INTERNATIONAL MONETARY FUND

Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda

September 30, 2004

Contents Page

Abbreviations and Acronyms

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CACs	Collective Action Clauses
CCL	Contingent Credit Lines
ECCB	Eastern Caribbean Central Bank
EFF	Extended Fund Facility
EPCA	Emergency Post-Conflict Assistance
ESAF	Enhanced Structural Adjustment Facility
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
FSLC	Financial Sector Liaison Committee
FSSA	Financial System Stability Assessment
GAB	General Arrangements to Borrow
GDDS	General Data Dissemination System
GFSR	Global Financial Stability Report
GRA	General Resources Account
HIPC	Heavily Indebted Poor Country
IEO	Independent Evaluation Office
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
JSA	Joint Staff Assessment
JSAN	Joint Staff Advisory Note
MDGs	Millennium Development Goals
METAC	Middle East Technical Assistance Center
NAB	New Arrangements to Borrow
NPV	Net Present Value
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Assessment
ROSC	Report on the Observance of Standards and Codes
SAF	Structural Adjustment Facility
SAR	Special Administrative Region
SBA	Stand-By Arrangement
SDDS	Special Data Dissemination Standard
SRF	Supplemental Reserve Facility
TIM	Trade Integration Mechanism
WEO	World Economic Outlook
WTO	World Trade Organization

I. Overview

Keeping pace with the needs of our membership in a dynamically changing global economy requires that the Fund:

- *continue to increase the effectiveness of surveillance and crisis prevention efforts for the full membership;*
- *reinforce capacity-building efforts, including through targeted, high-quality financial sector assessments and technical assistance efforts;*
- *ensure that our financing instruments and operations continue to meet our members' varying needs;*
- *consider whether we could strengthen our mechanisms for signaling soundness of a member's policies;*
- *reinforce our preparedness to assist members to resolve crises, when they do occur, in a way that is orderly and transparent and fosters sustainability;*
- *strengthen our support for low-income member countries' efforts to lay the basis for sustained growth and poverty reduction and to achieve the Millennium Development Goals; and*
- *adopt the best managerial practices to meet the goals of the Fund.*

1. **The Fund's current policy agenda has been shaped by a recognition that the institution must evolve to address the lessons of experience and to prepare for the challenges of an evolving global economy and financial system.** Over the past decade, the Fund has undertaken a substantial transformation of its operations, reinforced by an increasingly open and critical assessment of how well the institution is meeting its objectives. We will be taking a closer look at the strategic directions of the Fund in the coming months, and we have had an initial exchange of views in this connection.

2. **As the Fund continues to refine its policy agenda, the objective must be to assist member countries to exploit the opportunities and deal effectively with the pressures of the changing global economy.** In particular, we must recognize both the upsides and risks that result from growing international economic integration. At the same time, while we are seeing important progress in the reduction of poverty, we confront the real risk that without far-sighted and coordinated action, people in many countries will be left behind.

3. **In the near term, relatively benign global economic conditions continue to provide the opportunity for tackling vulnerabilities and for strengthening the basis for robust growth, job creation, and poverty reduction.** Doing so requires above all ambitious actions by the membership—to address persistent imbalances in major economies and reduce the potential for a sharp correction and spillover, to build buffers to make emerging market economies more crisis-resistant, and to remove impediments to sustainable growth and efficient resource allocation in less developed economies. It also requires collective action by

the international community to achieve a successful and suitably ambitious conclusion to the Doha Round and to enhance the scale and effective delivery of aid.

4. **For the Fund specifically, action is required in the key areas highlighted above.** Over the period since the Spring Meetings, the Executive Board's work program has featured most prominently surveillance and support for low-income countries. In coming months, program design and conditionality under Fund-supported programs will be another important focus, along with work to reinforce prioritization and tradeoffs in the implementation of our policy agenda through a more strategic and output-oriented budgetary framework. The following sections describe the Fund's full policy agenda—and in particular progress since the 2004 Spring Meetings—in more detail.

