its capacity to prevent and resolve financial crises (see Box 8.5). There was broad recognition that greater reliance on private market financing by many countries had contributed to increased vulnerability to capital account shocks, and that such shocks could be quite large in absolute amounts and relative to the size of an economy. There was also recognition that global economic and financial integration might entail the risk of financial contagion. Directors gener-

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

Box 8.4
FCC—A New Measure of Lending Capacity

In December 2002, the IMF introduced a new measure of its liquidity called the forward commitment capacity (FCC), which is designed to be a clearer measure of its capacity to make new loans. The one-year FCC, which indicates the amount of quota-based resources available for new lending over the next 12 months, has replaced the traditional liquidity ratio as the primary measure of the IMF's liquidity.

The one-year FCC is defined as the IMF's stock of usable resources *less* undrawn balances under existing arrangements, *plus* projected repayments during the coming 12 months, *less* a prudential balance intended to safeguard the liquidity of creditors' claims and to take account of any potential erosion of the IMF's resource base. The IMF's usable resources consist of its holdings of the currencies of financially strong members included in the financial transactions plan (see Box 8.3) and its holdings of SDRs. The prudential balance is calculated as 20 percent of the quotas of members included in the financial transactions plan and of any amounts activated under borrowing arrangements.

Information on the one-year FCC is published weekly (*Financial Activities: Week-at-a-Glance*) and monthly (*Financial Resources and Liquidity*) on the IMF's website at *http://www.imf.org/external/fin.htm*.

Figure 8.1
IMF One-Year Forward Commitment Capacity (FCC), 1990–April 2003
(In billions of SDRs)

Source: IMF Finance Department.
Note: The IMF started publishing data for the FCC in December 2002. For earlier periods the chart shows estimates of the FCC. The FCC increases when quota payments are made. It also increases when purchases are made and decreases when the IMF makes new financial commitments. The references to member countries and the Asian crises note selected large financial commitments by the IMF to members and groups of members.

ally agreed that the IMF's crisis prevention efforts will contribute to a reduction in the frequency and severity of financial crises, through improved surveillance that promotes sound economic policies and strengthens the functioning of domestic international capital markets. At the same time, Directors accepted that future crises would occur, and that the IMF would need to continue to play a central role in crisis resolution and therefore should have adequate resources at hand. However, views differed on the extent to which the IMF's response to these developments would or should result in large financing that could require additional IMF resources.

The Board also held further discussions on various issues involved in revising and updating the quota formulas to reflect changes in the world economy and measure countries' relative positions more adequately. Progress was made in discussing the development of alternative formulas that, based on an updating of the traditional variables, are intended to be simpler and more transparent than the current formulas. The discussions clarified that the selection of weights for the variables and the distribution of quotas are inextricably linked, and that decisions on possible changes in quota shares will need to take account of other quota-related issues, including the financial size of the IMF and

Box 8.5
Twelfth and Thirteenth General Reviews 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 was completed on January 30, 2003, without proposing an increase in IMF quotas, which leaves the maximum size of the quotas unchanged at SDR 213.7 billion.

During the period of the Thirteenth General Review, which commenced with the completion of the Twelfth Review, the IMF's Executive Board will closely monitor and assess the adequacy of IMF resources, consider measures to achieve a distribution of quotas that reflects developments in the world economy, and consider measures to strengthen the governance of the IMF. The Board intends to provide a status report on its discussions regarding these issues to the International Monetary and Financial Committee (IMFC) by the 2003 Annual Meetings and establish, as the discussions may warrant, a Committee of the Whole to make specific recommendations.

access to Fund resources by borrowers. This approach would help address concerns about overloading the quota formulas with too many objectives, including the determination of members' contributions to the IMF, access to Fund resources, and relative voting power.

As of April 30, 2003, 177 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 then-proposed quota increases. Two member countries eligible to consent had not done so by the end of the financial year, and four countries were ineligible to consent to their proposed increases because they were in arrears to the IMF. On January 23, 2003, the Board approved an extension of the period for consent to, and payment of, quota increases under the Eleventh Review until July 31, 2003. At the close of the financial year, total subscribed quotas amounted to about SDR 212.7 billion.

Table 8.3
GAB Participants and Credit Amounts
(In millions of SDRs)

Participant	Amount
Belgium	595.0
Canada	892.5
Deutsche Bundesbank	2,380.0
France	1,700.0
Italy	1,105.0
Japan	2,125.0
Netherlands	850.0
Sveriges Riksbank	382.5
Swiss National Bank	1,020.0
United Kingdom	1,700.0
United States	4,250.0
Total	**17,000.0**
Credit arrangement with Saudi Arabia in association with the GAB	1,500.0

Borrowing Arrangements

The IMF can borrow to supplement its quota-based resources. It maintains two standing borrowing arrangements with official lenders and can borrow from private markets, although it has not done so to date. Borrowing has played an important role in providing temporary supplemental resources to the IMF at critical junctures in the past. At April 30, 2003, there was no outstanding borrowing. The last outstanding borrowing was repaid in March 1999, upon receipt by the IMF of the bulk of quota payments under the Eleventh General Review.

General Arrangements to Borrow (GAB)

The GAB, which have been in place since 1962, are a set of credit arrangements under which 11 participants (industrial countries or their central banks) have agreed to provide resources to the IMF to forestall or cope with an impairment of the international monetary system. The potential amount of credit available to the IMF under the GAB totals SDR 17 billion, with an additional SDR 1.5 billion available under an associated agreement with Saudi Arabia (see Table 8.3). The GAB have been activated ten times, most recently in July 1998 for an amount of SDR 6.3 billion (SDR 1.4 billion of which was drawn) in connection with the financing of an Extended Arrangement for Russia. The activation was canceled and the borrowing was repaid in March 1999. The GAB decision has been renewed nine times, most recently in November 2002, when the IMF Executive Board approved its renewal for a further period of five years from December 2003.

New Arrangements to Borrow (NAB)

The NAB, which took effect in November 1998, are a set of credit arrangements under which 26 participants (member countries and official institutions) have agreed to provide resources to the IMF to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. The potential amount of credit available to the IMF under the NAB totals SDR 34 billion (see Table 8.4).

This is also the total amount of credit potentially available under the GAB and NAB combined. The NAB is the first and principal recourse in the event of a need to provide supplementary resources to the IMF, except that: (1) in the event of a request for a drawing on the IMF by a participating member, or a member whose institution is a participant, in both the GAB and NAB (all GAB participants are also participants in the NAB), a proposal for calls may be made under either of the facilities; and (2) in the event that a proposal for calls under the NAB is not accepted, a proposal for calls may be made under the GAB. The NAB has been activated once—to finance a Stand-By Arrangement for Brazil in December 1998, when the IMF called on funding of SDR 9.1 billion (SDR 2.9 billion of which was drawn). The activation was canceled and borrowing was repaid in March 1999. In November 2002, the NAB decision was renewed for a further period of five years from November 2003. The Banco Central de Chile (as an official institution of Chile) became the twenty-sixth NAB participant, effective February 2003.

Table 8.4

NAB Participants and Credit Amounts

(In millions of SDRs)

Participant	Amount
Australia	801
Austria	408
Banco Central de Chile	340
Belgium	957
Canada	1,381
Denmark	367
Deutsche Bundesbank	3,519
Finland	340
France	2,549
Hong Kong Monetary Authority	340
Italy	1,753
Japan	3,519
Korea	340
Kuwait	341
Luxembourg	340
Malaysia	340
Netherlands	1,302
Norway	379
Saudi Arabia	1,761
Singapore	340
Spain	665
Sveriges Riksbank	850
Swiss National Bank	1,540
Thailand	340
United Kingdom	2,549
United States	6,640
Total[1]	**34,000**

[1]Total may not equal sum of components owing to rounding.

Concessional Financing

The IMF provides concessional assistance to help its poorest members boost economic growth and reduce poverty under the Poverty Reduction and Growth Facility (PRGF) and the Initiative for Heavily Indebted Poor Countries (HIPC). As of April 30, 2003, a total of 36 member countries received PRGF financing, and 27 countries had received financial commitments under the HIPC Initiative by the end of the financial year.

