5

Technical Assistance and Training

Designing and implementing economic policy require know-how and effective government institutions. Many developing countries need help to build up expertise in economic management and advice about what policies, reforms, and institutional arrangements are appropriate and have worked well elsewhere. The IMF provides such technical advice and training to officials in member countries. Poor countries receive this assistance free of charge.

Through staff missions sent from headquarters, the provision of specialists on a short-term basis, resident advisors, and training on the job or at the Fund's headquarters or its regional training institutes, the IMF offers assistance in the core areas of its expertise. These include macroeconomic policy formulation and management; monetary policy; central banking; financial systems; foreign exchange markets and policy; public finances and fiscal management; and macroeconomic, external, fiscal, and financial statistics.

Since the early 1990s, as the IMF's membership has expanded and a growing number of countries have made the transition to a market-oriented economy, the Fund's technical assistance has increased rapidly. More recently, the IMF's efforts to strengthen the global financial architecture so as to reduce the risk of crises and improve the management and resolution of those that do occur have generated new demands for technical assistance from countries seeking to adopt international standards and codes for financial, fiscal, and statistical management. The Fund's work on offshore financial centers, and the fight against money laundering and the financing of terrorism, have also been associated with new requests for technical assistance. In addition, the IMF has mounted significant efforts in recent years, in coordination with other bilateral and multilateral technical assistance providers, to give prompt policy advice and operational assistance to countries emerging from conflict. At the same time, there is a continuing demand from Heavily Indebted Poor Countries (HIPCs) for help with debt sustainability analyses and management of debt-reduction programs, and from low-income countries for help with the design and implementation of programs to enhance growth and reduce poverty.

The IMF is keen to make its technical assistance as effective as possible, particularly by integrating it more closely with its surveillance activities and its financial support for policy programs. To this end, it is reinforcing coordination and collaboration with other technical assistance providers, especially the World Bank (see Appendix IV); improving the way technical assistance is delivered, in particular by establishing regional technical assistance centers (Box 5.1); strengthening the monitoring and evaluation of

Box 5.1 Regional Delivery of Technical Assistance in Africa

As part of the IMF's Africa Capacity-Building Initiative—which aims to increase the volume, range, and coordination of technical assistance from various multilateral and bilateral providers—the IMF opened two Africa Regional Technical Assistance Centers (AFRITACs) in 2002–03. AFRITAC East, based in Dar es Salaam, Tanzania, serves Eritrea, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda. AFRITAC West, based in Bamako, Mali, serves Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo.

The AFRITACs aim to strengthen the capacity of African countries to design and implement their poverty reduction strategies, in particular by improving the coordination of technical assistance in the Poverty Reduction Strategy Paper (PRSP) process.

The IMF has made use of this regional approach in delivering technical assistance to its member countries since 1993, when it opened the Pacific Financial Technical Assistance Center its technical assistance program; and disseminating information on the program more widely.

In light of the growing demand and competing needs for technical assistance, the IMF must prioritize its technical assistance resources effectively. The Fund introduced a set of prioritization filters and guidelines in 2001 to enable its functional departments to align resources with recipient-country needs more systematically, consistent with the IMF's core areas of competence, main program areas, and key policy initiatives. (See Box 5.2.)

External Financing

The IMF finances its technical assistance mainly from its own resources, but external financing provides an important complement. External financing is provided in the form of 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 15 subaccounts under the umbrella Framework Administered Account in FY2004, including three multidonor subaccounts to support the Pacific Financial Technical Assistance Center (PFTAC), the Africa Regional Technical Assistance Centers (AFRITACs), and technical assistance to Iraq (see the "Other Administered Accounts" section of the Financial Statements for additional information). Box 5.3 describes the new subaccounts set up in the past financial year.

In FY2004, external financing accounted for 29 percent of total assistance delivered by the IMF. Japan remained the largest single donor, providing some 60 percent of all external finance for technical assistance. Other bilateral donors were Australia, Austria, Brazil, Canada, China, Denmark, Finland, France, Germany, India, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Russia, Singapore, Sweden, Switzerland, the United Kingdom, and the United States. Multilateral donors were the African Development Bank, the Arab Monetary Fund, the Asian Development Bank, the European Commission, the Inter-American Development Bank, the United Nations, the UNDP, and the World Bank.

Box 5.2 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.

(PFTAC) in Fiji. All of these regional centers are guided by steering committees with representatives from participating countries and supporting donor agencies, as well as observers from regional institutions involved in capacity building. Each country appoints a representative and an alternate to the committee. The committees hold semiannual meetings. Center coordinators, who are IMF staff members, have responsibility for the day-to-day management of the centers and their work programs.

At each center, a small number of resident advisors deliver technical assistance and training throughout the subregion; they are typically supported by short-term specialists. The benefits of this regional approach include flexibility to respond rapidly as needs emerge; the ability to make frequent follow-up visits, which keep up the momentum of reforms and solidify relationships; and continued access to high-quality technical expertise that might otherwise be difficult for resource-constrained countries to obtain. In addition, the format and role of the regional centers enable them to help shape and advance regional policy initiatives and strengthen cooperation.

Box 5.3 New Technical Assistance Subaccounts

The China Technical Assistance Subaccount was established in May 2003 as a special arrangement to co-finance the East AFRITAC. A contribution of $200,000 was received.

The Technical Assistance Subaccount for Iraq was established in July 2003 to enhance Iraq's capacity to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and activities that strengthen the legal and administrative framework in these core areas. The United Kingdom, Canada, Australia, Italy, and India have pledged a total contribution of $7.6 million. (For more about Fund relations with Iraq, see Section 1.)

The Canada Technical Assistance Subaccount was established in January 2004 to promote voluntary compliance among taxpayers, increase the efficiency of tax administration, and restore taxpayers' confidence in the fairness and integrity of tax administration in Indonesia. The Canadian International Development Agency (CIDA) has pledged a contribution of $2.3 million toward the Indonesia Tax Administration Reform project.

Table 5.1 Technical Assistance Program Areas, FY2002–04

(Field delivery in person-years)[1]

	FY2002	FY2003	FY2004
Main program areas			
Crisis prevention	32.0	34.9	34.8
Poverty reduction	69.3	60.8	57.0
Crisis resolution and management	28.9	26.3	25.2
Post-conflict/isolation	23.2	30.4	27.2
Regional	34.9	41.2	57.0
Total	**188.2**	**193.6**	**201.1**
Key policy initiatives and concerns			
Assistance on standards and codes, excluding FSAP	13.6	18.1	21.7
FSAP-related	3.4	6.0	9.9
HIPC-associated	21.4	16.8	11.5
Offshore financial centers and AML/CFT	5.1	10.4	8.6
Policy reform/capacity building	144.7	142.3	147.4
Other	–	–	1.9
Total	**188.2**	**193.6**	**201.1**

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. An effective person-year of technical assistance is 260 days.

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.

Technical Assistance Delivery in FY2004

One way the IMF measures its technical assistance is by tracking the time spent helping countries. In FY2004 the IMF provided the equivalent of 367 person-years of technical assistance. This was 3 percent higher than in FY2003 and over 100 person-years higher than a decade earlier (263 person-years in FY1994).

Reflecting new needs within program areas, technical assistance in FY2004 increased for policy reform and capacity building. Assistance for countries trying to meet international standards and codes and to promote financial sector improvements also rose. Technical assistance for the Heavily Indebted Poor Countries (HIPC) Initiative declined, reflecting the maturing of the program (see Table 5.1).

Of all the regions, sub-Saharan Africa continued to receive the largest, and an increasing, share of IMF technical assistance. Technical assistance also increased, and has remained high, in the Asia-Pacific region, in part because of the assistance provided to post-conflict countries such as Cambodia and Timor-Leste, and support for reforms in China, Indonesia, and Mongolia. Some of the technical assistance provided to central and eastern Europe supported those countries' preparations for EU membership on May 1, 2004. Technical assistance to other geographical regions, as well as for interregional projects, remained broadly the same as over the past three years (see Table 5.2 and Figure 5.1).

The IMF's Monetary and Financial Systems Department remained the Fund's largest technical assistance provider, delivering 122 person-years of assistance, reflecting the IMF's financial sector initiatives. The Fiscal Affairs Department, the IMF's second-largest technical assistance provider, increased its delivery to some 96 person-years. The Statistics and Legal Departments both stepped up

Figure 5.1 Technical Assistance by Region, FY2004

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

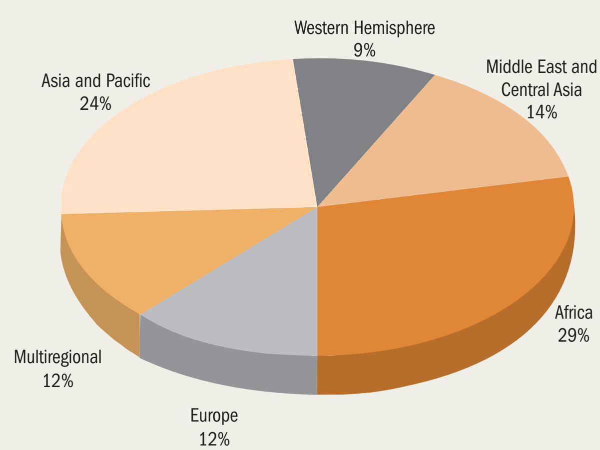


Table 5.2 Technical Assistance Sources and Delivery, FY2000–04

(In effective person-years)[1]

	FY2000	FY2001	FY2002	FY2003	FY2004
IMF technical assistance budget	**251.7**	**265.5**	**268.8**	**262.2**	**262.1**
Staff	158.5	171.8	172.2	174.1	186.1
Headquarters-based consultants	16.4	22.7	23.2	20.1	20.6
Field experts	76.9	71.0	73.4	68.0	55.4
External technical assistance resources	**85.5**	**77.7**	**77.8**	**93.5**	**105.3**
United Nations Development Program	8.7	8.4	9.6	9.6	8.1
Japan	68.0	59.5	56.2	61.9	61.6
Other cofinanciers	8.8	9.8	12.0	22.0	35.6
Total technical assistance resources	***337.2***	***343.3***	***346.6***	***355.7***	***367.4***
Technical assistance regional delivery[2]	**282.2**	**275.8**	**280.0**	**286.5**	**291.1**
Africa	69.8	68.2	71.9	72.1	83.8
Asia and Pacific	44.4	57.0	63.1	67.5	69.0
Europe I	24.1	30.2	30.3	27.7	–
Europe II	40.4	40.8	32.6	25.1	–
Europe	–	–	–	–	35.5
Middle East	27.5	27.8	22.4	26.5	–
Middle East and Central Asia	–	–	–	–	40.1
Western Hemisphere	28.2	23.7	28.0	32.6	26.6
Regional and interregional	47.9	28.0	31.7	35.1	36.0
Technical assistance nonregional delivery[3]	**55.1**	**67.5**	**66.6**	**69.2**	**76.4**
Total technical assistance delivery	***337.2***	***343.3***	***346.6***	***355.7***	***367.4***
Technical assistance delivery by Fund department					
Monetary and Financial Systems Department	112.2	101.2	115.5	120.0	122.0
Fiscal Affairs Department	101.4	111.9	97.5	94.3	95.6
Statistics Department	49.1	48.2	49.2	55.7	59.0
IMF Institute[4]	54.6	54.4	56.0	55.4	53.6
Legal Department	8.6	15.4	15.5	19.6	23.9
Other departments[5]	11.3	12.2	12.9	10.7	13.3
Total technical assistance delivery	***337.2***	***343.3***	***346.6***	***355.7***	***367.4***

Source: IMF, Office of Technical Assistance Management.

[1]An effective person-year of technical assistance is 260 days. New definition used since 2001; data adjusted retroactively.

[2]In FY2004 the former European II Department was dissolved, and its countries were absorbed by the new European Department and the Middle East and Central Asia Department.

[3]Indirect technical assistance, including technical assistance policy, management, evaluation, and other related activities.

[4]The decline in technical assistance delivered by the IMF Institute in FY2003–04, as measured in this table, reflects changes in financial arrangements related to the administration of IMF regional training institutes and not a decline in the delivery of training. As indicated in Table 5.5, training delivered by the IMF Institute rose over this period.

[5]Includes the Fund's Policy Development and Review Department, the Technology and General Services Department, and the Office of Technical Assistance Management.

technical assistance. The increase by the Legal Department was mainly a result of its involvement in activities to combat money laundering and the financing of terrorism (see Figure 5.2 and Table 5.3).

Evaluation of Technical Assistance

In April 2003, the IMF launched a formal evaluation program to gauge the effectiveness and impact of its technical assistance. The first three evaluations were provided to the Fund's Executive Board in March 2004.

The objectives of the evaluation program include (1) improving the accountability and transparency of Fund technical assistance; (2) increasing the frequency and coverage of technical assistance evaluations; (3) generating and disseminating lessons learned to make Fund technical assistance more effective; and (4) integrating technical assistance with the Fund's surveillance and program work. Evaluation findings are expected to inform responses to future technical assistance requirements and to make collaboration with other technical assistance providers and initiatives more effective. As the number of evaluations grows, generating lessons of wider relevance, the findings will also inform the Executive Board's periodic reviews of the Fund's technical assistance policy and practices.

The intention is to provide the Executive Board with three or four evaluations a year, internal as well as external, covering a mix of topics.

In selecting the initial set of topics, four areas of particular policy relevance were given prominence: (1) the link between technical assistance and the Fund's surveillance and policy work; (2) technical assistance delivered by regional centers such as the East and West AFRITACs; (3) the role of Fund technical assistance in the heavily indebted poor countries (HIPCs) and in low-income countries eligible for support from the Fund's Poverty Reduction and Growth Facility; and (4) technical assistance

Figure 5.2 Technical Assistance by Department, FY2004

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

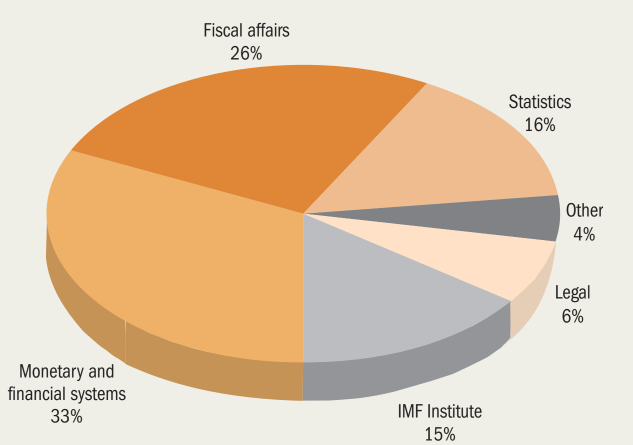


Table 5.3 Technical Assistance Delivery by Assignment, FY2004[1]

	Long-Term Assignments[2]			Short-Term Missions		
Topics	**Assignments** *(Number)*	**Delivery** *(Person-years)*	**Average duration** *(Days)*	**Assignments** *(Number)*	**Delivery** *(Person-years)*	**Average duration** *(Days)*
Fiscal	83	26	114	259	27	19
Monetary, exchange, and financial systems	55	38	246	435	34	17
Macroeconomic and financial statistics	26	12	163	209	16	22
Legal	4	2	145	158	8	16
Other	7	4	203	19	3	19
Total	**175**	**81**	**167**	**1,080**	**88**	**18**

[1]Technical assistance delivered out of headquarters, training activities, and missions related to the management of the technical assistance program, such as resource mobilization, monitoring, and evaluation, are not included.
[2]Long-term assignments have a minimum duration of six months. Because extensions, which can be shorter, are counted as separate assignments, the average duration can be shorter than six months.

activities designed to respond to new initiatives and calls for international assistance.

Two of the first three evaluations, initiated in FY2003 and completed in FY2004, were assessments of technical assistance delivered by the Fund's Fiscal Affairs Department in the area of public expenditure management in selected countries in sub-Saharan Africa. They were carried out by IMF staff and external consultants. The third, a mid-term review of the Caribbean Regional Technical Assistance Center (CARTAC), was carried out by an external team. (The report on the evaluations is available at *www.imf.org/external/np/ta/2004/eng/030104.htm*.) Ten additional evaluations are planned for FY2005–07 (see Table 5.4).

Table 5.4 Technical Assistance (TA) Evaluation Program—FY2005–07

Subject of Evaluation Report	Financial Year Due
Pacific Financial Technical Assistance Center (PFTAC)[1]	2005
TA related to strengthening the commercial court and implementing the bankruptcy law in Indonesia	
Africa Regional Technical Assistance Centers (AFRITACs)[1]	
TA on tax policy in countries facing a loss of revenue as a result of trade and tariff reform	2006
TA in anti-money-laundering and combating the financing of terrorism	
TA to the Democratic Republic of the Congo	
TA to post-conflict countries	2007
Revenue administration—TA to Middle Eastern countries	
Revenue administration—TA to Southeast Asia	
General Data Dissemination System (GDDS)—Regional TA projects	

[1]The reviews and evaluations of the regional TA centers are being carried out as part of a two-tier monitoring and evaluation process employed by the centers in which the regular reviews of the centers' performance are the responsibility of the centers' governing committees, while the less frequent but in-depth reviews and evaluations are usually undertaken by external consultants or parties on behalf of the steering committees.