II. Surveillance, Crisis Prevention, and Global Financial Stability

High-quality and effective Fund surveillance fosters stability in member countries and the international financial system more broadly, including by reinforcing members' efforts to prevent crises and promote conditions for sustainable growth. Our biennial surveillance review emphasized the need for prioritized efforts to:

- *focus and deepen our surveillance,*
- *improve the quality of the policy dialogue,*
- *strengthen communications, including through increased transparency, and*
- *measure and assess the effectiveness of surveillance more systematically.*

A successful and suitably ambitious conclusion to the Doha Round will also be important to strengthening the foundations for efficient trade and strong global growth. The Fund is supporting this objective through its surveillance, research, and financing operations.

A. Biennial Review of Surveillance

5. **In its July discussion of the 2004 biennial review of surveillance, the Board recognized the strong foundations for surveillance under the existing framework, while endorsing specific measures to support increased effectiveness and, in doing so, reinforce crisis prevention efforts.**[1]

Focus and content of surveillance

6. **The review confirmed the need for focused surveillance, built upon high-quality analyses.** To this end, issues central to the Fund's mandate will receive strengthened attention, while coverage of issues outside the Fund's traditional areas of expertise will need to be more discriminating, with greater use of information from Reports on Standards and Codes (ROSCs) and from outside sources, including other multilateral agencies.[2]

7. **Clear and candid treatment of exchange rate issues remains a challenge, but one that is critical to the effectiveness of Fund surveillance.** In this context, while recognizing the sensitive issues that arise in this area, the Executive Board endorsed clear identification of the de facto exchange rate regime in staff reports, with more systematic assessment of external competitiveness, and thorough and balanced presentation of the policy dialogue on exchange rate issues in Article IV documentation, particularly where views diverge between staff and the authorities. The Executive Board will also hold a seminar later this year on technical steps to support greater flexibility for countries moving from fixed to floating regimes.

8. **A variety of instruments have been defined to address the need for more continuous and effective financial sector analysis in the Fund's surveillance.** Financial Sector Assessment Program (FSAP) assessments are playing an increasingly important role in this regard. As of end-August 2004, 70 assessments had been completed, with another 42 underway or agreed.[3] Other mechanisms to reinforce financial sector analysis are also important, given the resource intensity and voluntary nature of the FSAP program. Increased participation by financial sector experts in Article IV missions or in separate missions and enhanced training for country teams in financial sector issues will be needed. Work on financial soundness indicators is continuing to strengthen monitoring efforts. A compilation guide was finalized in July following broad consultations with outside experts.[4] The Executive Board will also shortly hold a seminar on issues related to financial sector

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[1] *Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision* (8/24/04) and PIN No. 04/95.

[2] See paragraph 20 for a fuller discussion of ROSCs.

[3] See paragraph 21 for a fuller discussion of the FSAP program.

[4] *Compilation Guide on Financial Soundness Indicators*, published 7/30/04 at http://www.imf.org/external/np/sta/fsi/eng/2004/guide/index.htm.

regulation, focused on the benefits of more coordination between the IMF and international standard setters for financial stability analysis.

9. **Better integration of country-level, regional, and global surveillance will enhance the Fund's analysis of global and regional spillovers.**

- **Executive Board review of the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR) remains the central vehicle for global surveillance.**[5] The WEO reports provide detailed analysis of the impact of economic conditions and policies in industrialized countries on the rest of the world, and the GFSR has analyzed developments and risks in global capital markets, including transmission of shocks from mature to emerging markets.

- **Regional surveillance efforts are continuing to expand.** Surveillance of currency unions is being strengthened, following the model in recent Euro-area discussions.[6] In addition, attention to other regions with common policy interests has intensified; for instance, the Fund will organize a seminar early next year, jointly with the United Nations Economic Commission for Latin America and the Caribbean, to discuss the experience since the early 1990s with stabilization and structural reform in Latin America. The Board will also undertake informal discussions of regional issues as a complement to multilateral and country-level surveillance exercises. These discussions are expected, for example, to allow for comparative analysis of developments and policies across a region and to shed further light on regional transmission of shocks.

- **Increasing the focus on global and regional issues in country-level surveillance will be an important objective in the period ahead.** Article IV consultations with systemically or regionally important Fund members will need to provide fuller treatment of the cross-border impact of their economic conditions and policies. To date, such analysis has focused principally on treatment of the systemic impact of trade policies. More generally, Article IV consultations will be more explicit in linking economic performance to global economic and financial conditions and will enhance analysis of country-specific vulnerabilities to global economic and financial risks.