Poverty Reduction and Growth Facility

In 1999, the objectives of the IMF's concessional lending were modified 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) prepared with the participation of civil society and other development partners. Reflecting the new objectives and procedures, the IMF established the PRGF, which replaced the Enhanced Structural Adjustment Facility (ESAF), to provide financing under arrangements developed in the context of PRSPs.

During FY2003, the Executive Board approved 10 new PRGF arrangements (for Albania, the Democratic Republic of the Congo, The Gambia, Guyana, Nicaragua, Rwanda, Senegal, Sri Lanka, Tajikistan, and Uganda) with commitments totaling SDR 1.2 billion; in addition, the amount committed under the existing loan to Zambia was increased by SDR 24 million (see Appendix II, Table II.4). Total PRGF disbursements amounted to SDR 1.2 billion during FY2003. As of April 30, 2003, 36 member countries' reform programs were supported by PRGF arrangements, with commitments totaling SDR 4.5 billion and undrawn balances of SDR 2.5 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 and that are financed from contributions from a broad spectrum of the IMF's membership and the IMF itself.[4] The PRGF Trust borrows resources at market or below-market interest rates from loan providers—central banks, governments, and government institutions—and lends these funds to

[4]For a fuller account of the sources of funds for IMF concessional lending operations, see *Financial Organization and Operations of the IMF*, Pamphlet No. 45, 6th ed. (Washington: International Monetary Fund, 2001), available online at *http://www.imf.org/external/pubs/ft/pam/pam45/contents.htm*.

Table 8.5
Commitments and Disbursements of HIPC Initiative Assistance
(In millions of SDRs, as of April 30, 2003)

Member	Amount Committed	Amount Disbursed[1]	Member	Amount Committed	Amount Disbursed[1]
Benin	18.4	20.1	Malawi	23.1	2.3
Bolivia[2]	62.4	65.5	Mali[2]	45.5	49.3
Burkina Faso[2]	44.0	34.4	Mauritania	34.8	38.4
Cameroon	28.5	2.5	Mozambique[2]	106.9	108.0
Chad	14.3	4.3	Nicaragua	63.0	1.9
Côte d'Ivoire[3]	16.7	—	Niger	21.6	3.3
Ethiopia	26.9	8.2	Rwanda	33.8	10.0
Gambia, The	1.8	0.1	São Tomé and Príncipe[4]	—	—
Ghana	90.1	9.9			
Guinea	24.2	5.2	Senegal	33.8	8.2
Guinea-Bissau	9.2	0.5	Sierra Leone	98.5	47.3
Guyana[2]	56.2	35.8	Tanzania	89.0	96.4
Honduras	22.7	4.5	Uganda[2]	119.6	121.7
Madagascar	16.6	5.0	Zambia	468.8	351.6
Twenty-seven members, of which 26 are under the enhanced HIPC framework				1,570.3	1,034.3

[1]Amounts may include interest on assistance committed but not disbursed during the interim period.
[2]Under the original and enhanced HIPC framework.
[3]Côte d'Ivoire reached its decision point under the original HIPC Initiative.
[4]At the time of the decision point, there was no debt to the IMF eligible for HIPC Initiative assistance.

PRGF-eligible member countries at an annual interest rate of 0.5 percent. The PRGF Trust receives contributions to subsidize the rate of interest on PRGF loans and maintains a Reserve Account as security for loans to the Trust. The PRGF-HIPC Trust was established to subsidize PRGF operations during 2002–2005 and also provides resources for HIPC Initiative assistance.

As of April 30, 2003, the total loan resources that had been made available for PRGF operations amounted to SDR 15.8 billion, of which SDR 12.6 billion had been committed and SDR 10.1 billion had been disbursed. It is estimated that the remaining uncommitted PRGF loan resources of SDR 3.2 billion will cover annual commitments of about SDR 1.1 billion under new PRGF arrangements through 2005, in line with the average annual historical commitments. The continuation of concessional lending after 2005 will need to be reassessed closer to that time, but a substantial proportion of such lending is expected to be provided by the IMF's own resources accumulating in the Reserve Account of the PRGF Trust. These resources will become available as lenders to the PRGF Trust are repaid and the need for security provided by the Reserve Account declines.

Enhanced HIPC Initiative

Originally launched by the IMF and World Bank in 1996, the HIPC Initiative was considerably strengthened in 1999 to provide deeper, faster, and broader debt relief for the world's heavily indebted poor countries. By April 30, 2003, the IMF and the World Bank had brought 26 HIPC-eligible members to their decision points under the enhanced Initiative and one (Côte d'Ivoire) under the original Initiative. Of these countries, eight had reached their completion points under the enhanced Initiative. (See also Chapter 5.)

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 April 30, 2003, the IMF had committed SDR 1.6 billion in grants to the following 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. Three members (Benin, Mali, and Mauritania) reached their completion points under the enhanced HIPC Initiative during FY2003. Under the enhanced Initiative, a portion of the assistance committed at the decision point can be disbursed prior to the country reaching its completion point. Such interim assistance from the IMF may amount to up to 20 percent annually and a maximum of 60 percent of the total committed amount of HIPC assistance. In exceptional circumstances, the annual and maximum amounts of interim assistance can be raised to 25 percent and 75 percent, respectively. As of April 30, 2003, total disbursements of HIPC Initiative assistance by the IMF amounted to SDR 1.0 billion (Table 8.5).

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 Trust and the PRGF-HIPC Trust. The total resources required for these purposes are estimated at SDR 7.2 billion, on a cash basis, of which HIPC Initiative assistance is estimated at about SDR 2.2 billion and the cost of subsidies for PRGF lending is estimated at SDR 5.0 billion.[5] These resource requirements are expected to be fully met by bilateral contributions from member countries and by the IMF itself.

Bilateral pledges for the PRGF Trust and the PRGF-HIPC Trust from member countries have come from a wide cross-section of the IMF's membership, demonstrating the broad support for the HIPC and PRGF initiatives. Altogether, 94 countries have pledged support: 27 advanced countries, 58 developing countries, and 9 countries in transition.[6]

The IMF's own contributions amount to SDR 2.6 billion, of which the contributions to the PRGF-HIPC Trust are SDR 2.2 billion. The bulk of the IMF's contribution—SDR 1.8 billion—comes from investment income on the net proceeds generated from off-market transactions in gold of 12.9 million troy ounces. The off-market transactions were completed in April 2000, generating net proceeds of SDR 2.2 billion (see *Annual Report 2000*, page 71). 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 0.4 billion by making a one-time transfer from the SDA (which took place in early 1994) 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 surcharges on financing provided in 1998 and 1999 under the Supplemental Reserve Facility related to activation of the New Arrangements to Borrow were also transferred to the PRGF-HIPC Trust. The contributions by the IMF's membership and the IMF itself are supplemented by investment income earned on such contributions.

Investment of PRGF, PRGF-HIPC, and SDA Resources

In March 2000, the IMF initiated a new investment strategy for the resources supporting the PRGF subsidies and HIPC Initiative 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 subsidies and HIPC Initiative.

Under the new strategy, 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) into portfolios of bonds and other medium-term instruments structured to reflect the currency composition of the SDR basket. Sufficient short-term deposits were to be held 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 was initially a customized index comprising 1- to 3-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 shortening of the average maturity of the portfolio in mid-January 2002, the benchmark was changed to a customized index based on three-month deposit rates and 0- to 1-year government bonds. The investment strategy is implemented on the IMF's behalf by the BIS, the World Bank, and three private investment managers.

In the first three years since its inception, the new investment strategy added about 135 basis points (on an annualized basis, net of fees) to returns over the previous approach of investing in SDR-denominated deposits—generating supplemental income of about SDR 276 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 by subsidizing the rate of charge to a level of 0.5 percent a year for countries that were PRGF-eligible members.[7] As of April 30, 2003, total pledged grant contributions from seven countries amounted to SDR 11.5 million, including SDR 6.8 million that had been paid in (Table 8.6). Thus far, disbursements have totaled SDR 1.4 million to subsidize the rate of charge on post-conflict emergency assistance for seven countries (Albania, Burundi, the Republic of Congo, Guinea-Bissau, Rwanda, Sierra Leone, and Tajikistan).