The IMF's Independent Evaluation Office (IEO) is also conducting an assessment of the Fund's technical assistance activities during 2000–03. The IEO's report is expected to be completed during FY2005.

Board Review of Technical Assistance

In March 2004, the IMF Executive Board reviewed the Fund's technical assistance since the previous review, conducted in July 2002. The Board examined, in particular, the Fund's experience in low-income countries, as well as with using a regional approach to technical assistance and training. In addition, the Board considered the growing importance of external financing of technical assistance, the ongoing efforts to strengthen technical assistance information and resource management, proposals to broaden external dissemination of technical assistance reports, and technical assistance project monitoring and related resource use.

Directors generally considered that technical assistance had made considerable strides toward acquiring a strategic focus and enhancing its impact and effectiveness in the past two years. However, given the critical role of technical assistance across a range of policy areas—and the continued strong demand for it by IMF members—Directors emphasized that the main challenges continued to be to ensure that technical assistance was well focused and effective and that appropriate priorities were being set. A number of Directors were of the view that, given the significant excess demand for IMF technical assistance, consideration should also be given to allocating more resources for it. Directors underscored the essential contribution of IMF technical assistance for low-income countries and countries emerging from conflict situations, particularly in laying the institutional foundations for sustained poverty reduction.

Directors were encouraged by the Fund's progress in implementing the prioritization process, which was introduced in 2001. They looked forward to continuing strong efforts at further improving the prioritization and effectiveness of technical assistance, sharpening the focus on results, and systematically incorporating the lessons of technical assistance evaluations. They endorsed the steps being proposed to work toward these objectives.

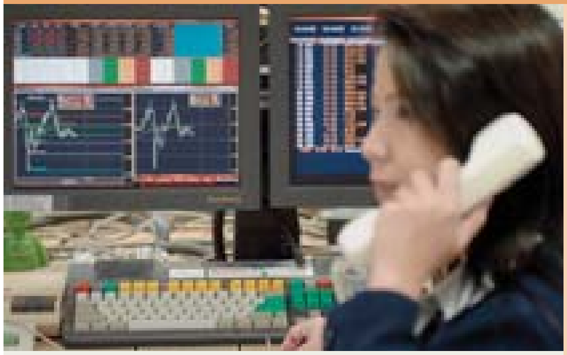
To stay well focused, the technical assistance program would need to remain flexible, as this would help ensure that the balance among programs and initiatives was in line with the evolving needs of the membership. While technical assistance requirements needed to be met in a strategic way, the IMF must continue to have the technical assistance instruments to respond to changing needs in a flexible and timely manner. Close coordination of IMF functional departments, which organize and provide the technical assistance, and IMF area departments would continue to be important in this regard.

Careful planning and monitoring, coordination with other providers in both the design and the implementation of technical assistance strategies, efficient leveraging of external financing, and broader dissemination of lessons learned, Directors stressed, would all be critical steps in the broad-based effort to enhance the effectiveness of technical assistance. Directors highlighted the importance of actively involving national authorities in the design of technical assistance projects to foster strong country ownership and commitment and help ensure the sustainability of technical assistance results. In this context, Directors expressed support for the proposal to set milestones for the continuation of technical assistance, in particular in the context of longer-term programs. They also suggested that further consideration be given to the development of exit strategies as a way of enhancing effectiveness and ownership of reform efforts.

Directors supported the actions under way to improve the management, monitoring, and results-based evaluation of technical assistance. They looked forward to a standardized evaluation methodology and the possible establishment of an independent technical assistance evaluation function within the IMF. Directors also endorsed the swift establishment of an IMF-wide computerized technical-assistance information-management system, which will provide the basis for more effective monitoring.

The major share of IMF technical assistance to low-income countries was provided in the context of IMF financial arrangements, Directors noted. To help ensure effectiveness and lasting results in these circumstances, Directors underscored that technical assistance strategies for these countries needed to be firmly aligned with country-owned poverty reduction strategies, taking into account absorptive and administrative capacity constraints, and the role of other technical assistance providers. It is also important that technical assistance strategies in low-income countries go beyond the objective of producing short-term results and remain firmly directed at supporting institution building over the longer term, while remaining flexible enough to respond swiftly to evolving needs. To ensure close coordination of IMF technical assistance with that of other technical assistance providers, Board members encouraged the staff to identify potential technical assistance partners

Indonesia



Boosting Tax Revenues Through Capacity Building

Indonesia has made significant progress over the past two years in strengthening its tax and customs administrations with assistance from the IMF. Initiatives to register more corporate and individual taxpayers, rationalize audit programs, and speed up the collection of tax arrears generated tax revenues amounting to 0.3 percent of GDP in 2002 and 0.5 percent of GDP in 2003. Other achievements included setting up a modern tax office dedicated to large taxpayers and a computerized system for filing tax returns and recording tax payments. In the area of customs administration, a comprehensive modernization strategy is being carried out, including streamlining customs clearance procedures, curbing smuggling, controlling undervaluation of imports, and improving the customs department's governance.

Reform of Indonesia's revenue administration has benefited from close cooperation between the IMF and donor agencies from Australia, Canada, and the United States. In view of the broad division of responsibilities among the agencies, the IMF's Fiscal Affairs Department (FAD) formulated the reform strategy—which was closely linked to Indonesia's IMF-supported program—and identified the technical assistance requirements, while the bilateral agencies financed and recruited technical experts. FAD developed terms of reference for the various technical assistance assignments, monitored the implementation of the reforms and the progress of the experts, and kept donor agencies informed of developments.

The IMF is also coordinating technical assistance from donors in the area of legal reform. The program, which is financed by the Netherlands, is supporting the efforts of the Indonesian authorities to establish an effective bankruptcy regime and a competent and objective judiciary to carry it out. While significant progress has been made, considerable work remains.

proactively and to promote clear understandings between technical assistance providers and the authorities of client countries on the broad road map for assistance and division of labor. They noted the useful role that IMF resident representatives can play in this area.

The growing evidence that regional arrangements for delivery of technical assistance and training appeared to be effective while fostering ownership and enhancing coordination with other technical assistance providers was welcomed by Directors. In view of the significant resource requirements of the IMF and external donors, they stressed the need for continuous, close monitoring and regular evaluation of the operations of the regional technical assistance centers, and looked forward to the forthcoming mid-term evaluation of the Africa Regional Technical Assistance Centers. Most Directors welcomed the expansion of the IMF Institute's regional programs, which they saw as cost effective and well adapted to the needs of the regions they serve.

Board members commended the generous external funding provided by donors to complement the IMF's own technical assistance resources. They saw several challenges going forward. These included securing an adequate volume of external resources over the long term; ensuring that staff resources, instruments, and adequate systems are available to manage external financing according to international best practice; and prioritizing externally financed technical assistance as rigorously as IMF-financed technical assistance.

To foster the wider sharing of lessons learned from technical assistance experience, Directors encouraged member countries to consent to the voluntary publication of technical assistance reports on the IMF's external website, with due consideration to ensuring the confidentiality of sensitive information.

In concluding their review, Directors stressed that efforts to strengthen technical assistance provision were an ongoing process that needed to be continually refined in light of progress with monitoring and evaluation of technical assistance. They looked forward to the forthcoming evaluation of IMF technical assistance by the IEO, which they hoped would provide additional guidance on enhancing technical assistance performance.

IMF Institute

The IMF Institute trains officials from member countries through courses and seminars focused on four core areas—macroeconomic policy management, and financial sector, fiscal, and external sector policies. Training is delivered by Institute staff and by staff from other IMF departments, occasionally assisted by outside academics and experts, at IMF headquarters in Washington, D.C., and at various overseas locations. Some preference in acceptance of applications for training is given to officials from developing and transition countries.

In FY2004, the IMF Institute, with the assistance of other IMF departments, offered 120 courses, attended by 3,846 participants (see Table 5.5). About two-thirds of this training in terms of the number of courses, and about one-half in terms of participant-weeks, were provided through the IMF's six regional institutes and programs, which are located in Austria, Brazil, China, Singapore, Tunisia, and the United Arab Emirates (see Table 5.6). Training in Washington, with longer courses, continued to play an important role, accounting for about one-third of participant-weeks. The remainder of

Table 5.5 IMF Institute Training Programs for Officials, FY2000–04

	FY2000	FY2001	FY2002	FY2003	FY2004
Headquarters training					
Courses and seminars	22	22	21	23	20
Participants	778	808	813	808	687
Participant-weeks	3,608	3,672	2,952	3,225	2,908
Regional training institutes and programs[1]					
Courses and seminars	52	64	73	73	82
Participants	1,493	1,998	2,292	2,301	2,608
Participant-weeks	3,021	3,691	4,273	3,967	4,455
Other overseas training					
Courses and seminars	24	18	16	17	18
Participants	775	534	439	496	551
Participant-weeks	1,367	980	828	899	949
Distance learning					
Courses[2]	1	1	3	3	2
Participants[3]	49	43	134	114	80
Participant-weeks[4]	98	86	311	276	200
Total courses and seminars	**98**	**104**	**110**	**113**	**120**
Total participants	**3,046**	**3,340**	**3,544**	**3,605**	**3,846**
Total participant-weeks	**8,094**	**8,429**	**8,364**	**8,367**	**8,512**

Source: IMF Institute.

[1]Includes Joint Vienna Institute (established in 1992); IMF-Singapore Regional Training Institute (1998); IMF-AMF (Arab Monetary Fund) Regional Training Program in the United Arab Emirates (1999); Joint Africa Institute (1999), currently located in Tunisia; Joint China-IMF Training Program (2000); and Joint Regional Training Center in Brazil for Latin America (2001). Data do not include courses delivered by other organizations at the IMF's regional training institutes and programs.

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

[3]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 5.6 IMF Institute Regional Training Programs

	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[2]	1999	Tunisia	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 Joint Vienna Institute, provide financial support.
[2]In 2003, the Joint Africa Institute shifted its operations temporarily from Côte d'Ivoire to Tunisia, owing to the security situation in Côte d'Ivoire.

the training was at overseas locations outside the IMF regional network, largely as part of collaboration between the IMF Institute and national or regional training programs but also in the form of distance learning.

The number of training courses and seminars rose by 6 percent in FY2004, and the number of participant-weeks rose by 2 percent. The smaller increase in the number of participant-weeks is a continuation of the trend of the past few years, reflecting a shift in the composition of IMF Institute courses toward shorter, more specialized courses delivered through the regional programs. The increase in training activity was achieved despite the effects in the early part of FY2004 of the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome (SARS) in some Asian countries. Reflecting the security situation in Côte d'Ivoire, the location of the Joint Africa Institute was shifted to Tunis in June 2003. Given the logistical challenges of such a move, IMF training at the Joint Africa Institute was slightly less than planned. It was nevertheless higher than in FY2003, and the Institute also offered more courses in Africa outside the Joint Africa Institute to compensate for the shortfall.

The IMF Institute has continued to pay close attention to curriculum development. In FY2004, the topics covered in new courses included debt management, financial market analysis, financial sector standards and stability, financial soundness indicators, and policies for monetary and financial stability. The Institute has also continued to provide, both in Washington and through the regional institutes and programs, short seminars on key issues. These seminars are tailored to the needs of high-level officials. In FY2004, topics covered in the seminars included the challenges of growth and globalization in the Middle East and North Africa, euro adoption in the EU accession countries, financial development and integration in Africa, and management of subnational finances and debt.

6

Governance, Cooperation, and Transparency

IMF Governance

The IMF is accountable to the governments of its member countries. At the apex of its organizational structure is its ***Board of Governors***, which consists of one governor and one alternate governor appointed by each of the IMF's 184 member countries. The governor is usually the minister of finance or the head of the central bank. All governors normally meet once each year at the September/October IMF-World Bank Annual Meetings. The Annual Meetings are preceded by regional caucuses, constituency meetings, and meetings of groups of members, among which the meetings of the Group of 24 developing countries and the Group of Seven major industrial countries are particularly important. These groups promote the agendas of different constituencies within the membership, as do individual member countries in the pursuit of their national foreign policy objectives.

There are two committees of governors that represent the whole membership. The ***International Monetary and Financial Committee*** (IMFC) of the Board of Governors is an advisory body composed of 24 IMF governors (or their alternates)—ministers or other officials of comparable rank—representing the same countries or constituencies (group of countries) as the 24 Directors who make up the IMF's Executive Board. The IMFC normally meets twice a year, in April/May and at the time of the Annual Meetings in September/October. Its responsibilities include providing ministerial guidance to the Executive Board and advising and reporting to the Board of Governors on issues regarding the management and adaptation of the international monetary and financial system, including sudden disturbances that might threaten the system. The ***Development Committee*** (the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) is a joint World Bank–IMF body also composed of 24 World Bank or IMF governors or their alternates—again, ministers or other officials of comparable rank. It usually meets the day after the IMFC. Both committees generally summarize their meetings in communiqués, which are published on the IMF's website.

The day-to-day work of the IMF is conducted at its Washington, D.C., headquarters by its ***Executive Board***; this work is guided by the IMFC and supported by the IMF's staff. The Board consists of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the IMF's Managing Director, who serves as its Chair. The Executive Board has a central role in policy formulation and in decision making in the IMF, and exercises all the powers for conducting the institution's business except those that the Articles of Agreement have reserved for the Board of Governors or the Managing Director.

The Board meets in "continuous session," that is, as often as the business at hand requires, usually for three full days each week. Total Board meeting time averages over 600 hours each year, which demonstrates the intense oversight exercised by the Board on the activities of the IMF. In calendar year 2003, the Board held 116 formal meetings (at which decisions are made), 32 informal seminars, and 8 other informal meetings, including committee meetings. In 2003, the Board spent 55 percent of its time on member country matters (mainly Article IV consultations and reviews and approvals of IMF financing arrangements); 19 percent of its time on global and regional surveillance and general 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 the remaining time on administrative and other matters.

Consensus Decision Making in a Cooperative Institution

Decision making by consensus has always been a central feature of the Executive Board's work. In the view of the IMF's founding members, the jurisdiction and far-reaching mandate of the new institution, with its diverse membership and their differing interests, called for a cooperative framework in which policy would be set by all and for all. The IMF's Rules and Regulations prescribe that "The Chairman shall ordinarily ascertain the sense of the meeting, in lieu of a formal vote." Thus, from the outset, the Executive Board, management, and staff developed working methods to establish common ground among the members in setting policy (see Box 6.1). Consensus decision making maintains the cooperative character of the IMF; safeguards the interests of the developing and emerging market countries that are, de facto, the users of IMF resources; and—ultimately—protects the rights and interests of the minority shareholders.

Box 6.1 Policy Consensus Building in Practice

A Board review of any policy item is, typically, initiated on the basis of a staff paper setting out the principal objectives of the policy, reviewing recent practice, and indicating where management and staff believe that changes may need to be considered. In the initial discussion, all Executive Directors intervene extensively, a number of them on the basis of written statements that they have circulated beforehand. The opening discussion may reveal wide areas of disagreement among Directors regarding the future direction and objectives of the policy. In such a case, the Managing Director, as Chair of the Executive Board, may call for a follow-up discussion for which management or staff may circulate a memorandum suggesting possible avenues for reconciling conflicting approaches.

When sufficient progress has been made in follow-up discussions to reduce sharp differences on broad policy objectives, the Managing Director asks the staff to draft detailed proposals for changes in policies and practices, building on the emerging areas of consensus. When considering specific policy proposals, the Chair is not satisfied with a narrow "sense of the meeting" (that is, a narrow majority if the matter were to be put to a vote) but urges the Board to consider matters until consensus is achieved or, at least, a very broad majority has emerged on the significant aspects of the policy under review. The "summing up" of the meeting by the Chair (which forms part of the Public Information Notice released after most Board discussions) indicates how views differed among Directors, as well as where they converged. In the end, the minutes of the meetings show not only the positions of each Director but also how the positions evolved and were adjusted in the light of the arguments of others and how a continuing give-and-take brought Board members to solutions that all, or almost all, found acceptable.

The subsection below on "Transparency of the IMF and its Members" illustrates how the consensus building process allows diverging views on an issue to be brought to common decisions.

The Board works as a college of officials who devote themselves full time to the tasks and purposes of the IMF. The "sense of the meeting," which the Chair must ascertain, is a position that is supported by Executive Directors having sufficient votes to carry the question if a vote were taken (see Appendix VII). "Consensus" denotes unanimity. While unanimity remains the objective, the Chair and the Board view the achievement of "a large majority" as sufficient for many decisions. Executive Directors are not subject to time constraints in expressing their positions, reservations, and questions, including often successive interventions in response to the questions and arguments of others. In this environment, the influence of individual Directors on IMF policies and decisions can—and frequently does—reach well beyond their voting power. Technical expertise is important; persuasiveness counts a great deal; diplomacy, timing, and experience all have an impact on the influence that an Executive Director can exert. It is a well-established practice that, on policy issues, all Directors intervene in successive "tours de table." The minutes of Board meetings, which are released to the public after 10 years, record all interventions by Executive Directors, management, and staff. The system thus ensures that consensus decision making is fully compatible with accountability.