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[5] The current *World Economic Outlook* reviews the global housing boom, the experience of emerging markets since the early 1990s in moving to floating regimes, and fiscal behavior under the European Monetary Union. It also looks at how demographic changes will affect the global economy (*World Economic Outlook—The Global Demographic Transition*, September 2004). The current *Global Financial Stability Report* focuses on medium-term structural issues in the global financial system (*Global Financial Stability Report—Market Developments and Issues*, September 2004).

[6] *Euro Area Policies* (8/3/04) and PIN No. 04/79. See also *Modalities for Discussion of Euro Area Policies* (DEC/12899, 12/5/02).

10. **The analytical framework for vulnerability assessments is being further refined.**

- The strengthened framework for assessing public and external debt sustainability is being applied in a majority of surveillance discussions, including in almost all emerging market cases. Further efforts are underway to reinforce its robustness and objectivity, including through application of standardized sensitivity tests. More than two-thirds of recent Article IV reports provide explicit analysis of elements of vulnerability to balance of payments or financial crises, supported by debt sustainability analyses and relevant discussions of domestic policy developments, financing and corporate sector vulnerabilities, and, in some cases, domestic political economy factors. Increased integration of these assessments will be important to facilitate clearer discussion of the potential severity of vulnerabilities.

- The staff's internal vulnerability exercise has been further refined to reinforce assessments of risks in individual countries. In particular, the exercise is bringing greater clarity to the assumptions underlying staff's medium-term projections and allowing for more systematic stress-testing of those projections.

- Selective participation of capital markets experts in Article IV missions and through headquarters-based inputs is also strengthening assessment of vulnerabilities related to capital market developments.

11. **The balance sheet approach is increasingly being integrated into the Fund's operations, with a particular focus on the role of public debt**. This approach involves examining sectoral balance sheets and their interlinkages, and provides a framework to detect currency mismatches and other balance sheet weaknesses.[7] The Executive Board has held recent seminars on specific related issues, including a discussion of innovations aimed at reducing the vulnerabilities that emanate from today's sovereign debt structures and a discussion of liquidity management, which emphasized the importance of appropriate liquidity buffers, strong banking supervision, and sound liability management.[8] The Executive Board will shortly discuss using the balance sheet approach to detect vulnerabilities in emerging market countries, based on a review of balance sheet vulnerabilities in emerging markets over the last decade. A further seminar on the contingent claims approach to corporate vulnerability analysis is planned for later this year. This approach combines balance sheet information with current equity price information to compute credit risk indicators at the firm level.

12. **Focus on growth issues, and their links with macroeconomic sustainability, will be enhanced.** In low-income countries, analyses of alternative macroeconomic frameworks

[7] These issues are discussed in *Integrating the Balance Sheet Approach into Fund Operations* (2/23/04).

[8] *Sovereign Debt Structure for Crisis Prevention* (7/2/04); *Liquidity Management Framework* (forthcoming) and *Public Information Notice* (forthcoming).

will be used to assess sustainable macroeconomic scenarios under different aid flow assumptions. At the same time, analyses in these countries will need to include greater focus on building resilience to external shocks. Work is underway on reinforcing the policy dialogue on investment climate issues, where relevant, utilizing available information from outside sources. In addition, Fund staff is following up on the recent Executive Board discussion of public investment and fiscal policy. Pilot studies are underway in a number of countries with participation, in most cases, by the World Bank and regional multilateral development banks, to refine proposals regarding the analytical framework for conducting fiscal policy, the coverage of fiscal indicators, and the accounting and reporting treatment of public-private partnerships. The Fund will organize a seminar with member country participation at which final proposals will be discussed.

13. **Ensuring that surveillance in program countries gives a fresh perspective remains a critical issue.** There is now more strategic stocktaking within individual Article IV consultations, supported by the completion of ex post assessments in eleven countries with a longer-term program engagement. Another 18 assessments are expected to be completed before the end of the year. Country teams are also continuing to experiment with procedural mechanisms to reinforce candid surveillance, including, for example, separate documentation for an Article IV discussion and program review.