[5] Loan disbursements from the PRGF Trust could continue until 2009, and the last repayments of principal would take place in 2019.

[6] Bilateral contributions to the PRGF and PRGF-HIPC Trusts are summarized in Appendix II, Table II.9, on an "as needed," rather than a cash, basis.

[7] If, in any quarter, the assets of the account are insufficient to subsidize the charge of all subsidy beneficiaries to 0.5 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 0.5 percent.

Table 8.6
Contributions to Subsidize Post-Conflict Emergency Assistance
(In millions of SDRs, as of April 30, 2003)

Contributor	Contribution Pledged	Contribution Received	Subsidy Disbursed
Belgium	1.0	0.6	—
Canada	1.6	0.4	—
Netherlands	1.5	1.5	—
Norway	3.0	1.0	—
Sweden	0.8	0.8	0.8
Switzerland	0.8	0.8	—
United Kingdom	2.8	1.7	0.6
Total	**11.5**	**6.8**	**1.4**

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 provides 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-upon 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 target 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 Facility 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 under the Articles of Agreement), but it may 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 adjusted under 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 by increasing the rate of charge and reducing 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 arrears. In FY2003, 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 9 basis points and a reduction in the rate of remuneration of 10 basis points. The adjusted rates of charge and remuneration averaged 2.74 percent and 1.96 percent, respectively, for the financial year.

In April 2002, the basic rate of charge for FY2003 was set at 128.0 percent of the SDR interest rate to achieve the agreed income target. The IMF's net income, after refunds of income in excess of the target amount, in FY2003 totaled SDR 646 million. This included the net income target of SDR 69 million and surcharge income of SDR 656 million, less the cost of postretirement employee benefits of SDR 79 million. As initially agreed in 1999, the IMF was not reimbursed for the expenses of administering the PRGF Trust in FY2003; instead, an equivalent amount

(SDR 64 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 57 million of net income in excess of the income target was returned to members that paid interest charges at the end of FY2003, retroactively reducing the basic rate of charge for FY2003 to 123.5 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, the net income target of SDR 69 million was placed to, and the postretirement employee benefits of SDR 79 million were charged against, the Special Reserve. In addition, surcharge income of SDR 656 million was placed to the General Reserve.

In April 2003, the Board decided to continue the financial mechanism in place and set the basic rate of charge for FY2004 at 132.0 percent of the SDR interest rate.

Precautionary Financial Balances

To safeguard its financial position, the IMF has a policy of accumulating precautionary financial balances in the General Resources Account. These precautionary balances consist of reserves and the SCA-1. Reserves provide the IMF with protection against financial risks, including income losses and losses of a capital nature. The SCA-1 was established as an additional layer of protection against the adverse financial consequences of protracted arrears.

Existing precautionary financial balances have been financed through the retention of income and the burden-sharing mechanism. Additions to reserves are made by placing the net income, including income from surcharges, to the General and Special Reserves. Under the Articles of Agreement, the resources in the General Reserve may be distributed by the IMF to members on the basis of quota shares. The IMF may use the Special Reserve for any purpose for which it may use the General Reserve except for distribution. Total reserves increased to SDR 4.3 billion as of April 30, 2003, from SDR 3.6 billion a year earlier. The balance in the SCA-1 amounted to SDR 1.4 billion, compared with overdue principal of SDR 0.7 billion. SCA-1 resources are to be refunded after all arrears have been cleared, but can be refunded earlier by a decision by the IMF.

In November 2002, the Board reviewed the adequacy of the precautionary financial balances and decided to continue to build up these balances with the aim of doubling them. The Board also concluded that the present system of accumulating precautionary balances is appropriate and will keep the pace of accumulation under close review.

Special Drawing Rights (SDR) Developments

The SDR is a reserve asset created by the IMF in 1969 to meet a long-term global need to supplement existing reserve assets and allocated to members in proportion to their IMF quotas. 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—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 a weighted average of interest rates on short-term instruments in the markets for the currencies in the valuation basket (see Box 8.6). 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. In addition, the SDR serves as the unit of account for the IMF, and a number of other international organizations.[8]

- *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.
- *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, having joined the IMF after the last general allocation, 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 42.9 billion. The proposal will become effective when three-fifths of the IMF membership (111 members) having 85 percent of the total voting power have accepted the proposal. As of April 30, 2003, 125 members having 74.98 percent of the total voting power had agreed and only acceptance by the United States was required to implement the proposal.

[8] In March 2003, the Bank for International Settlements (BIS) adopted the SDR as its unit of account.

Box 8.6
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-year intervals. Following completion of the latest review in FY2001, 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 2001–2005 are the U.S. dollar, the euro, the Japanese yen, and the pound sterling (see the table).

Interest rate. The SDR interest rate is set weekly on the basis of a weighted average of interest rates on short-term instruments in the markets for the currencies included in the SDR valuation basket. As part of the review conducted in FY2001, the financial instruments used to determine the representative interest rate for the euro and the Japanese yen were modified to reflect financial market developments. During FY2003, the SDR interest rate evolved in line with developments in the major money markets, declining gradually during the year to the level of 1.75 percent in April 2003, while averaging 2.06 percent over the course of FY2003 (see Figure 8.2).

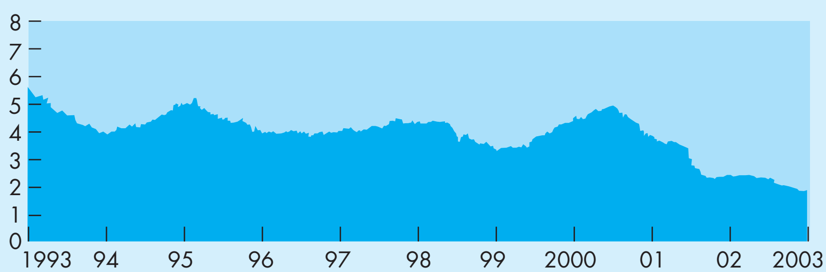
SDR Valuation, as of April 30, 2003

Currency	Amount of Currency Units	Exchange Rate[1]	U.S. Dollar Equivalent
Euro	0.4260	1.11290	0.474095
Japanese yen	21.0000	119.48000	0.175762
Pound sterling	0.0984	1.59610	0.157056
U.S. dollar	0.5770	1.00000	0.577000
			1.383913

Memorandum:
SDR 1 = US$1.383913
US$1 = SDR 0.722589

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

Figure 8.2
SDR Interest Rate, 1993–2003
(In percent)



SDR Operations and Transactions

All SDR transactions are conducted through the SDR Department (which is a financial entity, not an organizational unit). SDRs are held largely by member countries and by official entities prescribed by the IMF to hold SDRs. The balance of allocated SDRs is held in the IMF's GRA. 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.[9] 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.[10] These arrangements have helped ensure the liquidity of the SDR system.[11]

The total level of transfers of SDRs increased in FY2003 to SDR 15.6 billion, compared with SDR 14.0 billion in the previous year, but was still well below the peak of SDR 49.1 billion in FY1999, when the volume of SDR transactions increased significantly because

[9]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 (World Bank), International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Latin American Reserve Fund, and Nordic Investment Bank.

[10]These include 12 IMF members and one prescribed holder. In addition, one member has established a one-way (selling only) arrangement with the IMF.