Debate and reflection take place not only at formal Board meetings but also at informal gatherings of Executive Directors and in exchanges of views with the Managing Director and staff. IMF staff stand ready to help the Board's search for ways forward and to prepare additional material to ensure that all avenues are explored in the search for workable solutions. When members belonging to the same constituency hold differing views on a subject, the Executive Director can put the views on record but cannot split his or her vote. The resolution of such conflicts is for each Director to decide and any Director remains free to record an abstention or an objection to a particular decision. The system has a tempering impact and evidence shows that the decisions that finally result may well be the best that could be made in the circumstances. The stature of the Managing Director as Chair of the Board adds much weight to his interventions. Directors use informal contacts with the Managing Director to indicate where room for flexibility may be found. Directors also often turn to the Dean—the longest-serving Board member—or the IMF Secretary for guidance in the Board's work and for assistance in formulating possible ways forward in a difficult debate or in finding areas for compromise and resolution.

In line with the policies pursued since the mid-1990s to improve transparency, public information on Board activities is now being made available on a daily basis (see "Transparency of the IMF and its Members" below). Moreover, a growing number of members have agreed to the publication of country papers and the Chair's summing up of Article IV consultations in the Board (Public Information Notices, or PINs). However, while archival material generally becomes part of the public record after 5 years, there is a time lag of 10 years for minutes of Board meetings.

The Summing Up

In the Board's work on surveillance and general policy formulation, decision making by consensus is complemented by the practice of concluding Board discussions with a "Chair's Summing Up" or "Chair's Concluding Remarks." The summing-up procedure has become standard not only for Article IV country consultations but also to conclude Board consideration of policy and operational items.[1]

The summing up aims to include all the main strands of a Board discussion and to reflect differences between the Board's views and the positions of the IMF staff. The summing up also needs to indicate clearly the aspects of the debate on which Directors generally agreed as well as those on which views differed. Precise indications on whether, for example, "a majority" or "some Directors" held this or that view are important. Significant dissent by some Directors from the views of others or from the positions taken by the staff needs to be captured in order to round off a summing up. The parts of a summing up that reflect the sense of the meeting have the character and effect of a Board decision.

Safeguarding the Rights of Shareholders in the IMF

The cooperative nature of consensus decision making promotes the search for common ground through the active participation of all who share the responsibility for formulating and implementing institutional policy. It is an approach that promotes thorough reflection, leading to solutions that reconcile the differing interests of a large membership with a willingness to revisit and review decisions in light of changed circumstances. As a result, consensus decision making has been of considerable benefit to the institution and its members. It has been particularly valuable as a way of protecting the minority views held by IMF shareholders.

Members' Representation and Voice in the Institution

In its September 2003 Communiqué, the International Monetary and Financial Committee stressed that the IMF's effectiveness as a cooperative institution depends on all members having an appropriate voice and representation. The IMFC welcomed the measures being taken to improve the capacity of developing and transition countries to participate more effectively in IMF policy formulation and decision making. It also welcomed the Executive Board's progress report on quotas, representation, and voice, and called on the Fund to examine these issues further.

The measures referred to by the IMFC that had been taken by the IMF to enhance the capacity of Executive Directors from developing and emerging market countries to participate effectively in decision making in the Fund, within the current framework of voting power, included addressing staffing and other constraints faced by Directors with large multicountry constituencies. Representation of members in the IMF depends critically on the distribution of quotas, which was last discussed by the Executive Board in July 2003 (see Section 7). Further progress on voice and representation, including through any changes in quotas, would have required a broader consensus on the issue among the IMF's shareholders than then existed. After reviewing progress, and in light of the issue's complexity, in its April 2004 Communiqué the IMFC called on the Board to continue its work on IMF quotas, voice, and representation, and looked forward to a report on progress at its next meeting.

As part of the effort to seek a consensus among shareholders, at the April 2004 meeting of the Development Com-

[1]Board consideration of operational matters, financial issues, requests for use of IMF resources, and other matters is concluded, as needed, with formal decisions for which drafts are provided by the Fund's Legal Department. Extracts from selected policy decisions are published in the IMF's *Annual Report* (see Appendix III) and are reprinted in *Selected Decisions*.

mittee, the Chair circulated a proposal for a road map on procedures and next steps in this area to the Committee members. The Executive Board of the Fund and the Board of Executive Directors of the World Bank were scheduled to produce reports on all aspects of the voice and participation issue for consideration by the Development Committee at the October 2004 Annual Meetings.

Box 6.2 Key Elements of the IMF's Transparency Policy for Documents

Use of Fund resources documents

- Voluntary but presumed consent to publication of staff reports on the use of Fund resources.
- Publication of staff reports on the use of Fund resources for programs involving exceptional access will generally be required from July 1, 2004, for management to recommend approval or augmentation of a program or completion of a review. Programs in place as of July 1, 2004, would be grandfathered.
- Voluntary but presumed consent to publication of Letters of Intent and Memoranda of Economic and Financial Policies.
- Publication of Poverty Reduction Strategy Papers (PRSPs) is required for management to recommend endorsement by the Executive Board.

Surveillance documents

- Voluntary but presumed consent to publication of Article IV country reports, as well as of Public Information Notices (PINs), following Article IV consultations, from July 1, 2004.
- Voluntary publication of Reports on Observance of Standards and Codes (ROSCs), Financial System Stability Assessments (FSSAs), and Assessment of Financial Sector Supervision and Regulation (AFSSR) reports.

Other documents

- The Executive Board decides whether to publish reports on IMF policy issues.
- Weekly publication of the Executive Board's agenda on the IMF's website.

Correction and deletion policy

- Deletions for documents that pertain to members are limited to highly market-sensitive material, and corrections are limited to necessary factual changes.

Archives and Board Minutes

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

Transparency of the IMF and Its Members

The financial crises of the mid- and late 1990s underscored the importance of transparency as a key tool of crisis prevention in an environment of increased capital market integration. Greater openness on the part of IMF member countries encourages more widespread discussion and examination of members' policies by the public; it enhances the accountability of policymakers and the credibility of policies; and it facilitates efficient functioning of financial markets. Greater openness and clarity by the IMF about its own policies and the advice it provides to members contributes to a better understanding of the IMF's role and operations, and increases the Fund's accountability for its policy recommendations.

Formulated in January 2001, the IMF's transparency policy encourages the publication of country and IMF policy documents while fostering candor in policy discussions with members and preserving the Fund's role as a confidential advisor to members. In FY2004, the Fund continued to work to improve transparency, both of member countries' policies and of the IMF's assessments, within the current voluntary framework (see Box 6.2).

Transparency Policy Review

Background

In its January 2001 decision, the Executive Board adopted a policy on the voluntary publication of country documents and more systematic publication of policy papers and associated PINs. In its review of the transparency policy in June 2002 (see *Annual Report 2003*), the Board agreed to reconsider a possible move to a policy of presumed publication for Article IV country reports and reports on the use of Fund resources in FY2004.

At the time of the FY2004 Board discussions, staff analysis showed that, since the previous review in 2002,

- Publication of *Article IV country reports* had continued to rise: from 59 percent to 66 percent for stand-alone reports, and from 63 percent to 71 percent for combined Article IV-use of Fund resources reports. But publication rates remained uneven across regions.
- Nearly three-fourths of member countries agreed to publish at least one *country report*; over 90 percent had published a *country PIN*.
- Publication of stand-alone reports on *use of Fund resources* rose slightly, from 56 percent to 57 percent. Although three-fourths of stand-alone staff reports on use of Fund resources for normal access cases were published, the rate for *exceptional access cases* declined from 36 percent to 21 percent.
- The share of *reports with deletions* declined from 12 percent to 8 percent, reflecting, in part, a much lower rate of deletions from stand-alone use of Fund resources reports. Reports with corrections rose from 53 to 57 percent.

- Nearly all *country policy intention documents* (Letters of Intent/Memoranda of Economic and Financial Policies and Poverty Reduction Strategy Papers) had been published.

Changes in Transparency Policy

In June and September 2003, the Executive Board reviewed the implementation of the IMF's transparency policy and discussed next steps. Directors considered the key issue to be whether to move to a policy of presumed publication of country staff reports. Directors acknowledged that progress had been made in publication rates for most types of documents and in most regions under the policy of voluntary publication, reflecting the broad acceptance by the membership of the benefits of transparency. Most Directors noted, however, that progress in publication rates had been slow and unevenly distributed across regions, and that further impetus would be provided by moving to a policy of presumed publication.

Publication of country reports, these Directors noted, would help strengthen surveillance and increase the accountability of the Fund. Extending the presumed publication policy to all documents related to the use of Fund resources would help put into context members' requests for use of Fund resources as set forth in their published Letters of Intent/Memoranda on Economic and Financial Policies, and help explain the basis for management's recommendations and Board actions.

Many other Directors, however, pointed out that the information provided by the staff showed that the present voluntary approach had been effective and that it was not clear that a policy of presumed publication would achieve significant additional gains in publication rates. These Directors suggested that a move to presumed publication could undermine the candor of discussions and documents and the advisory role of the Fund.

All Directors emphasized that candor in the Fund's dialogue with members and in reports to the Board would remain essential for effective surveillance. They looked forward to the opportunity to discuss the potential conflict between transparency and candor in the Biennial Review of Surveillance scheduled for mid-2004, in light of the increased coverage expected in staff reports of such topics as vulnerability, debt sustainability, currency mismatches, and other balance sheet and capital account developments.

Most Board members noted the significant declines from already low levels of publication rates (from 36 percent to 21 percent) of staff reports for requests for use of Fund resources by members with exceptionally high access (access to the Fund's general resources in excess of certain limits). They emphasized the critical importance of transparency for strengthening confidence in these cases, since they typically involved capital account crises where a high premium was placed on increasing public understanding and market support of the program strategy. However, many other Directors were concerned that, given the high degree of market sensitivity in exceptional access cases, publication of these reports might conflict with the need for frank assessments of the risks involved.

The Board agreed on a set of measures to enhance transparency. It agreed to establish a policy of *voluntary but presumed publication* for all use of Fund resources and Post-Program Monitoring staff reports, to be effective as soon as the amendments to the Board's Transparency Policy Decision had been circulated to, and approved by, the Board (see Appendix III).

It was also agreed that, in exceptional access cases, the Managing Director would generally not recommend Board approval of a program or completion of a review unless the authorities consented to the publication of the associated staff report. This new publication policy for staff reports on use of Fund resources in exceptional access cases would apply to new arrangements approved on or after July 1, 2004, that contained exceptional access, and to existing arrangements that, by reason of augmentation after July 1, 2004, would result in exceptional access. Exceptional access arrangements (that is, those on the same terms and conditions and timing) in place as of July 1, 2004, would be grandfathered.

The Board also agreed to move to *voluntary but presumed publication* of all Article IV country reports, Article IV PINs, and related Article IV background papers (reports prepared, for example, as selected or statistical background material for Article IV consultations). If a member did not wish a PIN to be published, a brief press release would be issued promptly by the Fund to inform the public that the Board had concluded the consultation. These changes would be effective as of July 1, 2004; until that date, existing policies would continue to apply.

The possibility of moving to a policy of presumed publication for Reports on the Observance of Standards and Codes (ROSCs) and Financial System Stability Assessments (FSSAs) was considered. While a number of Directors stressed the value of better informing the public and markets through a policy of presumed publication of these documents, other Directors referred to the voluntary nature of standards and codes, and cautioned that presumed publication could affect participation in the Financial Sector Assessment Program (FSAP). Against this background, Directors decided to retain the existing policy of voluntary publication, while encouraging members to publish these reports.

Directors also discussed the modalities of voluntary but presumed publication for various documents. It was agreed that, under the policy of presumed publication, publication would be expected to occur within 30 calendar days of the Board's consideration of the relevant papers. In this context, Directors emphasized that presumption of publication required the explicit consent of the member, without which the document would not be published.

In addition, Directors reexamined the issue of allowing deletions of highly politically sensitive material and removal of material that would undermine the ability of the authorities to implement policies or that would render implementation more costly. While many Directors continued to favor the extension of the deletions policy to highly politically sensitive material, the majority of the Board did not support such a move, noting the practical difficulties of designing an objective test of "high political sensitivity" to implement such a policy and the risks of undermining the candor and comprehensiveness of Board documents. Directors urged the staff to continue to avoid language that would exacerbate domestic political challenges to implementing reforms.

Against this background, Directors generally agreed that the continued application of the current deletions policy was appropriate, with the scope of deletions covering highly market-sensitive information, including not only exchange and interest rate matters but also highly market-sensitive material in vulnerability assessments and the banking and fiscal areas. Directors also agreed that, when third-party analysis was presented in a staff report, the source should be indicated or a staff assessment of such analysis included in the paper.

In the context of increased publication, Directors expressed concern that pressures to delete significant elements of documents on grounds of high market sensitivity could intensify. They agreed that management could recommend to the Board that certain documents not be published if deletions of highly market-sensitive material would undermine the overall assessment of the Fund and its credibility.

Directors agreed to apply the broad principles for deletions and corrections now in place for country reports to policy papers prepared by the staff. Modifications to such policy papers before publication would be limited to factual corrections and deletions of highly market-sensitive material and country-specific references. If Directors considered that there was a danger of confusion when the summing up differed from the staff recommendations, the published version of the policy paper would indicate clearly in the text those staff positions that the Board had not endorsed.

On administrative papers, while a number of Directors favored a move to presumed publication, most agreed that publication should continue to be considered on a case-by-case basis. In all cases, staff recommendations regarding the publication of these papers would be explained to Directors when the papers were circulated to the Board.

On other publication-related matters, Directors supported publication of the Board agenda at the same time as it is made available to Executive Directors, with the indication that the agenda is tentative and subject to change (see Box 6.3).

The next Board review of the Fund's transparency policy is expected to take place by June 2005.

External Audit Mechanism

A key governance issue concerns the IMF's practices for financial oversight, particularly the audit of its financial statements. The IMF's external audit arrangements consist of an External Audit Committee and an external audit firm. The External Audit Committee has general oversight of the external audit function and internal control processes. It consists of three members selected by the Executive Board and appointed by the Managing Director. The members serve for three years, on a staggered basis, and are independent. Committee members are nationals of different member countries of the IMF at the time of their appointment and must possess the qualifications required to carry out the oversight of the annual audit. The External Audit Committee generally meets twice a year in Washington and is available for consultation throughout the year.

The 2004 External Audit Committee members are Mr. Hazem Hassan (Chairperson), Chairman of KPMG Hazem Hassan, Egypt; Mr. Philippe Adhémar, Conseiller Maître à la

Box 6.3 Publication of the IMF Executive Board's Weekly Agenda

In February 2004, the IMF began regular publication of a weekly calendar giving the agenda of its Executive Board. The measure was approved by the Board to enhance public access to information about the IMF's operations. The Executive Board is responsible for overseeing the day-to-day activities of the Fund on behalf of its 184 member countries.

The weekly calendar, which will be updated on a rolling basis, contains the tentative schedule of formal meetings and Board seminars. The Board's agenda is typically finalized the day before each meeting, so the calendar is necessarily tentative. Nevertheless, the calendar provides the latest available information on the Executive Board's scheduled activities.

To view the calendar, visit the IMF's website at *www.imf.org/external/np/sec/bc/eng/index.asp.*

Cour des Comptes, France; and Mr. Pentti Hakkarainen, Board Member, Bank of Finland.

The responsibility for performing the external audit and issuing the audit opinion rests with the external audit firm. The external audit firm is selected by the Executive Board in consultation with the External Audit Committee and is appointed by the Managing Director. At the conclusion of the annual audit, the External Audit Committee transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, to the Board of Governors. In the process, the External Audit Committee briefs the Executive Board on the results of the audit. The external audit firm is normally appointed for a period of five years. Pricewaterhouse-Coopers (Washington) is the IMF's present external auditor.

The IMF's financial statements for FY2004 form Appendix IX of this Annual Report.

7

Financial Operations and Policies

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 Financing Activities. 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. These loans are extended under a variety of policies and facilities designed to address specific balance of payments problems (see Table 3.1). Interest is charged on the loans at market-related rates, and repayment periods vary depending on the lending facility.

Concessional Financing Activities. The IMF provides loans at a very low interest rate to low-income member countries to support programs to strengthen their balance of payments positions and to foster durable growth, which will lead to higher living standards and a reduction in poverty. The IMF also makes grants available to eligible heavily indebted poor countries (HIPCs) to help them achieve sustainable external debt positions. The principal of concessional loans is funded by bilateral lenders that make resources available to the IMF at market-based rates, with the IMF acting as a trustee. The rate charged to borrowers and grants for HIPC debt relief are subsidized by separate contributions from some member countries and 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.