Policy dialogue

14. **A number of steps have been identified to enhance further the quality of policy dialogue with member country representatives.** For example, the Fund will seek to make better use of cross-country experience, pay greater attention to maintaining relationships between Article IV consultations, and explore whether brief notes might be a useful complement to missions' concluding statements, to enhance communications with senior policymakers.[9] Staff continuity is also important. To strengthen engagement in Article IV consultations, another possibility might be to encourage members to prepare policy statements, which would be an input into policy discussions.

[9] Recent examples of cross-country studies include *Adopting the Euro in Central Europe—Challenges of the Next Step in European Integration* (forthcoming) and *Into the EU: Policy Frameworks in Central Europe* (5/1/04).

Communication

15. **Communication of the Fund's policy messages to domestic stakeholders and markets, which provides strong reinforcement to the effectiveness of surveillance, has improved in recent years.** The Fund's transparency policy seeks to support strengthened domestic economic discussions and market assessments, while avoiding steps which would jeopardize the Fund's role as confidential advisor to members by reducing the candor of the dialogue with them and in reporting to the Board. The publication rate for country staff reports has increased to 76 percent, and almost all Fund policy papers are now published. A policy of presumed publication for all Article IV staff reports took effect on July 1, 2004. Yet public understanding of the role of surveillance remains limited, and there is scope to enhance communication through more active outreach, greater use by member countries of their "right of reply," and increased contacts with local think tanks, parliamentarians, and civil society organizations. A review of the Fund's transparency policy is planned for mid-2005.

Measuring and assessing effectiveness

16. **Measuring and assessing the overall effectiveness of Fund surveillance are challenging but important tasks.** To this end, more extensive discussion of effectiveness in individual Article IV consultation reports—including, as needed, the relevance and appropriateness of past policy recommendations by the Fund, and the authorities' responses—and methodological work on assessing the effectiveness of surveillance will be undertaken. In addition, Directors assigned immediate Fund-wide priority to sharpening the focus of Article IV consultations, and, within this, ensuring a deeper treatment of exchange rate issues; enhancing financial sector surveillance; and deepening the coverage of regional and global spillovers in bilateral surveillance. These will be monitorable objectives for the next surveillance review. Progress on improving debt sustainability and reducing balance sheet vulnerabilities and further work on surveillance in low-income countries will also be monitored in the next review of surveillance.

B. Trade

17. **The Fund continues to advocate strengthened global trade, including through a successful conclusion of the Doha Development Agenda.** The July agreement on a framework for negotiations and extension of the round provides an important window for progress. The Fund will continue to support these efforts.[10]

[10] At the request of the World Trade Organization, the Fund recently conducted a study of the impact of exchange rate volatility on trade flows, which found limited evidence of linkages. See *Exchange Rate Volatility and Trade Flows – Some New Evidence*, published 5/19/04 at *http://www.imf.org/external/np/res/exrate/2004/eng/051904.htm*.

- In July, Bangladesh became the first country to benefit from assistance in accordance with the Trade Integration Mechanism (TIM), through augmentation of access under its Poverty Reduction and Growth Facility arrangement. The TIM was approved in April in response to concern by some countries that multilateral or other nondiscriminatory trade liberalization might temporarily affect their balance of payments positions by worsening their competitive positions in export markets or their food terms of trade.

- The Fund is continuing to encourage trade policies that will strengthen the economic prospects of low-income countries and, more broadly, strengthen the basis for efficient, growth-enhancing trade. This includes systematic reporting on trade barriers and vulnerabilities facing low-income countries in surveillance, as well as research work. Efforts will also continue to ensure fuller inclusion of trade policy considerations in Poverty Reduction Strategy Papers, including through the Integrated Framework for Trade-Related Technical Assistance and enhanced coordination with the World Trade Organization and the World Bank.

- The Executive Board will examine issues related to regional trade arrangements, including how the Fund can encourage them to be building blocks for multilateral trade liberalization, in a seminar later this year. Early next year, the Board will discuss a comprehensive review of the Fund's work on trade, which will set out key challenges facing members in the trade policy area and how the Fund is and should be helping to address them.

III. Capacity Building

Capacity-building efforts are increasingly important complements to the Fund's policy advice.