[11]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 8.7
Transfers of SDRs
(In millions of SDRs)

	Financial Years Ended April 30								
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Transfers among participants and prescribed holders									
Transactions by agreement[1]	8,987	8,931	7,411	8,567	13,817	6,639	5,046	3,669	2,858
Prescribed operations[2]	124	1,951	88	86	4,577	293	544	290	1,186
IMF-related operations[3]	301	704	606	901	756	684	922	866	1,794
Net interest on SDRs	174	319	268	284	289	214	302	228	162
Total	**9,586**	**11,905**	**8,372**	**9,839**	**19,439**	**7,831**	**6,814**	**5,054**	**6,000**
Transfers from participants to General Resources Account									
Repurchases	1,181	5,572	4,364	2,918	4,761	3,826	3,199	1,631	1,955
Charges	1,386	1,985	1,616	1,877	2,806	2,600	2,417	2,304	2,505
Quota payments	24	70	—	—	8,644	528	65	—	62
Interest received on General Resources Account holdings	262	53	51	44	35	138	118	56	31
Assessments	4	4	4	4	3	3	2	2	2
Total	**2,857**	**7,683**	**6,035**	**4,844**	**16,249**	**7,094**	**5,800**	**3,993**	**4,555**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	5,970	6,460	4,060	4,243	9,522	3,592	3,166	2,361	2,215
Repayments of IMF borrowings	862	—	—	—	1,429	—	—	—	—
Interest on IMF borrowings	97	—	—	—	46	18	—	—	—
In exchange for other members' currencies Acquisitions to pay charges	99	49	224	20	545	1,577	1,107	1,130	1,598
Remuneration	815	1,092	1,055	1,220	1,826	1,747	1,783	1,361	1,175
Other—refunds and adjustments	51	259	27	90	74	1,008	31	94	89
Total	**7,894**	**7,859**	**5,366**	**5,574**	**13,442**	**7,942**	**6,087**	**4,945**	**5,077**
Total transfers	**20,336**	**27,448**	**19,773**	**20,256**	**49,130**	**22,867**	**18,702**	**13,991**	**15,632**
General Resources Account holdings at end of period	**1,001**	**825**	**1,494**	**764**	**3,572**	**2,724**	**2,437**	**1,485**	**963**

[1] Transactions by agreement are transactions in which participants in the SDR Department (currently including 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, the SAF, the ESAF, the PRGF, and the HIPC Initiative.

of payments for members' quota increases (see Table 8.7). By April 30, 2003, 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 1.0 billion from SDR 1.5 billion a year earlier, at the low end of the targeted range of SDR 1.0–1.5 billion within which the IMF seeks to maintain its SDR holdings. SDRs held by prescribed holders amounted to SDR 0.6 billion. SDR holdings by participants increased to SDR 19.9 billion from SDR 19.6 billion in FY2002. SDR holdings of the industrial and net creditor countries relative to their net cumulative allocations decreased from a year earlier. SDR holdings of nonindustrial members amounted to 72 percent of their net cumulative allocations compared with 56.9 percent a year earlier.

Safeguards Assessments

In FY2003, the IMF continued its efforts to safeguard GRA, PRGF, and HIPC resources through the conduct of safeguards assessments of the central banks of borrowing member countries, since central banks are typically the recipients of IMF disbursements as the members' fiscal agents. Safeguards assessments aim at providing reasonable assurance to the IMF that a central bank's framework of reporting, audit, and controls is adequate to manage resources, including IMF disbursements (see Box 8.7).

Box 8.7
Safeguards Assessment Policy: A Summary

Objective of Safeguards Assessments
- To provide reasonable assurance to the IMF that a central bank's control, accounting, reporting, and auditing systems in place to manage resources, including IMF disbursements, are adequate to ensure the integrity of operations.

Applicability of Safeguards Assessments
- Central banks with arrangements for use of IMF resources approved after June 30, 2000;
- Abbreviated assessments of only the external audit mechanism for member countries with arrangements in effect prior to June 30, 2000;
- Not applicable to emergency assistance, first-credit-tranche purchases, and stand-alone CFFs; and
- Voluntary for members with staff-monitored programs.

*Scope of Policy—**ELRIC***
- The **E**xternal audit mechanism;
- The **L**egal structure and independence;
- The financial **R**eporting framework;
- The **I**nternal audit mechanism; and
- The internal **C**ontrols system.

Publication References
- The staff's papers and other background information concerning the safeguards policy, including a paper by a panel of eminent external experts, are available on the IMF website *(www.imf.org)*.

Safeguards assessments were adopted as a permanent IMF policy by the Executive Board in March 2002, after an initial two-year experimental period. 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 adopting the permanent policy, the Board noted that central banks had widely embraced the findings of safeguards assessments and 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.

Safeguards assessments apply to all countries with arrangements for use of IMF resources approved after June 30, 2000, and are conducted in respect of any new arrangement presented to the Board for approval. 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, as in many cases these programs are followed by formal arrangements with the IMF. In FY2003, 24 safeguards assessments were conducted bringing the cumulative assessments completed as of April 30, 2003, to 75. This cumulative total includes 27 abbreviated assessments, which were conducted for arrangements in effect prior to June 30, 2000, and which 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 auditing standards.

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, 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, not made available to the Executive Board or the general public, 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 Board at the time of arrangement approval or, at the latest, by the first review under the arrangement.

The implementation of safeguards recommendations is monitored periodically by IMF staff. Safeguards monitoring begins once the final assessment report is issued to the authorities and continues as long as credit is outstanding. The monitoring process primarily entails following up on the recommendations arising from previous safeguards assessments to ensure that (1) commitments made by the authorities have been fulfilled, and (2) the recommendations have been satisfactorily implemented. In general, commitments made by the authorities are monitored in conjunction with overall program conditionality, and the main focus of safeguards monitoring is therefore on the efficacy of implementation. To this end, IMF staff request periodic updates of the status of implementation and may

Table 8.8
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration
(In millions of SDRs, as of April 30, 2003)

		By Type				By Duration	
	Total	General Department (incl. SAF)	SDR Department	Trust Fund	PRGF	Less than 6 months	More than 6 months
Iraq	52.3	0.1	52.2	—	—	1.3	51.0
Liberia	499.6	446.0	23.5	30.1	—	3.3	496.3
Somalia	217.4	199.6	9.9	7.9	—	1.7	215.7
Sudan	1,081.7	1,003.0	0.1	78.6	—	5.2	1,076.5
Zimbabwe	158.7	90.7	—	—	68.0	32.7	126.0
Total	**2,009.7**	**1,739.4**	**85.7**	**116.6**	**68.0**	**44.2**	**1,965.5**

conduct an on-site monitoring review. Under monitoring, country authorities must annually provide to the IMF their audited financial statements and any recommendations or special reports prepared by the external auditors of the central bank.

The findings of safeguards assessments to date have indicated that significant but avoidable risks to IMF resources may have existed in certain cases. Assessment recommendations are designed to safeguard IMF resources by addressing these vulnerabilities and permanently improving controls and operations in a central bank. Monitoring to date has shown that central banks are progressively implementing the measures recommended by IMF staff to mitigate the identified vulnerabilities. In FY2003, central banks continued to implement assessment recommendations at a high rate (over 85 percent for the most important measures). The main areas of improvement in central bank operations and controls resulting from the implementation of safeguards measures have included (1) establishing an independent external audit policy in accordance with international standards; (2) reconciling the economic data reported to the IMF for program-monitoring purposes with the underlying accounting records of the central bank; (3) improving the transparency and consistency of financial reporting, including publication of the audited financial statements; (4) improving controls over reserve management; and (5) implementing independent, high-quality internal audit functions.

In FY2003, IMF staff continued to enhance communication and dissemination of information on the safeguards policy. The IMF Institute developed a course on safeguards assessments, which was delivered at the Singapore Training Institute in January 2003 and the Joint Vienna Institute in March 2003. IMF staff also prepared two semiannual summary reports covering the activities and results of the policy for the Executive Board. These reports are available on the IMF website at *http://www.imf.org/external/fin.htm*.

Arrears to the IMF

The strengthened cooperative strategy on overdue financial obligations to the IMF consists of three essential elements: prevention, intensified collaboration, and remedial measures.[12]

Total overdue financial obligations to the IMF decreased to SDR 2.01 billion during FY2003, from SDR 2.36 billion at the beginning of the financial year (Table 8.8). This reflected mainly the clearance of arrears by the Democratic Republic of the Congo in June 2002 and by the Islamic State of Afghanistan (henceforth Afghanistan) in February 2003. However, the arrears of other countries (with the exception of Sudan) continued to rise—most notably those of Zimbabwe, which is the first new case of significant arrears to the GRA since 1993 and the first case of arrears to the PRGF Trust. As of April 30, 2003, almost all arrears to the IMF were protracted (outstanding for more than six months), about evenly divided between overdue principal and overdue charges and interest. More than four-fifths of arrears were to the GRA and the remainder to the SDR Department and the PRGF Trust.