Among the key financial developments in FY2004 were the following:

- Outstanding IMF credit reached an all-time high in late 2003 but, by the end of FY2004, it had dropped below the level at the end of FY2003. This was because the demand for new lending was restrained in the second half of the financial year, owing partly to the improving world economic environment, and repayments exceeded disbursements.
- Credit outstanding continued to be concentrated in a small number of large, middle-income member countries, raising concerns about financial risks facing the IMF. The Executive Board reviewed the IMF's risk-management mechanisms and level of precautionary balances.
- The IMF continued its efforts to assist its poorest members in reducing their debt burdens, and initial steps were taken to ensure the continued ability of the IMF to provide adequate financial resources to low-income countries over the medium term.

Regular Financing Activities

The IMF's regular lending activity is conducted through the General Resources Account (GRA), in which the members' quota subscriptions are held (see Box 7.1). The bulk of IMF financing is provided under Stand-By Arrangements, which address members' short-term 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 depending on the type and duration of the loan and the amount of IMF credit outstanding. Repayment periods also vary by type of loan (see Table 3.1).

Box 7.1 The IMF's Financing Mechanism

The IMF's regular lending is financed from the capital (quotas) subscribed by member countries. Each country is assigned a quota—taking into account the country's economic size and external trade—which determines its maximum financial commitment to the IMF. A portion of the quota is provided in the form of reserve assets (foreign currencies acceptable to the IMF or SDRs) and the remainder in the country's own currency. The IMF extends financing by providing reserve assets to borrowers from the reserve asset subscriptions of members or by calling on countries that are considered financially strong to exchange their own currency subscriptions for reserve assets (see Box 7.4).

A loan is disbursed by the IMF when a borrower "purchases" the reserve assets from the IMF with its own currency. The loan is considered repaid when the borrower "repurchases" its currency from the IMF in exchange for reserve assets. The IMF levies a basic rate of interest (charge) on loans based on the SDR interest rate (see Box 7.8) 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 borrowers with reserve assets, these funds are transferred to the creditor countries in exchange for their currencies and the creditors' claims on the IMF are extinguished.

The "purchase/repurchase" approach to IMF lending affects the composition of the IMF'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 IMF. The amounts of the IMF's holdings of reserve assets and the currencies of financially strong countries determine the IMF's lending capacity (liquidity) (see Box 7.5).

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 *www.imf.org/external/fin.htm*.

Table 7.1 Regular Loans Approved in FY2004

Member	Type of Arrangement	Date of Approval	Amount Approved[1] *(In millions of SDRs)*
Argentina	3-year Stand-By	September 20, 2003	8,981.0
Brazil	Augmentation of Stand-By	December 12, 2003	4,554.0
Dominican Republic	2-year Stand-By	August 29, 2003	437.8
Guatemala	9-month Stand-By	June 19, 2003	84.0
Paraguay	15-month Stand-By	December 15, 2003	50.0
Ukraine	1-year Stand-By	March 29, 2004	411.6
			14,518.4

[1]For augmentations, only the amount of the increase is shown.

Lending

Improving global economic and financial conditions, combined with an accumulation of foreign exchange reserves by many emerging market economies, contributed to a decline in new IMF commitments, from SDR 29.4 billion in FY2003 to SDR 14.5 billion in FY2004.[1]

The IMF approved five new Stand-By Arrangements and one augmentation of an existing Stand-By Arrangement involving commitments totaling SDR 14.5 billion (Table 7.1). In addition, Burundi made a small purchase (SDR 9.6 million) under the IMF's policy of emergency assistance. No Extended Arrangements were approved and no commitments were made under the IMF's Compensatory Financing Facility (CFF) during the year.[2]

Two new large IMF commitments were made during the financial year. In September 2003, a three-year Stand-By Arrangement of SDR 9.0 billion was approved for Argentina in support of the government's economic program, succeeding the arrangement that expired in August 2003.[3] In December 2003, the IMF approved a 15-month extension and SDR 4.6 billion augmentation of Brazil's existing Stand-By Arrangement, which was originally approved in September 2002.[4] Together, these two cases accounted for more than 90 percent of the total new commitments in FY2004.

Thirteen Stand-By and Extended Arrangements were in effect as of end-FY2004, of which five 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. These include Brazil's arrangement, on which the authorities have not drawn since September 2003 in light of improvements in the country's balance of payments position. Drawings were made under 15 of the 23 Stand-By and Extended Arrangements in place during the year, reflecting use of precautionary Stand-By Arrangements as well as reviews that were not completed (see Appendix II, Table II.3). At the end of April 2004, undrawn balances under the arrangements still in effect amounted to SDR 19.8 billion.

[1]As of April 30, 2004, SDR 1 = US$1.45183.

[2]Another facility, the Contingent Credit Lines facility, was allowed to expire on its scheduled sunset date of November 30, 2003.

[3]At the same time, the IMF extended repurchase expectations arising in FY2004 and FY2005 in the amount of SDR 1.9 billion.

[4]At the same time, the IMF extended repurchase expectations arising in FY2005, FY2006, and FY2007 in the amount of SDR 8.1 billion.

IMF credit outstanding reached an all-time high of SDR 70 billion in September 2003, with disbursements in the first months of the financial year to Argentina, Brazil, Indonesia, Turkey, and Uruguay, but declined rapidly in the second half of FY2004. During FY2004, total repayments reached SDR 21.6 billion—including large repayments by Argentina, Brazil, Russia, and Turkey and advance repayments by Thailand (SDR 0.1 billion), which eliminated its outstanding IMF credit—exceeding the SDR 17.8 billion disbursed by the IMF in loans from the GRA. As a result, IMF credit outstanding amounted to SDR 62.2 billion at the end of the financial year, SDR 3.5 billion less than a year earlier.

Table 7.2 IMF Extension of Repurchase Expectations in FY2004

Member	Period Covered by Extension[1]	Date of Approval	Amount Extended (in millions of SDRs)
Argentina	September 03–September 04	September 20, 2003	1,940.7
Brazil	March 05–December 06	December 12, 2003	8,096.1
Papua New Guinea	July 03–June 04	June 4, 2003	26.0
Serbia and Montenegro	September 03-December 03	July 30, 2003	18.8
Turkey	May 04–November 05	August 1, 2003	8,273.4
Uruguay	June 04–December 04	February 20, 2004	226.6
			18,581.6

[1]The period in which extended repurchases were originally due.

During the year, five members—Bosnia and Herzegovina, Brazil, Pakistan, Romania, and Turkey—made repayments on the expectations schedule (see Box 7.2) in the amount of SDR 10.8 billion, of which SDR 8.4 billion constituted SRF repayments by Brazil.[5] Six members requested and were granted extensions of repurchase expectations (Table 7.2).[6] As of April 30, 2004, IMF outstanding credit amounting to SDR 30.6 billion was subject to time-based repurchase expectations under the policies adopted in November 2000.

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.[7] General reviews of IMF quotas, during which adjustments may be proposed in the overall size and distribution of quotas to reflect developments in the world economy, are conducted at five-year intervals. A member's quota can also be adjusted separately from a general review to take account of major developments. The IMF can borrow to supplement its quota resources and has in place two formal borrowing arrangements (Box 7.3).

Only a portion of the paid-in capital is readily available to finance new lending because of previous commitments made by the IMF and the IMF policy of lending only in the currencies of members that are financially strong. The IMF's base of usable resources increased during FY2004 because Thailand was considered sufficiently strong for its currency to be included in the IMF's financial transactions plan. (See Box 7.4.)

The IMF's liquidity position remained adequate to meet the needs of its members throughout the year. Following a strengthening in the first part of FY2004, the one-year forward commitment capacity of the IMF declined, primarily because of the IMF's large new commitments to Argentina and Brazil. (See Box 7.5.) It regained some ground toward the end of the financial year. (See Figure 7.1.) Overall, the one-year forward commitment capacity fell slightly in FY2004, to SDR 58 billion on April 30, 2004, compared with SDR 61 billion a year earlier.

Box 7.2 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) 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" (loan disbursements) 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.

The time-based repurchase expectations can be extended upon request by members.

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

[5]Repurchase expectations were introduced at the time of a review of IMF facilities completed in FY2001 (see Box 7.2).

[6]In FY2003, repurchase expectations falling due in FY2004 were extended for Argentina, Ecuador, Sri Lanka, and Uruguay.

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

Box 7.3 IMF Borrowing Arrangements

The IMF can borrow to supplement its quota-based resources. It maintains two standing borrowing arrangements with official lenders: the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The IMF can also borrow from private markets, although it has never done so. The GAB was established in 1962 to forestall or cope with an impairment of the international monetary system. The potential amount of credit available to the IMF under the GAB is SDR 17 billion to be provided by 11 industrial countries (or their central banks). An additional SDR 1.5 billion is available under an associated agreement with Saudi Arabia. The latest activation of the GAB took place in July 1998. The NAB, which took effect in November 1998, was established for a similar purpose. Under the NAB, 26 participants (member countries and official institutions) have agreed to provide up to SDR 34 billion to the IMF. The NAB has been activated once, in December 1998.

The NAB is the first and principal recourse in the event the IMF needs supplementary resources, but the GAB is also available if needed. The maximum amount of credit available to the IMF under the NAB and GAB combined is SDR 34 billion. In November 2002, both the NAB and the GAB were renewed for five years beginning November and December 2003, respectively. As of April 30, 2004, the IMF had no outstanding debt.

A more detailed description of the GAB and the NAB is available in *Annual Report 2003,* pages 70 and 71.

Concessional Financing Activities

The IMF provides concessional assistance—that is, financing with below-market interest rates and long maturities—under the Poverty Reduction and Growth Facility (PRGF) to help its poorest members boost economic growth and reduce poverty. It also makes grants to eligible members under the Initiative for Heavily Indebted Poor Countries (HIPC) to help alleviate excessive debt burdens. A total of 36 member countries received disbursements under the PRGF during FY2004, and, by end-April 2004, 27 countries had received financial commitments under the enhanced HIPC Initiative.

Table 7.3 PRGF Loans Approved in FY2004

Member	Type of Arrangement	Date of Approval	Amount Approved *(In millions of SDRs)*
Bangladesh	3-year PRGF	June 20, 2003	347.0
Burkina Faso	3-year PRGF	June 11, 2003	24.1
Burundi	3-year PRGF	January 23, 2004	69.3
Dominica	3-year PRGF	December 29, 2003	7.7
Ghana	3-year PRGF	May 9, 2003	184.5
Honduras	3-year PRGF	February 27, 2004	71.2
Kenya	3-year PRGF	November 21, 2003	175.0
Mauritania	3-year PRGF	July 18, 2003	6.4
Nepal	3-year PRGF	November 19, 2003	49.9
Tanzania	3-Year PRGF	August 16, 2003	19.6
			954.7
Madagascar	Augmentation	March 17, 2004	12.2

Box 7.4 Financial Transactions Plan

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

The amounts transferred and received by these members are managed to ensure that their creditor positions in the IMF are broadly equal in relation to their quotas, the key measure of members' 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 each quarter three months after the quarter has ended. As of April 30, 2004, the 45 members listed below were participating in financing IMF transactions.

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

Poverty Reduction and Growth Facility

In 1999, the IMF modified its objectives for concessional lending 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 its new objectives and procedures, the IMF replaced its Enhanced Structural Adjustment Facility (ESAF) with the PRGF to provide financing under arrangements developed in the context of PRSPs.

During FY2004, the Executive Board approved 10 new PRGF arrangements for Bangladesh, Burkina Faso, Burundi, Dominica, Ghana, Honduras, Kenya, Mauritania, Nepal, and Tanzania, with commitments totaling SDR 955 million (Table 7.3). In addition, the Board approved an augmentation of the existing arrangements for Madagascar in the amount of SDR 12.2 million to help the country recover from the economic impact of a cyclone. Total PRGF disbursements to these countries and other countries with existing arrangements amounted to SDR 865 million during FY2004. As of April 30, 2004, 36 member countries' reform programs were supported by PRGF arrangements, with total commitments of SDR 4.4 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 financed by contributions from a broad spectrum of the IMF's membership and the IMF itself.[8] The PRGF Trust borrows funds at market or below-market interest rates from central banks, governments, and government institutions and lends these funds to PRGF-eligible member countries at an annual interest rate of 0.5 percent. The PRGF Trust receives contributions that 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 2002–05 and also provides resources for HIPC Initiative assistance.

As of April 30, 2004, SDR 15.8 billion had been made available for PRGF operations; of this amount, SDR 13 billion had been committed and SDR 11 billion had been disbursed. It is estimated that the remaining uncommitted SDR 2.7 billion should cover the projected annual commitments of about SDR 1.3 billion under new PRGF arrangements through 2005, slightly above the average annual historical commitments. During FY2004, the IMF's Executive Board held discussions on the IMF's future role in low-income member countries and explored various financing options to continue the IMF's concessional lending after 2005. Most Executive Directors supported an option that would allow a self-sustained PRGF to begin in 2006, supplementing its lending capacity with new bilateral loans (see Box 7.6).

Box 7.5 Forward Commitment Capacity—A Measure of Lending Capacity

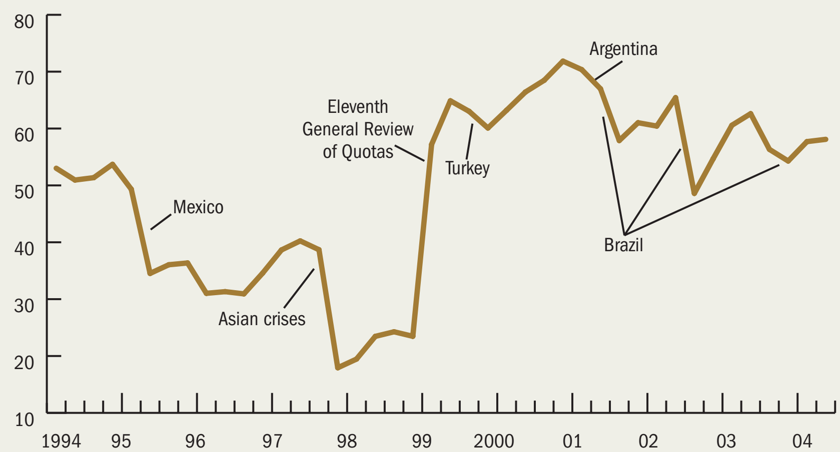
The main measure of the IMF's liquidity is its forward commitment capacity—a measure of its capacity to make new loans. The one-year forward commitment capacity, which indicates the amount of quota-based resources available for new lending over the following 12 months, has replaced the traditional liquidity ratio as the primary measure of the IMF's liquidity.

The one-year forward commitment capacity 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 SDRs and of the currencies of financially strong members included in the financial transactions plan. 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 forward commitment capacity is published weekly (*Financial Activities: Week-at-a-Glance*) and monthly (*Financial Resources and Liquidity*) on the IMF's website at *ww.imf.org/external/fin.htm*.

Figure 7.1 One-Year Forward Commitment Capacity, 1994–April 2004

(In billions of SDRs)



Source: IMF Finance Department.
Note: The IMF started publishing data for FCC in December 2002. For earlier periods, the chart shows estimates of the FCC. The FCC increases when quota payments 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.

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, 2004, 27 HIPC-eligible members had reached their decision points under the enhanced Initiative and one (Côte d'Ivoire) under the original Initiative only. Of these coun-

[8]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 *www.imf.org/external/pubs/ft/pam/pam45/contents.htm*.

tries, 13 had reached their completion points under the enhanced Initiative (see also Section 4).

The IMF provides HIPC Initiative assistance in the form of grants that are used to service part of member countries' debt to the institution. As of April 30, 2004, the IMF had committed SDR 1.8 billion in grants to the following countries: Benin, Bolivia, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, the Democratic Republic of Congo, 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. Five members (Ethiopia, Guyana, Nicaragua, Niger, and Senegal) reached their completion points under the enhanced HIPC Initiative during FY2004. As of April 30, 2004, total disbursements of HIPC Initiative assistance by the IMF amounted to SDR 1.2 billion (Table 7.4).

During FY2004, the IMF also approved additional HIPC assistance ("topping up") to Ethiopia and Niger at their completion points on account of exogenous factors deemed to have fundamentally changed these members' economic circumstances and adversely affected their debt sustainability. With topping-up assistance for Burkina Faso (approved in FY2002) included, total additional HIPC assistance for the three members amounted to SDR 38.8 million, to be disbursed once satisfactory financing assurances from other creditors are in place.

Under the enhanced HIPC Initiative, a portion of the assistance committed at the decision point can be disbursed before the country reaches its completion point. Such assistance from the IMF may amount to up to 20 percent annually, with a cumulative maximum of 60 percent of the total committed amount of HIPC assistance. In exceptional circumstances, the annual and maximum amounts of assistance can be raised to 25 percent and 75 percent, respectively. During FY2004, SDR 63.8 million of interim assistance was disbursed to 13 countries.