- *Technical assistance efforts target country-specific capacity-building requirements, including strengthened governance through transparent and stable economic and regulatory environments and improvements in the management of public resources. The Fund's technical assistance efforts are benefiting from review to ensure that they are well targeted and coordinated.*
- *Financial sector assessments, and those related to a broader range of standards and codes, have become an increasingly important element of the Fund's work, providing objective foundations for assessing financial structures within member countries and reinforcing country efforts to prevent the buildup of vulnerabilities.*

18. **The Fund's capacity-building efforts are benefiting from continuing review.** Follow-through on the March Executive Board discussion of technical assistance is focusing on continued prioritization, introduction of an annual technical assistance evaluation program, piloting of a Fund-wide *Technical Assistance Information Management System*, and

close coordination with other technical assistance providers and donors. A full review of the Fund's technical assistance by the Independent Evaluation Office will be discussed by the Board later this year.

19. **Use of the regional approach to technical assistance delivery has increased in recent years.** A fifth regional center, the Middle East Technical Assistance Center (METAC), located in Beirut, Lebanon, will start operations in October, complementing those already in place in Africa (East and West), the Pacific, and the Caribbean. Regular evaluations of all existing centers have been or will be completed by early next year and will form the basis for a more comprehensive review of experience with regional delivery.

20. **Participation in the standards and codes initiative has continued to grow**. Over two thirds of Fund members have completed or committed to undertake at least one module of a Report on the Observance of Standards and Codes (ROSC), and, as of end-June 2004, 561 ROSC modules have been completed for 112 economies. Almost three quarters of ROSCs have been published. The Fund is supporting further work by the Financial Stability Forum and standard-setting bodies on strengthening the content and coverage of standards in accounting, auditing, and corporate governance, and on improving transparency and financial disclosure. The review of the standards and codes initiative, scheduled for spring 2005, will be an opportunity to assess its progress and objectives.

21. **In addition to its increasingly important role in surveillance, the Financial Sector Assessment Program continues to play a critical role in supporting institution building in the financial sector.** A seminar was held in June to familiarize country officials with FSAP methodologies and tools. The joint Bank-Fund Financial Sector Liaison Committee (FSLC) continues to coordinate the financial sector work of the IMF and the World Bank, where appropriate, and in particular the joint work under the FSAP, focusing most recently on issues such as streamlining of the FSAP and technical assistance and other follow up to FSAP recommendations. A joint Fund-Bank review of the FSAP is scheduled for spring 2005. An evaluation of the FSAP by the IEO is also expected in late 2005.

22. **Assessments related to offshore financial centers (OFC) and anti-money laundering and combating the financing of terrorism (AML/CFT) are also core elements of the Fund's work in the financial sector.** Practically all OFCs contacted under the program have been assessed; updates will be conducted within 4 to 5 years, with interim risk-focused assessments as needed. Under the revised standard for AML/CFT assessments, endorsed this spring and to be implemented beginning this fall, 30 to 40 assessments are expected to be conducted annually, of which the Fund and the Bank will conduct about half, and the Financial Action Task Force (FATF) and FATF-style regional bodies the remainder. AML/CFT assessments will be complemented by intensified delivery of technical assistance for the areas covered under the revised standard.

IV. Use of Fund Resources

The Fund's financing operations are directed at mitigating the impact of temporary balance of payments difficulties when members are implementing a strong policy response. We are pursuing a range of initiatives to ensure that our financing operations and instruments are well designed and sufficiently flexible to support country-driven reform efforts under a wide range of circumstances:

- *We are conducting a broad-ranging review of program design and conditionality that will help us better assist our members achieve external viability and growth;*
- *We are continuing to review our financing instruments to ensure that they evolve to meet the needs of our members in a changing global environment.*

A. Conditionality

23. **The Fund is undertaking a critical review of the design and effectiveness of Fund-supported programs as part of broader efforts to ensure that programs are appropriately tailored to members' varying macroeconomic objectives and circumstances.** The review focuses on the objectives and outcomes of Fund-supported programs, the analytical framework for program design, and selected aspects of macroeconomic and structural policy. Following up on the IEO's 2003 report on fiscal adjustment in Fund-supported programs, greater attention is also being given to the formulation and implementation of key institutional and structural measures in the fiscal area in both the surveillance and program design context, with the recent Article IV discussions with Indonesia providing an early example. Recognizing the changes the Fund has already made since the Argentine crisis, the Board agreed that the discussion of the IEO's evaluation of the Fund's role in Argentina during 1991-2001 also provided important insights into the Fund's program engagement, as well as surveillance, in that country (Box 1).[11]

24. **The review of program design will provide important input into a review of the application of the 2002 conditionality guidelines around the turn of the year.** In an informal seminar in June, staff briefed Directors on the planned content of the review; this would focus on the extent to which the new guidelines, which aim at streamlining and focusing conditionality and enhancing country ownership of programs, have led to changes in the way conditionality is applied, what difficulties have arisen in their application and, as possible, whether the changes are leading to more effective program implementation.