The two countries with the largest protracted arrears to the IMF—Sudan and Liberia—account for more than 79 percent of the overdue financial obligations to the IMF—with Somalia and Zimbabwe accounting for

[12]See *Annual Report 2001*, pages 72 and 73, for background on the IMF's strengthened cooperative strategy for dealing with arrears.

most of the remainder.[13] Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against the countries with protracted arrears to the IMF.[14] No changes were made in the IMF's strengthened cooperative strategy on arrears during FY2003.

During FY2003, two countries cleared their arrears to the IMF—the Democratic Republic of the Congo and Afghanistan:

- The Democratic Republic of the Congo cleared its arrears to the IMF of SDR 404 million ($522 million) on June 12, 2002. Arrears clearance was facilitated by bridge loans provided by four countries—Belgium, France, South Africa, and Sweden. Immediately following the clearance of the arrears, the Executive Board approved a PRGF arrangement for the Democratic Republic of the Congo in the amount of SDR 580 million (109 percent of its quota). Part of the proceeds of the first PRGF disbursement of SDR 420 million was used to repay in full the bridge lenders. The Democratic Republic of the Congo subsequently cleared its arrears of SDR 254 million ($338 million) to the World Bank Group. Arrears of SDR 669 million ($860 million) to the African Development Bank Group were handled in the context of a partial clearance/partial consolidation mechanism.
- On February 26, 2003, Afghanistan settled its overdue financial obligations to the IMF totaling SDR 8.1 million (about $11.1 million). The settlement of arrears to the IMF was part of a coordinated plan under which Afghanistan also cleared arrears to the Asian Development Bank and the International Development Association. The coordinated arrears-clearance operation was supported by grant contributions from Italy, Japan, Norway, Sweden, the United Kingdom, and the Afghanistan Reconstruction Trust Fund.

The Executive Board conducted several reviews of member countries' overdue financial obligations to the IMF during FY2003:

- The Board considered on two occasions the complaint by the Managing Director with respect to the suspension of Liberia's voting and related rights in the IMF. At its October 9, 2002, meeting, the Board expressed regret at the further accumulation of arrears to the IMF by Liberia and the limited actions taken by the authorities to improve economic policy implementation. Nevertheless, the Board decided to defer the decision on the suspension of voting and related rights by another six months and to review the matter at the same time it considered the 2002 Article IV consultation with Liberia. At this second review, on March 5, 2003, the Board found that Liberia had not adequately strengthened its cooperation with the IMF and decided to suspend Liberia's voting and related rights in the IMF.
- The Board reviewed Sudan's overdue financial obligations twice during FY2003—on June 19, 2002, and on December 18, 2002. In June, the Board expressed regret that Sudan did not make committed payments to the IMF during the last three months of 2001 but welcomed the corrective action taken in the latter half of 2001. It noted Sudan's constrained capacity for debt service and its intention to maintain a monthly level of payments to the IMF of $2 million. At the December review, the Board welcomed the policy performance achieved by the Sudanese authorities under the staff-monitored program for 2002 and noted that Sudan had made payments to the IMF in 2002 in line with its intentions.
- Against the background of mounting arrears and little improvement in economic policy, the Board imposed further remedial measures on Zimbabwe during FY2003. On June 13, 2002, it adopted a declaration of noncooperation regarding Zimbabwe and suspended all technical assistance. At the next review of Zimbabwe's arrears on September 11, 2002, the Board decided to initiate promptly the procedure on the suspension of Zimbabwe's voting and related rights in the IMF. On October 25, 2002, the Board noted the Managing Director's complaint, dated October 17, 2002, regarding Zimbabwe's failure to fulfill its obligations to the IMF. This complaint will be taken up on the occasion of the next review of Zimbabwe's arrears to the IMF, at which time the Board will consider whether to suspend Zimbabwe's voting and related rights in the IMF.

At the end of April 2003, Liberia, Somalia, Sudan, and Zimbabwe were ineligible under Article XXVI, Section 2*(a)* to use the general resources of the IMF. In addition, Zimbabwe had been removed from the list of PRGF-eligible countries. Declarations of noncooperation—a further step under the strengthened cooperative arrears strategy—were in effect for Liberia and Zimbabwe, and the voting and related rights of Liberia in the IMF were suspended.

[13] Iraq's overdue net SDR charges and assessments account for the remaining 2.6 percent.

[14] In two cases (Iraq and Somalia) the application of remedial measures has been delayed or suspended because of civil conflicts, the absence of a functioning government, and/or international sanctions.

CHAPTER 9

Organization, Budget, and Human Resources

A number of institutional changes took place or were announced during the financial year. Early in 2003, the Technology and General Services Department restructured its organizational units, particularly in the information technology area, to bring greater efficiency to the delivery of its services. Later in the year, the IMF created the Monetary and Financial Systems Department to reflect the expanded responsibilities of the former Monetary and Exchange Affairs Department in such areas as the Financial Sector Assessment Program and combating money laundering and terrorist financing. In another organizational change, the Treasurer's Department became the Finance Department.

Deputy Managing Director Eduardo Aninat announced his intention to leave his position in June 2003, and it was also announced that Economic Counsellor and Director of the Research Department Kenneth Rogoff would return to his professorship at Harvard University in the fall of 2003 when his leave of absence expired. The Managing Director announced that they would be succeeded, respectively, by Agustín Carstens, Mexico's Deputy Secretary of Finance, and Raghuram Rajan of the University of Chicago Graduate School of Business.

The IMF's Administrative Budget for the financial year authorized total expenditure of $794.3 million (or $746.4 million net of reimbursements). Actual expenditure amounted to $764.0 million, $30.3 million (3.8 percent) less than estimated in the original budget, including $10.7 million less in spending on personnel expenses and $19.7 million less in travel and other activities. After allowance for a $3.8 million shortfall in reimbursements, net administrative expenditures amounted to $719.9 million, some $26.5 million (3.6 percent) below the budget estimate.

The IMF's ongoing commitment to diversity remained strong in FY2003. Notable progress was made in the recruitment and promotion of several underrepresented staff groups: the share of women in management positions in the Fund reached 15 percent, and the share of managerial-level staff from developing countries reached over 30 percent.

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 2002, the Board held 126 formal meetings, 8 seminars, and 77 informal, committee, and other meetings.

The Board's discussions are largely based on papers prepared by IMF management and staff. In 2002, the Board spent 67 percent of its time on member country matters (especially Article IV consultations and reviews and approvals of IMF arrangements); 23 percent of its time on multilateral surveillance and policy issues (such as the world economic outlook, 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.