Table 7.4 Status of Commitments of IMF HIPC Assistance

(In millions of SDRs; as of April 30, 2004)

Member	Decision Point	Completion Point	Amount Committed	Amount Disbursed[1]
Under the original HIPC Initiative				
Bolivia	Sep. 1997	Sep. 1998	21.2	21.2
Burkina Faso	Sep. 1997	Jul. 2000	16.3	16.3
Côte d'Ivoire	Mar. 1998	–	16.7[2]	–
Guyana	Dec. 1997	May 1999	25.6	25.6
Mali	Sep. 1998	Sep. 2000	10.8	10.8
Mozambique	Apr. 1998	Jun. 1999	93.2	93.2
Uganda	Apr. 1997	Apr. 1998	51.5	51.5
Total Original HIPC			**235.3**	**218.6**
Under the enhanced HIPC Initiative				
Benin	Jul. 2000	Mar. 2003	18.4	20.1
Bolivia	Feb. 2000	Jun. 2001	41.1	44.2
Burkina Faso	Jul. 2000	Apr. 2002	16.7[3]	18.1
Cameroon	Oct. 2000	Floating	28.5	5.5
Chad	May 2001	Floating	14.3	7.2
Congo, Dem. Rep. of	Jul. 2003	Floating	228.3[4]	1.1
Ethiopia	Nov. 2001	Apr. 2004	26.9[5]	26.9
Gambia, The	Dec. 2000	Floating	1.8	0.1
Ghana	Feb. 2002	Floating	90.1	25.1
Guinea	Dec. 2000	Floating	24.2	5.2
Guinea-Bissau	Dec. 2000	Floating	9.2	0.5
Guyana	Nov. 2000	Dec. 2003	31.1	34.0
Honduras	Jun. 2000	Floating	22.7	8.8
Madagascar	Dec. 2000	Floating	16.6	5.6
Malawi	Dec. 2000	Floating	23.1	6.9
Mali	Sep. 2000	Mar. 2003	34.7	38.5
Mauritania	Feb. 2000	Jun. 2002	34.8	38.4
Mozambique	Apr. 2000	Sep. 2001	13.7	14.8
Nicaragua	Dec. 2000	Jan. 2004	63.5	71.2
Niger	Dec. 2000	Apr. 2004	21.6[6]	21.6
Rwanda	Dec. 2000	Floating	33.8	10.0
São Tomé and Príncipe	Dec. 2000	Floating	–	–
Senegal	Jun. 2000	Apr. 2004	33.8	33.8
Sierra Leone	Mar. 2002	Floating	98.5	62.0
Tanzania	Apr. 2000	Nov. 2001	89.0	96.4
Uganda	Feb. 2000	May 2000	68.1	70.2
Zambia	Dec. 2000	Floating	468.8	351.6
Total enhanced HIPC			**1,553.3**	**1,017.8**
Grand total			**1,788.6**	**1,236.4**

[1]Includes interest on amounts committed under the Enhanced HIPC Initiative.
[2]Equivalent to the committed amount of US$22.5 million at decision point exchange rates (March 17, 1998).
[3]Excludes commitment of additional enhanced HIPC assistance of SDR 10.93 million subject to receipt of satisfactory financing assurances from other creditors.
[4]Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a PRGF loan following the DRC's clearance of arrears to the IMF on June 12, 2002.
[5]Excludes commitment of additional enhanced HIPC assistance of SDR 18.19 million subject to receipt of satisfactory financing assurances from other creditors.
[6]Excludes commitment of additional enhanced HIPC assistance of SDR 9.664 million subject to receipt of satisfactory financing assurances from other creditors.

Financing of PRGF Subsidies and the HIPC Initiative

The financing of the subsidy requirements of the PRGF and the IMF's participation in the enhanced HIPC Initiative is administered through the PRGF Trust and the PRGF-HIPC Trust. The total cost is estimated at SDR 7.1 billion on a cash basis through 2019: PRGF subsidies are estimated at SDR 4.9 billion, and the IMF's cost of HIPC assistance is estimated at SDR 2.2 billion. These costs are expected to be fully met by contributions from member countries and from the IMF itself.

Bilateral pledges for the PRGF Trust and the PRGF-HIPC Trust from member countries have come from a cross section of the IMF's membership (94 countries have pledged support), demonstrating broad support for the PRGF and the HIPC Initiative. Bilateral contributions are estimated at SDR 3.7 billion on a cash basis through 2019.

As of the end of April 2004, all pledged bilateral contributions to the PRGF Trust, as well as 98 percent of total contributions to the PRGF-HIPC Trust, had been made available. Pledged contributions by 10 countries, amounting to about SDR 32 million, remain pending.

The IMF's own contributions amount to SDR 2.6 billion, of which SDR 2.2 billion is for the PRGF-HIPC Trust. The bulk of the contributions comes from the investment income on the net proceeds of SDR 2.2 billion generated from off-market gold transactions in 1999–2000 (see *Annual Report 2000*, page 71). The investment income on the gold proceeds held in the Special Disbursement Account (SDA) may be used up to a maximum limit of SDR 1.76 billion to meet the IMF's share of HIPC Initiative assistance.

The IMF's other contributions include a one-time transfer of SDR 0.4 billion from the SDA to the PRGF Trust in 1994 and forgone reimbursement to the GRA from the PRGF Reserve Account for the administrative expenses related to PRGF operations during financial years 1998–2004, with the equivalent amount being 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 transferred to the PRGF-HIPC Trust. Investment income on the balances in the two trusts is also applied toward financing PRGF loan subsidies and HIPC Initiative assistance.

Box 7.6 Financing PRGF Operations over the Medium Term

In March 2004, the IMF's Executive Board concluded its discussions of the staff paper "The Fund's Support of Low-Income Member Countries: Considerations on Instruments and Financing."

The paper provided a preliminary assessment of the potential magnitude of the financial resources required to support the IMF's continued involvement in low-income member countries. The staff's analysis indicated that (1) for 2004–05, the remaining period of the interim PRGF, available PRGF resources are likely to be sufficient to cover projected requirements; (2) for 2006–10, the focus of the paper, the projected financing needs would require a PRGF lending capacity of SDR 0.8–1.2 billion (about $1.2–1.8 billion) a year, which is in line with lending levels of the recent past; and (3) beyond 2010, financing requirements for PRGF operations may decline, but it would remain important for the IMF to maintain the financing capacity to address low-income members' balance of payments needs.

The paper considered the following options for continuing the IMF's concessional financing over the medium term:

- Three options—the self-sustained PRGF, sunsetting of the PRGF (allowing it to expire), and grants—that rely solely on the resources accumulating in the Reserve Account of the PRGF Trust were considered. These alternatives would not provide sufficient financing to meet the projected annual requirements of SDR 0.8–1.2 billion in 2006–10.
- Options that involve using the Reserve Account resources to subsidize the rate of charge on General Resources Account credit under arrangements similar to those financed by the Extended Fund Facility could accommodate the projected level of financing requirements but would represent a break with the current funding structure of the IMF's concessional operations through trust arrangements.
- An option that allows a self-sustained PRGF to begin operations in 2006 while supplementing its lending capacity with new bilateral loan resources would provide sufficient flexibility to meet the projected financing requirements in 2006–10. This option would also provide for the continuation of self-sustained PRGF operations at a significant level beyond 2010.

Most Directors agreed that a financing capacity on the order of SDR 0.8–1.2 billion annually would provide a reasonable basis for PRGF lending operations during 2006–10. Nearly all Directors agreed that the three financing options that would rely solely on the resources in the Reserve Account of the PRGF Trust would be insufficient to meet the projected financing needs. Most instead supported the option that would allow a self-sustained PRGF to begin operations in 2006 while supplementing its lending capacity with new bilateral loans.

Investment of PRGF, PRGF-HIPC, and SDA Resources

The IMF invests assets supporting the PRGF subsidies and the HIPC Initiative in a diversified portfolio of fixed-income securities issued by governments and international financial institutions. As of April 30, 2004, the value of these assets totaled SDR 9.7 billion.

In March 2000, the IMF's Executive Board endorsed investment objectives and risk-tolerance parameters designed to supplement returns over time while maintaining prudent limits on risk.[9] Under this revised investment strategy, about half the assets were invested in bond portfolios, for which a duration benchmark of 1–3 years was established. The remaining assets were invested in short-term deposits to serve as a liquidity tranche and to conform with the administrative arrangements agreed with certain contributors. Currency risk is minimized by limiting purchases to securities denominated in the four currencies of the SDR basket (euros, Japanese yen, pound sterling, and U.S. dollars), with regular rebalancing of the basket weights to reflect currency movements. The World Bank and two private external managers are currently charged with investing the bond portfolio assets, consistent with the investment mandate

[9]Prior to this shift in investment strategy, these assets had been invested in short-term SDR-denominated deposits with the Bank for International Settlements.

and benchmark indices, while the remaining assets are held in SDR-denominated deposits and medium-term instruments with the Bank for International Settlements (BIS).

A tactical decision to shorten the bond portfolio duration was made in early 2002, in the face of historically low yields in the markets of the SDR basket currencies. For the year ended April 30, 2004, the annual return on the portfolio was 1.7 percent, down from 2.4 percent a year earlier. In the four years that the investment strategy has been in place, the annual portfolio return has averaged 3.7 percent.

Post-Conflict Emergency Assistance

The IMF provides emergency assistance to post-conflict countries, in the form of loans subject to the IMF's basic rate of charge. An administered account was established on May 4, 2001, for contributions by bilateral donors that would enable the IMF to provide such assistance at a subsidized rate of charge of 0.5 percent a year for countries eligible for PRGF assistance. During FY2004, one country, Burundi, received SDR 9.6 million in emergency assistance. As of April 30, 2004, total pledged grant contributions from seven countries amounted to SDR 11.2 million, of which SDR 9.6 million had been received (Table 7.5). Thus far, disbursements have totaled SDR 1.9 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). Of these, only two countries—the Republic of Congo and Guinea-Bissau—still have outstanding balances on post-conflict emergency assistance.

In March 2004, the IMF's Executive Board broadly endorsed a proposal to subsidize the rate of charge for emergency assistance offered to PRGF-eligible countries hit by natural disasters, as is currently done for post-conflict PRGF-eligible countries, provided that resources are available. This proposal is expected to be finalized during FY2005.

Table 7.5 Contributions to Subsidize Post-Conflict Emergency Assistance

(In millions of SDRs, as of April 30, 2004)

Contributor	Contribution Pledged	Contribution Received	Subsidy Disbursed
Belgium	0.6	0.6	0.3
Canada	1.6	1.0	–
Netherlands	1.5	1.5	–
Norway	3.0	2.0	–
Sweden	0.8	0.8	0.8
Switzerland	0.8	0.8	–
United Kingdom	2.9	2.9	0.8
Total	**11.2**	**9.6**	**1.9**

Note: Dashes denote zero.

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, pay for administrative expenses, and build up precautionary balances. The IMF's reliance on quota 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.

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 (see the subsection on SDR developments below) to achieve an agreed net income target for the year. This rate is set to cover the cost of funds and administrative expenses as well as add to the IMF's reserves. The specific proportion is based on income and expense projections for the year and can be adjusted at midyear if actual net income to that point indicates that income for the year as a whole is likely to deviate significantly from the projections. At the end of the financial year, any income in excess of the target is refunded to the members that paid charges during the year; shortfalls are made up in the following year, in accordance with Board decisions currently in effect.

The IMF imposes surcharges based on the level of credit outstanding on loans extended after November 28, 2000, to discourage unduly large use of credit in the credit tranches and under Extended Arrangements. The IMF also imposes surcharges on shorter-term loans under the Supplemental Reserve Facility. These surcharges vary according to the length of time credit is outstanding. Income derived from surcharges is placed in the IMF's reserves, and the IMF does not take it into account in determining the net 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 on Stand-By Arrangements and Extended Fund Facility credits, payable at the beginning of each 12-month period, is charged on the amounts that may be drawn during that period, including amounts available under the SRF. 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 payments of overdue principal and on 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 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 that rate (the minimum).

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 FY2004, 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 8 basis points and a reduction in the rate of remuneration of 9 basis points. The adjusted rates of charge and remuneration averaged 2.17 percent and 1.49 percent, respectively, for the financial year.

In April 2003, the basic rate of charge for FY2004 was set at 132.0 percent of the SDR interest rate to allow the IMF to achieve the agreed net income target of SDR 108 million (excluding income from surcharges). In the event, net income amounted to SDR 73 million, which fell short of the target by SDR 35 million, owing mainly to the decline in the SDR interest rate and lower-than-expected use of credit during the year, which were partly offset by lower administrative expenditures in SDR terms. In accordance with the decisions made by the Board at the beginning of FY2004, this shortfall is to be recovered by a corresponding increase in the net income target for FY2005, which is set at SDR 191 million. Income derived from SRF and level-based surcharges amounted to SDR 848 million in FY2004. Adjusted for expenses associated with administering the PRGF Trust (SDR 58 million)[10] and the cost of pension and other post-retirement provisions (SDR 39 million), total net income for the year amounted to SDR 824 million. This amount was added to the IMF's reserves, of which SDR 790 million (equivalent to the surcharge income *minus* the cost of administering the PRGF Trust) went to the General Reserve and the remainder to the Special Reserve.

In April 2004, the Executive Board set the basic rate of charge for FY2005 at 154 percent of the SDR interest rate. The Executive Board has also decided to conduct a comprehensive review of the IMF's finances and financing mechanism before the end of 2004.

Financial Risk Management and Precautionary Balances

During FY2004, in view of continued high concentration of credit and adverse developments in a large borrower's economy, the Executive Board considered issues related to both the way the IMF manages financial risk and the level of the Fund's precautionary balances. The IMF mitigates financial risk by rigorously implementing the policies governing the use of its resources and carefully managing its liquidity, while accumulating adequate precautionary balances.[11]

Financial Risk Management

The principal financial risks faced by the IMF stem from large arrangements with middle-income countries. As of end-April 2004, three countries (Argentina, Brazil, and Turkey) accounted for some 71 percent of all General Reserve Account credit outstanding, and these three plus Indonesia and the Russian Federation accounted for 86 percent. The IMF's Articles of Agreement charge the IMF with assisting a cooperating member—including in very difficult circumstances. As a result, the size of the IMF's loan portfolio can change dramatically in a short time, as can assessments of the riskiness of the IMF's loan portfolio. Sound risk management requires the IMF to be prepared for the possibility of payments disruptions, which could arise from the increase in, and concentration of, its outstanding credit. However, in view of the cooperative nature of the Fund and its role in promoting global stability as a public good, diversification of lending is not, and cannot be, an objective of the Fund.

While the specific features of the IMF's institutional framework and financing role suggest that high credit concentration is inevitable in an uncertain world, such concentration does not embody the same degree of risk for the IMF as for other financial institutions. Important for mitigating financial risk is the IMF's preferred creditor status—that is, members giving priority to repayment of their obligations to the IMF over those to other creditors—which is fundamental to the IMF's role in the international financial system and to the IMF's financing mechanism. Its preferred creditor status has allowed the IMF to take the necessary risk to provide financial assistance to members

[10]As initially agreed in 1999, the IMF is not reimbursed for the expenses of administering the PRGF Trust; instead, an equivalent amount is transferred from the PRGF Trust, through the Special Disbursement Account, to the PRGF-HIPC Trust.

[11]For more details, see the IMF's website at *www.imf.org/external/np/sec/pn/2004/pn0416.htm*.

in exceptionally difficult balance of payments situations, in support of their efforts to implement strong adjustment policies without resorting to measures destructive of national and international prosperity.

On a different level, the IMF's policies on access to, and use of, IMF resources are, along with effective crisis prevention and conditionality in support of strong country-owned programs, the most important elements of the IMF's risk-management framework. An IMF member's commitment to adopt sound economic policies, the IMF's conditionality, and the safeguards in place (including an assessment of the member's ability to repay the IMF) reduce the risk to the IMF of lending and of credit concentration.

The profound changes in the IMF's lending policies in recent years in response to the changing global environment and the growing financial interdependence of members led to the adoption of the framework for exceptional access in 2003 as a key pillar of the IMF's enhanced risk-management framework. Firm application of the criteria governing exceptional access to IMF resources and rigorous assessments of the risks to the IMF arising from high access and of the member's capacity to repay are crucial for effective risk management. In addition, it is the responsibility of IMF members benefiting from financial assistance to pay the IMF back as soon as temporary balance of payments problems are resolved. Incentives to do so include the IMF's surcharges and the presumption that exceptional access will be on SRF terms.

Precautionary 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 a Special Contingent Account (SCA-1, see previous subsection). 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 balances have been financed through the retention of income and the burden-sharing mechanism (see previous subsection). The net income and the income from surcharges to the Special and General Reserves are added to reserves. Under the Articles of Agreement, the resources in the General Reserve may be distributed by the IMF to members on the basis of their quota shares. The IMF may use the Special Reserve for any purpose for which it may use the General Reserve except distribution. Total reserves increased to SDR 5.1 billion as of April 30, 2004, from SDR 4.3 billion a year earlier. The balance in the SCA-1 amounted to SDR 1.5 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 of the Executive Board.

In February 2004, the Executive Board reconfirmed as broadly appropriate the decision taken in 2002 for a target level of precautionary financial balances of some SDR 10 billion. It was agreed that the adequacy of the level of precautionary balances and the pace of accumulation, as well as the application of the burden-sharing mechanism, will need to be kept under close review.

Box 7.7 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 adjust the quotas of individual members to reflect changes in their relative positions in the world economy. The Board completed the Twelfth General Review of Quotas on January 30, 2003, without proposing an increase (or adjustments), which leaves the maximum size of the quotas unchanged at SDR 213.7 billion.