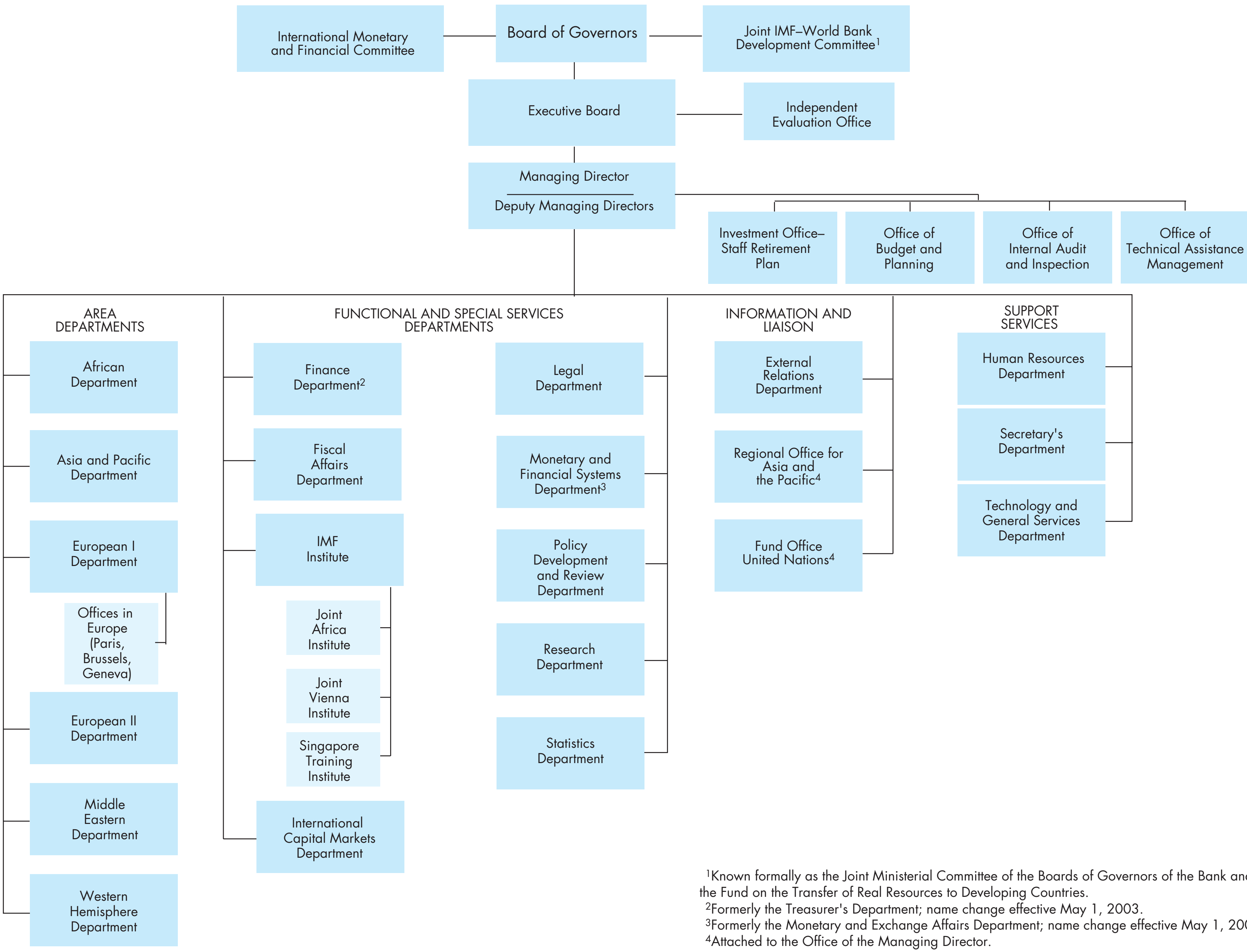
Departments

The IMF staff is organized mainly into departments with regional (or area), functional, information and liaison, and support responsibilities (Figure 9.1). 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 coun-

Figure 9.1
IMF Organization Chart
(As of April 30, 2003)



[1]Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.
[2]Formerly the Treasurer's Department; name change effective May 1, 2003.
[3]Formerly the Monetary and Exchange Affairs Department; name change effective May 1, 2003.
[4]Attached to the Office of the Managing Director.

tries 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, 93 area department staff are assigned to member countries as IMF resident representatives (see Box 9.1).

Box 9.1
IMF Resident Representatives

At the end of April 2003, the IMF had 93 resident representative positions covering 85 member countries in Africa, Asia, Europe, the Middle East, and the Western Hemisphere, and plans were under way to open a new post in Guatemala. 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 (see Chapter 5) 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* 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 department prepares a semiannual *Global Financial Stability Report* that assesses developments and systemic issues in international capital markets. It also 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 6.)

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* became the *Monetary and Financial Systems Department* effective May 1, 2003. The new name reflects the expanded responsibilities of the reorganized department, such as in the development of the Financial Sector Assessment Program and in anti-money laundering and combating the financing of terrorism assessments. Organized around four operational areas—financial system surveillance, banking supervision and crisis resolution, monetary and exchange infrastructure and operations, and technical assistance, the reorganized department continues to provides analytical, operational, and technical support to member countries and area departments, including development and dissemination of good policies and best practices. An important role is 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 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 *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* was renamed the *Finance Department* on May 1, 2003, to describe its range of responsibilities more accurately. Its mission continues to be to mobilize, manage, and safeguard the IMF's financial resources to ensure that they are deployed consistent with the Fund's overall mandate. This entails major responsibilities for the institution's financial policies and for the conduct, accounting, and control of all financial transactions. In addition, the department safeguards the IMF's financial position by assessing the adequacy of the Fund's capital base (quotas), net income targets, precautionary balances, and the rates of charge and remuneration. Other responsibilities include investing funds in support of assistance to low-income countries and conducting assessments of borrowing members' 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 Chapter 7 and 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. The offices in Europe were reorganized in 2002, with the addition of an office in Brussels to enhance the IMF's EU-related cooperation, surveillance, and outreach, and with streamlining and consolidation of resources across the offices in Paris, Geneva, and Brussels to achieve efficiency gains.

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 full range of services essential for the IMF's operation. These include information services (information technology, library services, multimedia services, records and archives management, and telecommunications); facilities services (building projects and facilities management); language services (translation, interpretation, and publications in languages other than English); and a broad range of security and business continuity services (covering headquarters security, field security, and information technology security). In 2003, the department restructured its organizational units, particularly in the information technology and administrative services areas, to bring greater efficiency to its operations.

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.

Independent Evaluation Office

The IMF's Independent Evaluation Office (IEO) provides objective and independent evaluation on issues related to the Fund. 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 Board in its governance and oversight. (For more information on the IEO's work program see Chapter 7.)

Administrative and Capital Budgets

Budget Reforms

The IMF is engaged in substantial reform of its budgetary procedures, following an external review conducted in 2001. The reforms are designed to modernize the budget process and to follow, to the extent practical and appropriate for an international financial institution, the output-focused public sector budget systems that have evolved in the major industrial countries. The revised system should help the Fund respond flexibly to the evolving demands on its resources, while maintaining the institution at broadly its present size.

In FY2003, the specific reforms undertaken focused on introducing a top-down budget constraint for use in departmental budget planning; adopting total resource or dollar budgeting, while preserving a limit on staff positions; and introducing departmental business plans. A revised output structure has been developed for use in the FY2004 and subsequent budgets. In addition, the Executive Board is now presented with information on the costs of new and existing policy and programs that come forward for discussion or review. Consistent with the IMF's transparency policy, the Board also decided to publish the FY2004 budget document.[1]

In the year ahead, three more reforms are planned that will help provide the base for a more output-oriented budget system: improvements to the measurement of the costs of outputs which, in turn, will require better reporting of staff time; enhancement of the medium-term estimates framework; and development of additional information and reports on performance.

Budgets and Actual Expenditure in FY2003

The IMF's *Administrative Budget* for the financial year ended April 30, 2003 (FY2003) authorized total expenditure of $794.3 million (or $746.4 million net of reimbursements). The FY2003 *Capital Budget* made provision for expenditure of $215.0 million on projects commencing in FY2003, including $43.2 million for building facilities projects, $42.5 million for information technology projects, and $129.3 million for the Headquarters 2 building project (bringing the total cost of that project to $149.3 million).

The *Administrative Budget* outturn for FY2003 amounted to $764.0 million, $30.3 million (3.8 percent) less than estimated in the original budget. This underspending comprised $10.7 million in personnel expenses, $11.3 million in travel, and $8.4 million for other activities and unused contingencies; part of the underspending was linked to the suspension of travel (as from mid-February) to some countries in the Middle East and Asia in response to the security situation and the outbreak of SARS respectively. After allowance for a $3.8 million shortfall in reimbursements, net administrative expenditures amounted to $719.9 million, some $26.5 million (3.6 percent) below the budget estimate.

Information on actual expenditures on the administrative budgets for FY2001 through FY2003 and budgeted expenditure for FY2003 and FY2004 is shown in Table 9.1.