During the Thirteenth General Review, which began with the completion of the Twelfth Review, the IMF's Executive Board will monitor closely and assess the adequacy of IMF resources, consider measures to achieve a distribution of quotas that reflects developments in the world economy, and explore ways to strengthen the governance of the IMF. The International Monetary and Financial Committee (IMFC) in April 2004 called on the Executive Board to continue its work on IMF quotas, voice, and representation, and report on progress at the IMFC's next meeting in the fall of 2004.

Quota Developments

Since the IMF's liquidity position was adequate during the year and the Thirteenth General Review of Quotas (see Box 7.7) is at an early stage, there were only a few noteworthy quota developments in FY2004.

In July 2003, Executive Directors discussed further a number of issues related to the distribution of quotas of IMF members.[12] The discussion confirmed broad support for a quota formula that is simpler and more transparent than the traditional formula. Directors noted that the preliminary results of calculating quotas using variables broadly endorsed for inclusion in a new quota formula would not lead to a significant change in calculated quota shares across country groups, but a new quota formula would make it easier to measure how out-of-line the quotas of individual countries are relative to the size of their economies. As they

[12]For more details, see the IMF's website at *www.imf.org/external/np/sec/pn/2003/pn03106.htm*.

discussed how best to move forward to achieve adjustments in quota shares, Directors observed that, historically, significant adjustments in quota shares tended to take place in the context of general quota increases. Therefore, most Directors saw merit in a package that would involve a general quota increase; ad hoc quota increases aimed at addressing the clearest cases of shares that are out of line; and an increase in basic votes specifically aimed at correcting the erosion of the voting power of the smallest members. Most Directors recognized that, in view of the IMF's satisfactory liquidity position, there was no immediate need for a quota increase.

As of April 30, 2004, 179 member countries accounting for 99.46 percent of total quotas proposed in 1998 under the Eleventh General Review of Quotas had consented to, and paid for, their proposed quota increases. All member countries eligible to consent had done so by the end of the financial year, and four member countries were ineligible to consent to their proposed increases because they were in arrears to the IMF. On January 28, 2004, the Executive Board approved an extension of the period for consent to, and payment of, quota increases under the Eleventh Review to July 31, 2004. At the close of the financial year, total quotas amounted to SDR 212.8 billion.

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. SDRs are 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 uses its allocated SDRs pays the SDR interest rate on the portion used, 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 7.8). 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.

Box 7.8 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 are widely traded in the principal foreign exchange markets. Currencies selected for inclusion in the SDR basket for 2001–2005 are the U.S. dollar, the euro, the Japanese yen, and the pound sterling (see table).

Interest rate

Since the method for determining the SDR interest rate was reviewed in FY2001, the weekly interest rate has been determined on the basis of a weighted average of interest rates (expressed as equivalent annual bond yields) on short-term instruments in the markets for the currencies included in the SDR valuation basket, namely the three-month Euribor (Euro Interbank Offered Rate), Japanese Government thirteen-week financing bills, three-month U.K. Treasury bills, and three-month U.S. Treasury bills. During FY2004, the SDR interest rate evolved in line with developments in the major money markets, declining to as low as 1.49 percent in July 2003, its lowest level on record, before gradually increasing to 1.62 percent at the end of April 2004. Over the course of FY2004, the SDR interest rate averaged 1.58 percent (see figure).

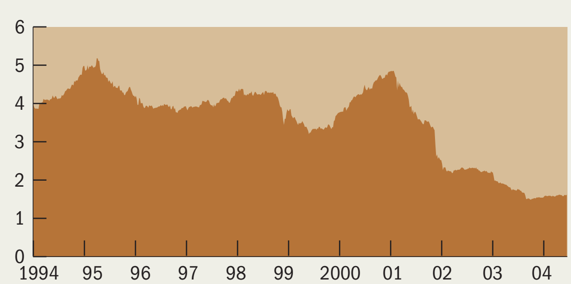
SDR Valuation, as of April 30, 2004

	Amount of Currency	Exchange Rate[1]	U.S. Dollar Equivalent[2]
Euro	0.4260	1.19680	0.509837
Japanese yen	21.0000	110.23000	0.190511
Pound sterling	0.0984	1.77320	0.174483
U.S. dollar	0.5770	1.00000	0.577000
			1.451831

Memorandum:
SDR 1 = US$1.451831
US$1 = SDR 0.688785

[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.
[2]Rounded to six digits.

SDR Interest Rate, 1994–April 2004
(In percent)



There are two types of SDR allocations:

- *General allocations.* Decisions on general allocations of SDRs are made for successive basic periods of up to five years 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 members' total voting power. Two general allocations have been approved. The first was distributed in 1970–72, the second in 1979–81.
- *Special one-time allocations.* 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's membership, which joined 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) representing 85 percent of the total voting power have accepted the proposal. As of April 30, 2004, 131 members having 77.57 percent of the total voting power had agreed, and only acceptance by the United States was required to implement the proposal.

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. 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 cer-

Table 7.6 Transfers of SDRs

(In millions of SDRs)

	Financial Years Ended April 30								
	1996	1997	1998	1999	2000	2001	2002	2003	2004[1]
Transfers among participants and prescribed holders									
Transactions by agreement[2]	8,931	7,411	8,567	13,817	6,639	5,046	3,669	2,858	1,140
Prescribed operations[3]	1,951	88	86	4,577	293	544	290	1,186	228
IMF-related operations[4]	704	606	901	756	684	922	866	1,794	925
Net interest on SDRs	319	268	284	289	214	302	228	162	117
Total	**11,905**	**8,372**	**9,839**	**19,439**	**7,831**	**6,814**	**5,054**	**6,000**	**2,410**
Transfers from participants to General Resources Account									
Repurchases	5,572	4,364	2,918	4,761	3,826	3,199	1,631	1,955	2,981
Charges	1,985	1,616	1,877	2,806	2,600	2,417	2,304	2,505	2,456
Quota payments	70	–	–	8,644	528	65	–	62	16
Interest received on General Resources Account holdings	53	51	44	35	138	118	56	31	18
Assessments	4	4	4	3	3	2	2	2	2
Total	**7,683**	**6,035**	**4,844**	**16,249**	**7,094**	**5,801**	**3,993**	**4,555**	**5,472**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	6,460	4,060	4,243	9,522	3,592	3,166	2,361	2,215	3,500
Repayments of IMF borrowings	–	–	–	1,429	–	–	–	–	–
Interest on IMF borrowings	–	–	–	46	18	–	–	–	–
In exchange for other members' currencies									
Acquisitions to pay charges	49	224	20	545	1,577	1,107	1,130	1,598	1,398
Remuneration	1,092	1,055	1,220	1,826	1,747	1,783	1,361	1,175	947
Other	259	27	90	74	1,008	31	94	89	84
Total	**7,859**	**5,366**	**5,574**	**13,442**	**7,942**	**6,087**	**4,945**	**5,077**	**5,929**
Total transfers	**27,448**	**19,773**	**20,256**	**49,130**	**22,867**	**18,702**	**13,991**	**15,632**	**13,811**
General Resources Account holdings at end of period	**825**	**1,494**	**764**	**3,572**	**2,724**	**2,437**	**1,485**	**963**	**506**

Note: – denotes zero.

[1]As of March 31, 2004, except GRA holdings, which are as of April 26, 2004.

[2]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.

[3]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.

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

tain limits.[13] These arrangements have helped ensure the liquidity of the SDR system.[14]

Total transfers of SDRs decreased in FY2004 to SDR 13.8 billion, from SDR 15.6 billion in FY2003. The largest transfers of SDRs (SDR 49.1 billion) took place in FY1999, when the volume of SDR transactions increased significantly because of members' payments for quota increases (see Table 7.6).

By April 30, 2004, 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 0.5 billion from about SDR 1.0 billion a year earlier. SDRs held by prescribed holders amounted to SDR 0.4 billion. SDR holdings by participants increased to SDR 20.6 billion from SDR 19.9 billion in FY2003. SDR holdings of the industrial and net creditor countries relative to their net cumulative allocation increased from a year earlier. SDR holdings of nonindustrial members amounted to 76 percent of their net cumulative allocations, compared with 72 percent a year earlier.

Safeguards Assessments

In FY2004, the IMF continued its efforts to safeguard GRA, PRGF, and HIPC resources by conducting safeguards assessments of central banks of borrowing member countries. Safeguards assessments aim at providing reasonable assurance to the IMF that central banks have adequate frameworks of reporting, audit, and controls for managing their resources, including IMF disbursements (see Box 7.9). The IMF makes recommendations on how central banks can address the vulnerabilities identified in assessments, thereby permanently improving controls and operations. The safeguards policy focuses on central banks, since they are typically the recipients of IMF disbursements.

The safeguards assessment framework was adopted as a permanent IMF policy by the Executive Board in March 2002, after a 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.

Box 7.9 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 and legal framework in place to manage resources, including IMF disbursements, are adequate to ensure the integrity of financial operations and reporting to the IMF.

Applicability of Safeguards Assessments

- Central banks with new arrangements for use of IMF resources approved after June 30, 2000; existing arrangements that are augmented; member countries following a Rights Accumulation Program (RAP) under which resources are being committed.
- Abbreviated assessments of only the external audit mechanism for member countries with arrangements in effect before June 30, 2000.
- Voluntary for members with staff-monitored programs.
- Not applicable to emergency assistance, first-credit-tranche purchases, and stand-alone CFFs.

Scope of Policy—ELRIC

- **E**xternal Audit Mechanism;
- **L**egal Structure and Independence;
- Financial **R**eporting Framework;
- **I**nternal Audit Mechanism; and
- Internal **C**ontrols System.

Publication References

The staff's papers and other background information concerning the safeguards policy are available at *www.imf.org/external/fin.htm.*

Safeguards assessments apply to all countries with arrangements for use of IMF resources approved after June 30, 2000, and are conducted whenever a new arrangement is presented to the IMF Executive Board for approval. Although safeguards assessments do not formally apply to countries with staff-monitored programs (SMPs), these countries are encouraged to undergo an assessment on a voluntary basis, since, in many cases, SMPs are followed by formal arrangements with the IMF. In FY2004, the Fund conducted 20 safeguards assessments of member countries' central banks, including one voluntary assessment, bringing the total number completed as of April 30, 2004, to 95. This total includes 27 abbreviated assessments that were conducted for arrangements in effect before June 30, 2000, and that examined only one key element of the safeguards framework, namely, that central banks publish annual financial statements that are independently audited by external auditors in accordance with internationally accepted standards.

Safeguards assessments follow an established set of procedures to ensure consistency in application. All central banks

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

[14] 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. The designation mechanism has not been used since 1987, following the set up of the voluntary arrangements starting in 1986.

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 previous safeguards assessments, including the results of any follow-up monitoring.

The outcome of a safeguards assessment is a confidential report that identifies vulnerabilities, assigns risk ratings, and makes recommendations to the central bank authorities on the steps needed to mitigate the identified risk. The authorities, who have the opportunity to comment on all safeguards assessment reports, are expected to implement the safeguards assessment recommendations; in some cases, implementation may become a condition for program support. The conclusions and agreed remedial measures are reported in summary form to the IMF Executive Board at the time of arrangement approval or, at the latest, by the time of the first review of the country's performance under the arrangement, but the safeguards report itself is not made available to the Board or the general public.

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 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 and may conduct an on-site monitoring review. Under monitoring, country authorities must provide their audited financial statements to the IMF annually, along with 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, although, over time, identified vulnerabilities have declined in importance and frequency. Experience has shown that central banks are progressively implementing the measures recommended by the Fund. In FY2004, central banks continued to implement assessment recommendations at a high rate (over 92 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 independent external audit policies 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 reserves management; and (5) implementing independent, high-quality internal audit functions. Central banks have generally embraced the findings of safeguards assessments, and this policy has enhanced the IMF's reputation and credibility as a prudent lender while helping to improve the operations and accounting procedures of central banks.

On a semiannual basis, IMF staff prepare summary reports covering the activities and results of the safeguards policy for the Executive Board. These reports are available on the IMF website at *www.imf.org/external/fin.htm.* A comprehensive review of the safeguards policy, with the involvement of external experts, is scheduled to take place in early 2005.

As in the previous year, in FY2004 IMF staff continued to enhance communication and dissemination of information on the safeguards policy to central bank officials, holding courses on safeguards assessments at the Joint Africa Institute (Tunis) in June 2003 and at the IMF Institute (Washington) in November 2003. As of April 30, 2004, 112 officials from 87 countries had attended courses on safeguards assessments.

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.[15]

Total overdue financial obligations to the IMF were SDR 2.05 billion at the end of April 2004, up slightly from SDR 2.01 billion at the beginning of the financial year (Table 7.7). Although Sudan's arrears to the IMF declined as a result of regular monthly payments in excess of obligations falling due, overdue financial obligations by the other four countries with protracted arrears—Iraq, Liberia, Somalia, and Zimbabwe—continued to increase. As of April 30, 2004, almost all arrears to the IMF were protracted (outstanding for more than six months), with 45 percent of them representing overdue principal and the remainder

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

Table 7.7 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, 2004)

		By Type				By Duration	
	Total	General Department (incl. SAF)	SDR Department	Trust Fund	PRGF	Less than 6 months	More than 6 months
Iraq	54.3	–	54.3	–	–	1.0	53.3
Liberia	504.4	450.0	24.2	30.2	–	2.6	501.8
Somalia	219.9	201.6	10.3	7.9	–	1.3	218.6
Sudan	1,070.2	991.2	0.1	78.9	–	3.9	1,066.3
Zimbabwe	196.7	118.3	–	–	78.4	18.1	178.7
Total	**2,045.5**	**1,761.1**	**88.9**	**117.0**	**78.4**	**26.9**	**2,018.7**

overdue charges and interest. More than four-fifths of arrears were to the GRA, with the remainder to the SDR Department and the PRGF Trust.

The two countries with the largest protracted arrears—Sudan and Liberia—account for 77 percent of the overdue financial obligations to the IMF—with Somalia and Zimbabwe accounting for most of the remainder.[16] Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against the countries with protracted arrears to the IMF.[17] No changes were made in the strengthened cooperative strategy on arrears during FY2004.

The IMF's Executive Board reviewed the overall arrears strategy and extended the rights approach[18] for one more year. The Board also conducted several reviews of individual member countries' overdue financial obligations to the IMF during FY2004:

- In September 2003, the Board postponed the scheduled review of Liberia's overdue financial obligations to the IMF because of the highly unsettled political and security situation in the country and the lack of reliable data on economic developments, which precluded an assessment of the country's economic policy and performance. Subsequently, on March 1, 2004, the Board held its first review following the suspension of Liberia's voting and related rights in the IMF on March 5, 2003. At the March 2004 review, the Board welcomed the willingness of the National Transitional Government of Liberia to improve relations with the IMF and its initial steps in restoring a functioning economy and government. The Board also welcomed the transitional government's resumption of monthly payments to the IMF of US$50,000. It discussed the modalities of future IMF engagement with Liberia, stressing that a continued track record of cooperation and strong policies would be needed to lay the basis for normalizing relations with the institution and other creditors over time. In light of these first steps in improving cooperation with the IMF on both policies and payments and Liberia's limited technical capacity and overwhelming reconstruction needs, the Board approved the resumption of technical assistance to Liberia.
- The Board twice reviewed Sudan's overdue financial obligations to the IMF—on June 6, 2003, and on February 20, 2004. During the June review, the Board noted the favorable policy performance achieved by the Sudanese authorities under the 2002 staff-monitored program (SMP) and Sudan's commitment to a modest increase in monthly payments to the IMF. It welcomed the agreement on a new SMP for 2003 and urged Sudan to fully implement the macroeconomic and structural policies specified in the program. At the February review, the Board noted the continued favorable policy performance achieved by the Sudanese authorities under the 2003 SMP.
- The Board on two occasions reviewed Zimbabwe's overdue obligations to the IMF. On June 6, 2003, the Board decided to suspend the voting and related rights of Zimbabwe against the background of the country's increasing arrears and little improvement in economic policy. In its December 3, 2003, review, the Board noted its intention to initiate promptly the procedure on compulsory withdrawal with respect to Zimbabwe. On February 6, 2004, the Managing Director issued a complaint to the Executive Board with respect to the compulsory withdrawal of Zimbabwe from the IMF. This complaint was placed on the Executive Board's agenda for substantive consideration on July 7, 2004.

As of end-April 2004, 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 and Zimbabwe in the IMF were suspended. In addition, a complaint with respect to the compulsory withdrawal of Zimbabwe from the IMF remained outstanding.

[16]Iraq's overdue net SDR charges and assessments account for 3.1 percent.

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

[18]Established in 1990, the rights approach permits a member to establish a track record on policies and payments to the IMF under a rights accumulation program and to earn "rights" to obtain IMF resources under successor arrangements following the completion of the program and settlement of the arrears to the IMF.

8

Budget, Human Resources, and Organization

Financial year 2004 saw continued budgetary constraint and reform; management and senior staff changes; and departmental reorganization to reflect evolving circumstances.

The IMF's administrative budget for FY2004, which authorized total expenditures of $837.5 million, was underspent by $31.4 million, as the Fund continued to modernize its internal budgetary procedures, prioritized the allocation of resources, and retained a cap on the number of staff positions. Total capital spending was within the approved budget of $39.6 million. In October 2003, the Fund created a new internal committee to advise management on resource allocations for the FY2005 budget.

Management changes during the financial year included the resignation of Managing Director Horst Köhler in March 2004, following his acceptance of his nomination for the position of President of Germany. He was succeeded by Rodrigo de Rato in June 2004. Deputy Managing Director Eduardo Aninat left the Fund in June 2003 and Deputy Managing Director Shigemitsu Sugisaki retired in January 2004. They were succeeded by Agustín Carstens and Takatoshi Kato, respectively.

There were also a number of departmental changes. The European II Department, formed in 1992 to assist the Baltic countries, Russia, and other countries of the former Soviet Union with their transition to a market economy, was dissolved as the central and east European countries prepared to join the European Union. The countries formerly within the purview of this department were transferred to the European Department and the Middle East and Central Asia Department (formerly the Middle Eastern Department). In addition, the African Department was reorganized toward the end of the financial year to strengthen its capacity to support the low-income countries that fall under its responsibility.

Administrative and Capital Budgets

The IMF's Administrative Budget, which covers the period from May 1 through April 30, provides funds for personnel costs, travel, and other recurrent expenses. It is approved by the IMF Executive Board on both a gross and a net basis. The gross budget includes expenditures that are funded from "reimbursements"—mainly external donor contributions for capacity building (technical assistance and training of member country officials) and a small amount of revenue from publications. The net budget is funded from the net income of IMF operations. The Executive Board sets limits on gross and net expenditures and a ceiling on full-time (both open-ended and limited-term) staff positions. The Executive Board also sets a three-year ceiling on expenditures for capital projects—building facilities, including regulatory-mandated and security-related upgrades, and information technology projects—starting in the forthcoming fiscal year.

Budget Reforms

Following an external review in 2001, the IMF is in the process of modernizing its internal budgetary procedures and practices with a view to adopting, to the extent practical and appropriate for the institution, an output-focused budget system along the lines of those that have evolved in the public sector of many industrial countries.

Consistent with this objective, the IMF has shifted to dollar budgeting, while retaining a limit on the number of staff positions; created a top-down dollar limit on the size of the Administrative Budget; reintroduced a medium-term expenditure framework; required the preparation of departmental business plans for the delivery of services, both to member countries and to other departments; developed a revised output and activity structure, to classify Fund departments' services; revised the internal accounts structure to facilitate budget management at the departmental level; provided to the Executive Board information on the full costs of new policy initiatives and financing proposals as appropriate; and revamped the capital budget procedures to bring them into line with standard practices.

In FY2004, along with the consolidation of the above reforms, additional changes focused on better prioritizing the allocation of resources, improving the costing of activities, and developing performance indicators. In October 2003, the internal Committee on Budget Priorities (CBP) was created to advise management on resource allocations for the FY2005 budget. In considering the broad allocation of resources to outputs, the CBP took into account the likely costs of new or expanded policies; anticipated pressures from program or other intensive country work; projected demands for other primary outputs, including work on technical assistance, research, standards and codes, and external training; existing pressures on IMF staff or other resources; and the scope for reducing or streamlining existing activities. Essential groundwork has also been done to improve cost allocation by developing better measures and apportionment of overheads. A task force on performance indicators recommended that the Fund develop a system of standards, emphasizing that, to be successful, the system should be developed with adequate time, ownership, and resources to support it.

In FY2005, the Fund will continue reform efforts already under way in three areas: a new time-reporting system (TRS), a new cost-allocation system to complement the TRS, and a pilot program of performance indicators for certain IMF activities. These reforms will be supported by a determined effort to improve computerized management information systems, under the guidance of the interdepartmental Information Technology Policy Committee. A large part of this work is being outsourced.

As part of its budget reforms, the IMF has also begun undertaking departmental reviews incorporating a zero-based approach. The reviews, led by the Office of Internal Audit and Inspection (OIA) with the participation of the Office of Budget and Planning (OBP), aim to identify activities that are of lower priority in meeting the goals of the Fund and that may offer scope for resource reallocation to higher priority areas. In addition, like earlier OIA exercises, the reviews assess the effectiveness of departmental management in achieving the department's mission and goals. The goal is to undertake two such departmental reviews each year.

Budgets and Actual Expenditure in FY2004

The IMF's *Administrative Budget* for the financial year that ended April 30, 2004 (FY2004) authorized total expenditure of $837.5 million (or $785.5 million net of reimbursements). The FY2004 *Capital Budget* made provision for expenditure of $39.6 million on projects commencing in FY2004, including $13.2 million for building facilities projects and $26.4 million for information technology projects.

The Administrative Budget outturn for FY2004 amounted to $806.1 million on a gross basis, $31.4 million (3.7 percent) less than estimated in the original budget. This underspending was composed of $9.6 million in personnel expenses, $9.1 million in travel, and $12.7 million for other activities, including $5.0 million of unused contingencies. Reimbursements were larger than budgeted because of a more active pursuit of rebates and discounts in negotiating airfares and increasing external donors' contributions for technical assistance and training activity. On a net basis, the FY2004 Administrative Budget was under by 4.8 percent.

The budget underrun reflected a combination of lower-than-planned outputs, efficiency gains, and lower-than-projected input costs.

Total measured outputs were below planned levels in bilateral and regional surveillance, use of Fund resources, and capacity building, while for the other two primary outputs—(1) policy development, research, and operation of the international monetary system, and (2) standard setting—output levels were closer to departments' aggregate business plans. This underdelivery of outputs was driven largely by higher-than-anticipated staff vacancies, in part the result of major organizational changes.

Significant efficiency gains were achieved on travel. The volume of travel fell relative to FY2003, in part because missions, particularly those for Article IV consultations and Financial Sector Assessment Program exercises, and those

Table 8.1 Administrative Budgets, Financial Years 2002–05[1]

(In millions of U.S. dollars)

	Financial Year Ended April 30, 2002: Actual Expenses	Financial Year Ended April 30, 2003: Actual Expenses	Financial Year Ending April 30, 2004: Budget	Financial Year Ended April 30, 2004: Actual Expenses	Financial Year Ending April 30, 2005: Budget
Administrative Budget					
Personnel expenses					
Salaries	320.7	337.1	359.7	355.9	373.8
Benefits and other expenses	161.0	191.3	206.1	200.3	259.9
Subtotal	**481.7**	**528.4**	**565.8**	**556.2**	**633.7**
Other expenses					
Travel	94.4	79.9	100.6	91.5	97.6
Other expenses	145.3	155.7	171.1	158.4	173.8
Subtotal	**239.6**	**235.6**	**271.7[2]**	**249.9**	**271.4[3]**
Total Administrative Budget (gross)	**721.3**	**764.0**	**837.5**	**806.1**	**905.1**
Reimbursements	(44.6)	(44.1)	(52.0)	(58.5)	(55.5)
Total Administrative Budget (net)	**676.7**	**719.9**	**785.5**	**747.6**	**849.6**

Note: Figures may not add due to rounding.
[1]Administrative budgets as approved by the Board for the financial years ending April 30, 2004, and April 30, 2005, compared with actual expenses for the financial years ended April 30, 2002, April 30, 2003, and April 30, 2004.
[2]Includes $5 million in contingency reserves—$1 million for travel, $1 million for other expenditures, and $3 million for central staff allocation.
[3]Includes $3 million in contingency reserves—$1 million for travel, $1 million for other expenditures, and $1 million for central staff allocation.

of functional departments, were shorter and mission teams were smaller.

On the input side, in addition to an overall higher vacancy rate for staff positions, lower-than-budgeted personnel costs were mainly the result of lower expenditure on outside experts and changes to the U.S. tax code. The lower-than-planned expenditure on experts reflects a greater shift toward a more strategic (upstream) focus in technical assistance delivery, with a related move away from long-term resident experts to short-term assignments. The reduction in income tax rates under the U.S. Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted after the Fund's FY2004 budget was approved, resulted in close to $4 million less expenditure on tax allowances than projected in the budget.

Total *capital spending* in FY2004 was within the approved budget. The Headquarters 2 building project remains within the $149.3 million budget approved by the Executive Board in April 2002 and on track with the revised project schedule (see Box 8.1). Information on the actual expenditures of the Administrative Budgets for FY2002 through FY2004 and budgeted expenditures for FY2004 and FY2005 is provided in Table 8.1.

Budgets for FY2005

On April 28, 2004, the Executive Board approved a gross Administrative Budget of $905.1 million ($849.6 million net of estimated reimbursements) for FY2005.[1] This amount includes a contribution to the Staff Retirement Plan equivalent to 14 percent of gross staff remuneration ($74 million). It reflects a decision to normalize the annual budgetary contribution to the Staff Retirement Plan at this 14 percent rate, with drawings from or additions to reserves to be made depending on the actuarial assessment of the required contribution rate. Excluding this contribution to the Staff Retirement Plan, the FY2005 budget represents an increase of 2.4 percent in gross terms (2.1 percent in net terms) over the FY2004 approved budget.

In line with the overarching objective of maintaining the present size of the institution, the FY2005 administrative budget is designed to fund the IMF's principal strategic goals (as reflected in the April 19, 2004, Report of the Acting Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda). These are strengthening the framework for surveillance and crisis prevention; devising more effective crisis resolution strategies; assisting low-income countries to achieve the high and sustainable growth needed to reduce poverty and make decisive progress toward the Millennium Development Goals; and enhancing member countries' institutional capacity.

To help the Fund achieve these goals, the FY2005 budget includes the following:

- Twelve additional staff positions in the African Department to strengthen the IMF's work in the region; a new unit will assist in integrating poverty and social impact analysis into the IMF's work on low-income countries.
- Establishment of a Middle East Technical Assistance Center to augment the Fund's capacity-building work in that region.

[1]The budget document can be accessed electronically at *www.imf.org/external/np/obp/budget/040104.htm*.

- Enhanced work on regional surveillance and, in line with the IMF's Independent Evaluation Office recommendations, regular ex post assessments of countries that benefit from the prolonged use of Fund resources.

The Fund will be able to implement these initiatives by redeploying positions and dollar resources freed up by efficiency gains in support activities, streamlining its work in Europe and Asia, and reducing or eliminating lower-priority activities. The FY2005 Administrative Budget also provides for an expanded anti-money-laundering and combating the financing of terrorism (AML/CFT) program. The Fund will meet the costs of this program by redeploying staff and resources and relying on external finance (for related technical assistance). Three staff positions will be added for the program, raising the total number of positions to 2,802.

In line with the above plans and priorities for FY2005, area departments, as a group, plan to increase the share of their resources devoted to surveillance by 0.5 percentage point, from 46 percent in FY2004; functional and support departments plan to devote a greater share of their resources to the support of the use of Fund resources in low-income countries. Overall, departments also plan a small increase of resources devoted to research on crisis prevention and the international financial architecture, and to capacity building, particularly for the regional technical assistance centers. The estimated share of each activity in the total output funded from the net Administrative Budget is shown in Figure 8.1.

In terms of input costs, the FY2005 Administrative Budget takes account of lower projected price increases for FY2005 and incorporates a squeeze on volumes. Contingency provisions for FY2005 have also been reduced from $5 million in the FY2004 budget to $3 million. Relative to the FY2004 budget, the FY2005 budget provides for an increase of 3.9 percent in personnel expenses, whereas the provision for nonstaff salaries (for consultants and contractual employees) is broadly constant in nominal terms. Taken together, the provision for all nonpersonnel (travel plus other) expenditures in FY2005 will fall slightly, in nominal terms, relative to the FY2004 budget.

The three-year Capital Plan for FY2005–FY2007, which covers all new capital projects scheduled to start in each of the next three years and underpins the FY2005 capital budget, is costed at $123 million, compared with $115 million for the FY2004–FY2006 plan approved in FY2003. The increase is accounted for by the cost of heightened security. With the completion of the new Headquarters 2 building, no additional major building works are planned over the medium term. Investment in information technology will decrease, following the recent spike in capital spending associated with the replacement of the Fund's main administrative and financial information systems over the past two fiscal years.

Box 8.1 New Headquarters Building

Construction is progressing well on a second IMF building adjacent to the existing headquarters. 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 commercial office space. Construction of the new building began in October 2002. Occupancy is currently scheduled to be completed in mid-2005, which is earlier than the original schedule of January 2006. The Fund expects to lease out retail space on the first floor of the building.

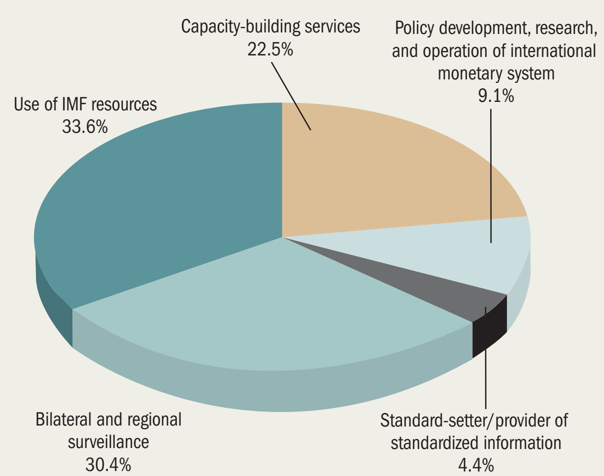
Against this background, the FY2005 Capital Budget amounts to $31.8 million, consistent with the three-year ceiling on expenditures for capital projects. This year's capital budget includes the heightened-security projects mentioned above, further integration of economic databases, and the core network infrastructure for the new building.

The Medium-Term Expenditure Framework

Since FY2002, the IMF has prepared an annual, medium-term expenditure framework that reflects the cost, with the number of staff positions unchanged, of policies covering the current and each of the following two financial years. The framework allows for the same price increases for personnel, travel, and other expenditures as are assumed in the FY2005 budget. This year's expenditure framework takes

Figure 8.1 Projected Share of Resources by Output Category, FY2005

(As a percent of net Administrative Budget)



into account the location and the cost of the Annual Meetings (Washington, D.C., in FY2005 and FY2006 and Singapore in FY2007) and the opening of the Headquarters 2 building (including the move-in costs, the savings in lease and other rented-property costs, and the operating costs of the new building). Based on the above assumptions and adjustments, the Fund's net administrative expenditures are expected to increase by 3.6 percent in FY2006 and 3.8 percent in FY2007.

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, subject to "the paramount importance" of securing such standards, whose diversity by nationality should reflect its membership, with "due regard to the importance of recruiting personnel on as wide a geographical basis as possible."

The goals of the IMF require that all who work for the institution observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality, and discretion, as set out in the IMF Code of Conduct and its Rules and Regulations. In accordance with these high standards, the IMF relies on a financial certification and disclosure process for staff and other internal controls to prevent actual or perceived conflicts of interest.

Table 8.2 Distribution of Professional and Managerial Staff by Nationality[1]

(In percent)

Region[2]	1980	1990	2003
Africa	**3.8**	**5.8**	**5.4**
Asia	**12.3**	**12.7**	**15.5**
Japan	1.4	1.9	1.5
Other Asia	10.9	10.8	14.0
Europe	**39.5**	**35.1**	**34.5**
France	6.9	5.5	4.4
Germany	3.7	4.3	5.0
Italy	1.7	1.4	2.8
United Kingdom	8.2	8.0	5.4
Transition economies	–	–	4.5
Other Europe	19.0	15.9	12.4
Middle East	**5.4**	**5.5**	**4.6**
Western Hemisphere	**39.1**	**41.0**	**40.1**
Canada	2.6	2.8	3.8
United States	25.9	25.9	24.6
Other Western Hemisphere	10.6	12.3	11.7
Total	**100.0**	**100.0**	**100.0**

[1]Includes staff in Grades A9–B5.
[2]Regions are defined broadly on the basis of the country distribution of the IMF's area departments. The European region includes Russia and countries of the former Soviet Union. The Middle East region includes countries in North Africa.

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, given 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.

As of December 31, 2003, the IMF employed 1,954 professional and managerial staff (about two-thirds of whom were economists) and 739 staff at the assistant level. In addition to its staff, the IMF had 317 contractual employees on its payroll, including technical assistance experts, consultants, and other short-term employees not subject to the staff ceiling. Of the IMF's 184 member countries, 141 were represented on the staff. (See Table 8.2 for the evolution of the nationality distribution of IMF professional staff since 1980.)

Changes in Management and Senior Staff

Managing Director Horst Köhler resigned from the Fund on March 4, 2004, following his acceptance of his nomination for the position of President of Germany. In its April Communiqué, the IMFC paid tribute to Mr. Köhler for his leadership of the IMF during the past four years and his work to promote close international cooperation so that all can share in the benefits of globalization. On May 4, 2004, the Executive Board selected Rodrigo de Rato to serve as Managing Director for a five-year term, which began on June 7, 2004. A national of Spain, Mr. de Rato was Minister of Economy and Vice President for Economic Affairs during 2000–04, prior to which he served as Spain's Minister of Economy and Finance.