Budgets for FY2004

In April 2003, the Board approved a gross *Administrative Budget* of $837.5 million, ($785.5 million net of estimated reimbursements), an increase of 5.4 percent in gross terms (5.2 percent in net terms) over the approved budget for the previous year.

In terms of inputs, the proposed budget makes provision for a budget-to-budget increase of 5 percent in personnel expenses, 9.3 percent for travel, and 4.2 percent for other expenditures. The provision for travel includes allowance for the additional costs associated with holding the 2003 Annual Meetings in Dubai. Within these aggregates, there are significant reductions in costs through elimination of low-priority activities, efficiency savings (mainly from

[1]The budget document can be accessed electronically at *http://www.imf.org/external/np/obp/budget/033103.htm*.

Table 9.1
Administrative Budgets, Financial Years 2001–2004[1]
(In millions of U.S. dollars)

	Financial Year Ended April 30, 2001: Actual Expenses	Financial Year Ended April 30, 2002: Actual Expenses	Financial Year Ended April 30, 2003: Budget	Financial Year Ended April 30, 2003: Actual Expenses	Financial Year Ending April 30, 2004: Budget
Administrative Budget					
I. Personnel Expenses					
Salaries	292.1	320.7	343.2	337.1	359.7
Budgets and Other Personnel Expenses	154.0	161.0	195.9	191.3	206.1
Subtotal	**446.1**	**481.7**	**539.0**	**528.4**	**565.8**
II. Other Expenses					
Travel	91.3	94.4	91.1	79.9	100.6
Other Expenses	138.1	145.3	164.2[2]	155.7	171.1
Subtotal	**229.4**	**239.6**	**255.3**	**235.6**	**271.7**[3]
Total Administrative Budget (gross)	**675.5**	**721.3**	**794.3**	**764.0**	**837.5**
III. Reimbursements	(37.5)	(44.6)	(47.9)	(44.1)	(52.0)
Total Administrative Budget (net)	**638.0**	**676.7**	**746.4**	**719.9**	**785.5**

Note: Totals may not add to totals due to rounding.
[1]Administrative budgets as approved by the Board for the financial year ending April 30, 2003 and April 30, 2004, compared with actual expenses for the financial years ended April 30, 2001, April 30, 2002, and April 30, 2003.
[2]Includes a contingency reserve of $1 million.
[3]Includes a contingency reserve of $2 million.

computerization), and streamlining of some support services.

There is also a substantial reallocation of resources, including a shift in personnel and other resources from departments performing intermediate and governance activities to those producing the primary outputs—policy development, research, and operation of the international monetary system; standard setting and the provision of standardized information; bilateral and regional surveillance; use of Fund resources; and capacity building. The projected shares of each primary output group in the total output funded from the net administrative budget is shown in Figure 9.2. Although this projected breakdown in FY2004 does not differ significantly from that of earlier years, there remain considerable uncertainties—for example about the number of IMF-supported programs. Nonetheless, some important developments within the main output categories are envisaged. In particular, more resources will be devoted to the work on vulnerability, on securing a fresh perspective on surveillance, and on trade and capital account issues. The resources devoted to capacity building from the Fund's net administrative budget are expected to be enhanced by a projected 23 percent increase, budget-to-budget, in external finance from donors.

Under the IMF's revised capital budgeting procedures, the Board was presented with a medium-term "capital plan" that envisages total spending of $115.1 million on new projects over the next three fiscal years, including $45.6 million for building facilities and $69.5 million for information technology projects. These aggregates do not include spending on projects authorized under previous years' appropriations, including the construction of the Headquarters 2 building.

The *Capital Budget* appropriation approved by the Board for projects starting in FY2004 is $39.6 million. This covers the cost during the period to FY2006 of the projects starting in FY2004 and includes $13.2 million for building facilities and $26.4 million for information technology projects.

Medium-Term Framework

Under the new budget procedures, the IMF prepares each year a medium-term estimate (MTE) framework, which sets out the projected cost of existing policies, starting from the current budget year, for each of the subsequent two years. Following this procedure, the estimates shown for the second year of the MTE—adjusted for policy and cost changes—become the base for the following year's annual Administrative Budget. Consistent with management's view that the institution should be maintained at broadly its present size and should seek to accommodate new tasks primarily by reductions in lower priority work, the latest

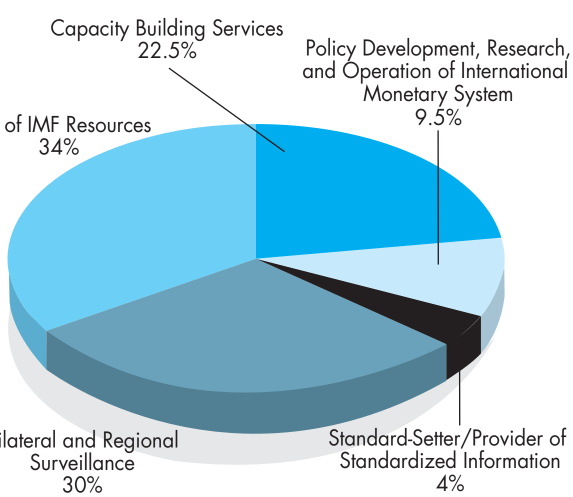
MTE provides for increases in net administrative expenditure (excluding contributions to the Staff Retirement Plan) of 3.8 percent in FY2005 and 4.3 percent in FY2006.

Human Resources

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 mid-career 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, 2002, the IMF employed 763 staff at the assistant level and 1,918 professional staff (about two-thirds of whom were economists).

Figure 9.2
Projected Share of Resources by Output Category, FY2004
(As a percent of net administrative budget)



In addition to its staff, the IMF had 297 contractual employees on its payroll, including technical assistance experts, consultants, and other short-term employees not included in the staff ceiling. Of the IMF's 184 member countries, 141 were represented on the staff. (See Table 9.2 for the evolution of the nationality distribution of IMF professional staff since 1980.)

Changes in Management and Senior Staff

Deputy Managing Director. On March 7, 2003, it was announced that in June 2003, Eduardo Aninat would leave his position, which he had held since December 1999. In informing the Executive Board, Managing Director Horst Köhler said, "During his stay here, Eduardo Aninat has contributed immensely to furthering the agenda of the Fund, drawing upon his vast experience of policy work, political acumen, and diplomatic skills."

Economic Counsellor and Director of the Research Department. On April 29, 2003, it was announced that Kenneth S. Rogoff, an authority on international economics who had succeeded Michael Mussa on August

Table 9.2
Distribution of Professional Staff by Nationality[1]
(In percent)

Region[2]	1980	1990	2002
Africa	3.8	5.8	5.4
Asia	12.3	12.7	15.6
Japan	1.4	1.9	1.6
Other Asia	10.9	10.8	14.0
Europe	39.5	35.1	34.5
France	6.9	5.5	4.5
Germany	3.7	4.3	5.2
Italy	1.7	1.4	2.7
United Kingdom	8.2	8.0	5.4
Russia and countries of the former Soviet Union	. . .	. . .	2.2
East Europe and Baltic countries	. . .	. . .	1.9
Other Europe	19.0	15.9	12.6
Middle East	5.4	5.5	4.8
Western Hemisphere	39.1	41.0	39.6
Canada	2.6	2.8	3.8
United States	25.9	25.9	24.4
Other Western Hemisphere	10.6	12.3	11.4
Total	**100.0**	**100.0**	**100.0**

[1]Includes staff in Grades A9-B5.

[2]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.