Deputy Managing Director Shigemitsu Sugisaki retired from the Fund on January 31, 2004, having served as Deputy Managing Director since February 1997, prior to which he had been Special Advisor to the Managing Director since August 1994. Takatoshi Kato took up his position as Deputy Managing Director on February 4, 2004, following a distinguished career in the Japanese government, international organizations, and academia, which included appointments as Japan's Vice Minister of Finance for International Affairs and more recently as Advisor to the President of Bank of Tokyo-Mitsubishi and Visiting Professor at Waseda University.

Agustín Carstens assumed office as Deputy Managing Director on August 1, 2003, succeeding Eduardo Aninat.

Prior to taking up his current position he was Mexico's Deputy Secretary of Finance, and from 1999–2000, after a career at the Banco de México, he served as an Executive Director at the IMF.

Raghuram G. Rajan took up his post as Economic Counsellor and Director of the Research Department in October 2003. Before his appointment, he taught at the Graduate School of Business at the University of Chicago, where he is the Joseph L. Gidwitz Professor of Finance.

Recruitment and Retention

In 2003, 175 people joined the IMF staff, compared with 216 in 2002. The new recruits included 74 economists, 51 professionals in other specialized career streams, and 50 assistants. Thirty-two of the recruits were mid-career economists, and 35 entered the two-year Economist Program, which is designed to familiarize entry-level economists with the work of the IMF. Participants in the program are placed in two different departments, for 12 months each. Those who perform well are offered regular staff appointments.

During 2003, 167 staff members, 112 of whom were in professional and managerial grades, separated from the organization. The separation rate for these staff was 6.0 percent.

Table 8.3 IMF Staff Salary Structure

(In U.S. dollars, effective May 1, 2004)

Grade	Range Minimum	Range Maximum	Illustrative Position Titles
A1	23,930	35,930	Not applicable (activities at this level have been outsourced)
A2	26,810	40,210	Driver
A3	30,000	45,020	Staff Assistant (Clerical)
A4	33,620	50,460	Staff Assistant (Beginning Secretarial)
A5	37,710	56,530	Staff Assistant (Experienced Secretarial)
A6	42,120	63,280	Senior Secretarial Assistant, Other Assistants (e.g., Editorial, Computer Systems, Human Resources)
A7	47,250	70,890	Research Assistant, Administrative Assistant
A8	52,920	79,420	Senior Administrative Assistants (e.g., Accounting, Human Resources)
A9	56,280	84,480	Librarian, Translator, Research Officer, Human Resources Officer
A10	64,730	97,130	Accountant, Research Officer, Administrative Officer
A11	74,350	111,570	Economist (Ph.D. entry level), Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A12	83,250	124,930	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A13	93,280	139,900	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A14	104,460	156,720	Deputy Division Chief, Senior Economist
A15/B1	118,040	177,120	Division Chief, Deputy Division Chief
B2	136,090	197,470	Division Chief, Advisor
B3	161,720	210,430	Assistant Department Director, Advisor
B4	188,460	235,580	Deputy Department Director, Senior Advisor
B5	221,910	266,410	Department Director

Note: 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.

Salary Structure

To recruit and retain the highly qualified staff it needs, the IMF has developed a compensation and benefits system designed to be internationally 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 by the Executive Board and, if warranted, adjusted on the basis of a comparison with salaries paid by selected private financial and industrial firms in the United States, France, and Germany, and in representative public sector agencies, mainly in the United States. After analyses of updated comparator salaries, the salary structure was increased by 4.0 percent for FY2004, and the Board approved an increase of 3.6 percent for FY2005 (Table 8.3).

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, 2003 is as follows:

Managing Director	\$344,820[2]
First Deputy Managing Director	\$302,410
Deputy Managing Directors	\$288,010

Management remuneration is subject to 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 increases of 3.5 percent in the remuneration of Executive Directors and their Alternates

[2]In addition, a supplemental allowance of $61,700 is paid to cover expenses.

Table 8.4 Distribution of Staff by Gender

	1980		1990		2003[1]	
	Number	Percent	Number	Percent	Number	Percent
All staff	**1,444**	**100.0**	**1,774**	**100.0**	**2,693**	**100.0**
Women	676	46.8	827	46.6	1,239	46.0
Men	768	53.2	947	53.4	1,454	54.0
Total support staff[2]	**613**	**100.0**	**642**	**100.0**	**739**	**100.0**
Women	492	80.3	540	84.1	622	84.2
Men	121	19.7	102	15.9	117	15.8
Total professional staff[3]	**646**	**100.0**	**897**	**100.0**	**1,597**	**100.0**
Women	173	26.8	274	30.5	562	35.2
Men	473	73.2	623	69.5	1,035	64.8
Total economists	***362***	***100.0***	***529***	***100.0***	***968***	***100.0***
Women	42	11.6	70	13.2	235	24.3
Men	320	88.4	459	86.8	733	75.7
Total specialized career streams	***284***	***100.0***	***368***	***100.0***	***629***	***100.0***
Women	131	46.1	204	55.4	327	52.0
Men	153	53.9	164	44.6	302	48.0
Total managerial staff[4]	**185**	**100.0**	**235**	**100.0**	**357**	**100.0**
Women	11	5.9	13	5.5	55	15.4
Men	174	94.1	222	94.5	302	84.6
Total economists	***99***	***100.0***	***184***	***100.0***	***286***	***100.0***
Women	4	4.0	9	4.9	31	10.8
Men	95	96.0	175	95.1	255	89.2
Total specialized career streams	***86***	***100.0***	***51***	***100.0***	***71***	***100.0***
Women	7	8.1	4	7.8	24	33.8
Men	79	91.9	47	92.2	47	66.2

[1]Includes only staff on duty; differs from the number of approved positions.
[2]Staff in Grades A1–A8.
[3]Staff in Grades A9–A15.
[4]Staff in Grades B1–B5.

effective July 1, 2003. The remuneration of Executive Directors is $188,980.[3] The remuneration of Alternate Executive Directors is $163,470.[4]

Diversity

During 2003, 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, but more still has to be done to reach a balanced regional representation in all grade groups. At the managerial level, the shares of women and of staff from developing countries rose slightly, to 15.4 percent and 31.1 percent, respectively. In both categories there is still room for improvement.

The IMF places strong emphasis on people management skills and diversity sensitivity in assessing the performance of supervisors and in recruitment and promotion decisions, which are of particular importance in an institution with a diverse workforce. Since 1995, the Senior Advisor on Diversity, who reports to the Managing Director, has advised and assisted management, the Human Resources Department (HRD), and other departments on ways to strengthen and monitor nationality and gender diversity (Tables 8.2, 8.4, and 8.5) and on diversity management. In line with the IMF's diversity strategy, HRD continues to focus on integrating diversity into its human resource management policies, procedures, and practices.

An Enhanced Diversity Action Plan was introduced in 2003. The plan includes quantitative and qualitative benchmarks for the most underrepresented staff groups—women and staff from developing countries, and nationals of African, Middle Eastern, and emerging market countries. A Fundwide mentoring program was established for mid-career newcomers, and selection procedures and the special appointee program were revised to improve the Fund's response to diversity needs. Family-friendly work arrangements and benefits were reinforced. The IMF also strengthened its policy on discrimination and consolidated previous policies and statements related to discrimination in one document.

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 in various formats—including the *Diversity Annual Report*—on the IMF website. The Fund's Senior Advisor on Diversity works closely with HRD and other departments to identify needs and opportunities for promoting diversity in each department's annual human resources plan, which provides a business-relevant and systematic framework for the IMF's diversity efforts. Typically, departmental and Fund-wide diversity actions include initiatives in recruitment and career planning, orientation and mentoring for newcomers, and measures to improve performance assessment and management selection and development. The Fund is making special efforts to increase the transparency of human resource policies, procedures, and statistics.

[3]In determining the salary adjustments for Executive Directors, the committee took into consideration the percentage change in the remuneration of the highest-level civil servant in the ministry of finance and central bank of selected member countries, and the change in the selected countries' 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 8.5 Distribution of Staff by Developing and Industrial Countries

	1990		2003[1]	
Staff	Number	Percent	Number	Percent
All staff	**1,774**	**100.0**	**2,693**	**100.0**
Developing countries	731	41.2	1,168	43.4
Industrial countries	1,043	58.8	1,525	56.6
Total support staff[2]	**642**	**100.0**	**739**	**100.0**
Developing countries	328	51.1	408	55.2
Industrial countries	314	48.9	331	44.8
Total professional staff[3]	**897**	**100.0**	**1,597**	**100.0**
Developing countries	343	38.2	649	40.6
Industrial countries	554	61.8	948	59.4
Total economists	***529***	***100.0***	***968***	***100.0***
Developing countries	220	41.6	419	43.3
Industrial countries	309	58.4	549	56.7
Total specialized career streams	***368***	***100.0***	***629***	***100.0***
Developing countries	123	33.4	230	36.6
Industrial countries	245	66.6	399	63.4
Total managerial staff[4]	**235**	**100.0**	**357**	**100.0**
Developing countries	60	25.5	111	31.1
Industrial countries	175	74.5	246	68.9
Total economists	***184***	***100.0***	***286***	***100.0***
Developing countries	54	29.3	93	32.5
Industrial countries	130	70.7	193	67.5
Total specialized career streams	***51***	***100.0***	***71***	***100.0***
Developing countries	6	11.8	18	25.4
Industrial countries	45	88.2	53	74.6

[1]Includes only staff on duty; differs from the number of approved positions.
[2]Staff in Grades A1–A8.
[3]Staff in Grades A9–A15.
[4]Staff in Grades B1–B5.

Organization

The *Board of Governors*, the highest decision-making body of the IMF, consists of one governor and one alternate governor from each of the IMF's 184 member countries (Figure 8.2). All Governors meet once each year at the IMF-World Bank Annual Meetings; 24 of the Governors sit on the *International Monetary and Financial Committee* (IMFC) and meet twice each year. The day-to-day work of the IMF is conducted at its Washington, D.C., headquarters by its 24-member *Executive Board;* this work is guided by the IMFC and supported by the IMF's professional staff. The Managing Director is Chair of the Executive Board and head of IMF staff; he is assisted by three Deputy Managing Directors. (For more about IMF governance, see Section 6.)

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

Area Departments

In November 2003, given the progress of the transition process and the prospect of European Union accession for a number of transition economies, the European II Department was dissolved, reducing the number of area departments from six to five. The transition countries were moved into two other, enlarged departments—the European Department and the Middle East and Central Asia Department (formerly, the Middle Eastern Department).

The five current area departments—*African, Asia and Pacific, European, Middle East and Central Asia*, and *Western Hemisphere*—advise management and the Executive Board on economic developments and policies in countries in their regions. Their staffs are also responsible 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, 90 area department staff are assigned to members as IMF resident representatives (see Box 8.2).

Functional and Special Services Departments

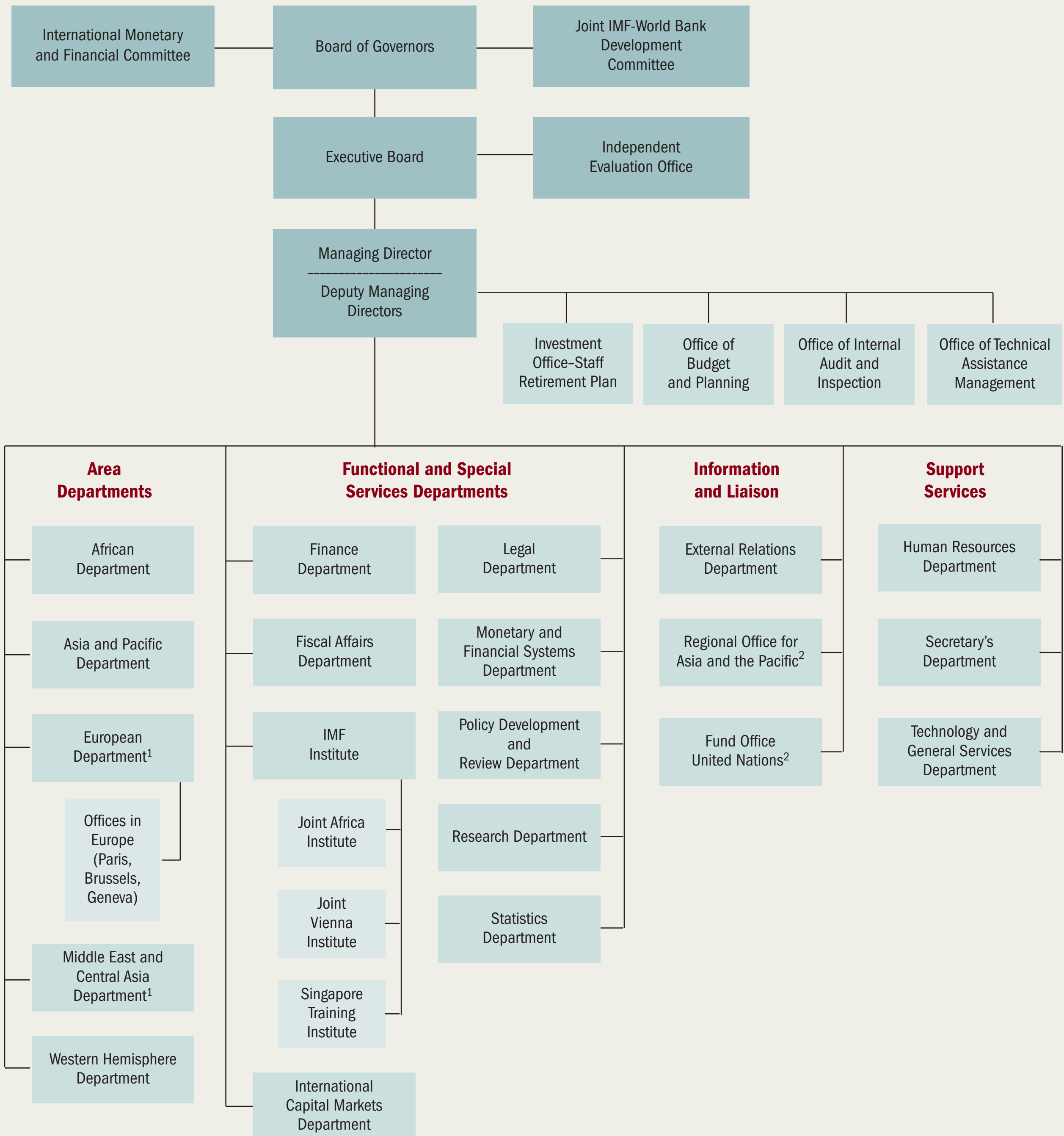
The *Finance Department* (formerly the Treasurer's Department) has a mission to mobilize, manage, and safeguard the IMF's financial resources to ensure that they are deployed in a manner consistent with the Fund's overall mandate. This entails major responsibilities for the institution's financial policies 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.

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 *IMF Institute* provides training for officials of member countries—particularly developing countries—in such areas as financial programming and policy, external sector

Figure 8.2 IMF Organization Chart

(As of April 30, 2004)



[1]The European I Department, European II Department, and Middle Eastern Department were reconfigured on November 1, 2003, to form the European Department and the Middle East and Central Asia Department.
[2]Attached to the Office of the Managing Director.

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 Section 5.)

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 twice-yearly *Global Financial Stability Report* that assesses developments and systemic issues in international capital markets. Staff members also liaise 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 how to gain access to international markets and how to benefit from this access, as well as on strategies for external debt management.

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 Financial Systems Department* is organized around four operational areas—financial system surveillance, banking supervision and crisis resolution, monetary and exchange rate infrastructure and operations, and technical assistance. It 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 change of name from Monetary and Exchange Affairs Department on May 1, 2003, reflects the expanded responsibilities of the reorganized department, which now includes the Financial Sector Assessment Program and anti-money-laundering and combating the financing of terrorism assessments.

The *Policy Development and Review Department* 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, it 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, streamlining and focusing conditionality, and developing the Poverty Reduction and Growth Facility (PRGF) and the HIPC Initiative. PDR economists participate in country missions with area department staff and assist member countries that are making use of IMF resources 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. It cooperates with other departments in formulating IMF policy advice to member countries. It coordinates the twice-yearly *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

Box 8.2 Resident Representatives

At the end of April 2004, the IMF had 90 resident representative positions covering 84 member countries in Africa, Asia, Europe, the Middle East, and the Western Hemisphere. Planning is under way to open new offices in Jordan (in support of Iraq) and the Dominican Republic. These posts—usually filled by one IMF employee supported by local staff—help 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 Section 4) 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.

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.

Information and Liaison

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

The IMF's *offices in Asia and Europe and at the United Nations* maintain close contacts with other international and regional institutions. The UN Office also makes a substantive contribution to the Financing for Development process, while the offices in Asia and Europe contribute to bilateral and regional surveillance and are a major part of the IMF's outreach effort. (See Appendix IV.)

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, in cooperation with the World Bank, also manages the Annual Meetings.

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); general administrative services (travel management, conference and catering services, and procurement services); language services (translation, interpretation, and preparation of 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).

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 see Section 3.)