Table 9.3
IMF Staff Salary Structure
(In U.S. dollars, effective May 1, 2003)

Grade	Range Minimum	Range Maximum	Illustrative Position Titles
A1	23,100	34,680	Not applicable (activities at this level have been outsourced)
A2	25,890	38,810	Driver
A3	28,960	43,460	Staff Assistant (Clerical)
A4	32,450	48,710	Staff Assistant (Beginning Secretarial)
A5	36,390	54,570	Staff Assistant (Experienced Secretarial)
A6	40,660	61,080	Senior Secretarial Assistant, Other Assistants (e.g., Editorial, Computer Systems, Human Resources
A7	45,610	68,430	Research Assistant, Administrative Assistant
A8	51,080	76,660	Senior Administrative Assistants (e.g., Accounting, Human Resources)
A9	54,320	81,540	Librarian, Translator, Research Officer, Human Resources Officers
A10	62,490	93,750	Accountant, Research Officer, Administrative Officer
A11	71,770	107,690	Economist (Ph.D. entry level), Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A12	80,360	120,580	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A13	90,040	135,040	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A14	100,830	151,270	Deputy Division Chief, Senior Economist
A15/B1	113,940	170,960	Division Chief, Deputy Division Chief
B2	131,360	190,600	Division Chief, Advisor
B3	156,100	203,120	Assistant Department Director, Advisor
B4	181,910	227,390	Deputy Department Director, Senior Advisor
B5	214,210	257,150	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. The salaries 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.

2, 2001, would be leaving the IMF to return to his professorship at Harvard University in the fall of 2003, when his two-year leave of absence expired.

The Managing Director announced that Messrs. Aninat and Rogoff would be succeeded, respectively, by Agustín Carstens, Mexico's Deputy Secretary of Finance, and Raghuram Rajan of the University of Chicago Graduate School of Business.

Recruitment and Retention

Over the course of 2002, 216 people joined the IMF staff. The 110 economists, 54 hires in professional and managerial grades in specialized career streams, and 52 assistants represent a decrease of 15 from the 231 staff members hired externally in 2001 (and 108 from the total of 324 who joined the staff in 2001, if 93 conversions from contractual status are included.) Of the recruits in 2002, 55 were mid-career economists and 50 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 2002, 168 staff separated from the organization. The separation rate of staff in professional and managerial grades was 6.0 percent (115 staff) in 2002. This represents an increase from 5.5 percent (101 staff) in 2001 and 5.1 percent (88 staff) in 2000.

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 by 4.0 percent for FY2003, and the Board approved an increase of 4.0 percent for FY2004 (Table 9.3).

Management Remuneration

Reflecting the responsibilities of each management position and the relationship between the management and staff salary structures, the salary structure for management, as of July 1, 2002, is as follows:

Managing Director $336,080[2]
First Deputy Managing Director $290,780
Deputy Managing Directors $276,930

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, 2002, increases of 3.8 percent in the remuneration of Executive Directors and their Alternates. The remuneration of Executive Directors is $182,590.[3] The remuneration of Alternate Executive Directors is $157,940.[4]

Table 9.4
Distribution of Staff by Gender

Staff	1980 Number	1980 Percent	1990 Number	1990 Percent	2002[1] Number	2002[1] Percent
All Staff						
Total	1,444	100.0	1,774	100.0	2,681	100.0
Women	676	46.8	827	46.6	1,243	46.4
Men	768	53.2	947	53.4	1,438	53.6
Support Staff[2]						
Total	613	100.0	642	100.0	763	100.0
Women	492	80.3	540	84.1	645	84.5
Men	121	19.7	102	15.9	118	15.5
Professional Staff[3]						
Total	646	100.0	897	100.0	1,562	100.0
Women	173	26.8	274	30.5	544	34.8
Men	473	73.2	623	69.5	1,018	65.2
Economists						
Total	362	100.0	529	100.0	967	100.0
Women	42	11.6	70	13.2	222	23.0
Men	320	88.4	459	86.8	745	77.0
Specialized career streams						
Total	284	100.0	368	100.0	595	100.0
Women	131	46.1	204	55.4	322	54.1
Men	153	53.9	164	44.6	273	45.9
Managerial Staff[4]						
Total	185	100.0	235	100.0	356	100.0
Women	11	5.9	13	5.5	54	15.2
Men	174	94.1	222	94.5	302	84.8
Economists						
Total	99	100.0	184	100.0	287	100.0
Women	4	4.0	9	4.9	34	11.8
Men	95	96.0	175	95.1	253	88.2
Specialized career streams						
Total	86	100.0	51	100.0	69	100.0
Women	7	8.1	4	7.8	20	29.0
Men	79	91.9	47	92.2	49	71.0

[1]Includes only staff on duty.
[2]Staff in Grades A1–A8.
[3]Staff in Grades A9–A15.
[4]Staff in Grades B1–B5.

Diversity

The Executive Board continued to emphasize the importance of staff diversity in improving the IMF's effectiveness as an international institution. Notable progress was achieved in the recruitment and promotion of several underrepresented staff groups, although much more has to be done to reach a balanced regional representation. Women's share at the managerial level reached 15 percent and the share of developing country staff at the managerial level reached 31 percent. In both categories there is still room for improvement. 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 9.2, 9.4, and 9.5), as well as diversity management in the organization. In line with the IMF's diversity strategy, during calendar year 2002, the Human Resources Department (HRD) focused on integrating diversity into its human resource management policies and practices, including management standards and Mission Code of Conduct and management development programs, and introduced new policies and programs to accommodate the needs of diverse staff.

The Senior Advisor works closely with HRD and other departments to identify needs and opportunities for promoting diversity and carrying out departmental diversity plans, which have been prepared and monitored every year since 1996; in FY2002, departments

[2]In addition, a supplemental allowance of $60,140 is paid to cover expenses.

[3]In determining the salary adjustments for Executive Directors for 2002, 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.

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

Table 9.5
Distribution of Staff by Developing and Industrial Countries

Staff	1990 Number	1990 Percent	2002[1] Number	2002[1] Percent
All Staff				
Total	1,774	100.0	2,681	100.0
Developing countries	731	41.2	1,167	43.5
Industrial countries	1,043	58.8	1,514	56.5
Support Staff[2]				
Total	642	100.0	763	100.0
Developing countries	328	51.1	426	55.8
Industrial countries	314	48.9	337	44.2
Professional Staff[3]				
Total	897	100.0	1,562	100.0
Developing countries	343	38.2	631	40.4
Industrial countries	554	61.8	931	59.6
Economists				
Total	529	100.0	967	100.0
Developing countries	220	41.6	408	42.2
Industrial countries	309	58.4	559	57.8
Specialized career streams				
Total	368	100.0	595	100.0
Developing countries	123	33.4	223	37.5
Industrial countries	245	66.6	372	62.5
Managerial Staff[4]				
Total	235	100.0	356	100.0
Developing countries	60	25.5	110	30.9
Industrial countries	175	74.5	246	69.1
Economists				
Total	184	100.0	287	100.0
Developing countries	54	29.3	95	33.1
Industrial countries	130	70.7	192	66.9
Specialized career streams				
Total	51	100.0	69	100.0
Developing countries	6	11.8	15	21.7
Industrial countries	45	88.2	54	78.3

[1]Includes only staff on duty.
[2]Staff in Grades A1–A8.
[3]Staff in Grades A9–A15.
[4]Staff in Grades B1–B5.

integrated these action plans into comprehensive human resource plans, which will provide an even more business-relevant and systematic framework for the IMF's diversity efforts. Typically, diversity actions include initiatives in recruitment and career development, orientation and mentoring programs for newcomers, and measures to improve competency-based performance feedback and increase the transparency and user-friendliness of human resource policies, procedures, and statistics. Two important new measures during the year were a mentoring pilot program for mid-career newcomers and a relocation program for staff and families.

Input to the Senior Advisor on Diversity by departments indicated efforts to improve diversity awareness and skills, more systematic and transparent approaches, and attention to people management practices in general. Achieving satisfactory diversity of staff in an institution that emphasizes career employment is a continuing challenge that requires concerted effort. Progress is monitored and problems are reported in a transparent manner, including in the *Diversity Annual Report* on the IMF's website.

New Building

Construction is well under way on a second headquarters building adjacent to the existing IMF headquarters building. In September 2002, the Fund's rezoning order, approved by the District of Columbia's Zoning Commission, became final. In October 2002, the demolition of an existing building on the site was completed, and the construction of the new building began. The new building will enable the IMF to accommodate its entire staff within a single headquarters complex and reduce overall costs by eliminating the need to lease space. The project is scheduled to be completed by 2006.