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[11] *IEO Evaluation of the Fund's Role in Argentina, 1991-2001* (includes the *Statement by the Managing Director*, the *Staff Response*, the *IEO Comments on the Management/Staff Response*, the *Statement by the Governor for Argentina*, and *The Chairman's Summing Up*, 6/30/04).

Box 1. IEO Evaluation of the Fund's Role in Argentina, 1991-2001

The Executive Board discussed the Independent Evaluation Office's review of the Fund's role in Argentina during the period from 1991 to 2001 in July. Recognizing the progress that has already been achieved since the Argentine crisis, Directors agreed that the report provided valuable insights for the Fund's financing and surveillance frameworks.

The period covered by the review began with the introduction of the convertibility regime that pegged the Argentine peso at par with the U.S. dollar and ended with the regime's collapse accompanied by a default on Argentina's public debt. The 2001 crisis was one of the most severe of any country in recent years and brought considerable hardship to the Argentinean people.

Key conclusions related to policy recommendations from the Executive Board discussion include:

- Where the sustainability of a country's debt or the exchange rate is threatened, the Fund should clearly indicate that its support is conditional upon a meaningful shift in policies. Up-to-date and comprehensive information is critical for the Board to make necessary judgments in such cases. The debt sustainability template and procedures on exceptional access provide important support in this regard.

- Further reflection is needed on the issue of contingency planning in the context of Fund assistance to countries in crisis. There is potential value in such planning from the outset of a crisis, but also a need to establish what can constructively be done in ways that enhance confidence.

- Directors emphasized the importance of, and recent progress in, ensuring that medium-term exchange rate and debt sustainability analysis form the core focus of IMF surveillance. While the choice of the exchange rate regime must remain with the member's authorities, the Fund is obliged to exercise firm surveillance to ensure that other policies and constraints are consistent with that choice. Directors saw a need for greater candor in the treatment of exchange rate policy in the context of Article IV discussions, but most also stressed the need to strike an appropriate balance between candor and confidentiality. Analytical work on medium-term debt sustainability has also supported a reassessment, in the Fund and more broadly, of what level of debt is sustainable for emerging markets countries, with the concept of "debt intolerance" playing an important role.

- While Directors noted the possible risks associated with precautionary Fund arrangements. most Directors did not think that precautionary arrangements tended to be weaker than other arrangements, and most reiterated the value of precautionary arrangements in the IMF's toolkit. In this context, Directors confirmed the importance of ensuring that program standards and requirements for precautionary arrangements are the same as those for all other arrangements.

- The Fund is continuing to reflect on how to strengthen further the role of the Board during a crisis, including through improvements in the provision of full information on all issues relevant to decision making and open exchanges of views between management and the Board on all topics, including the most sensitive ones.

- In all cases of use of Fund resources, particularly those involving exceptional access, close cooperation with the country authorities should be presumed and the Board kept fully informed of the state of policy discussions.

B. Financing Instruments

25. **Ongoing review of the Fund's facilities is essential to ensure that they remain well designed and sufficiently flexible to address the evolving needs of the membership.** A periodic review of access policy, including of the framework for exceptional access, will be conducted by early 2005. In addition, a review of charges and repurchase periods in the Fund's facilities is expected also by early 2005. Developments related to Fund instruments for low-income members are described in Section VII.

26. **Precautionary arrangements are an important instrument to signal policy discipline and provide contingency financing.**[12] The use of these instruments is particularly relevant for countries exiting from sustained use of Fund resources. They also have a role to play in supporting members' efforts to reduce their vulnerabilities to capital account crises. A difficult issue pertaining to this crisis prevention role, however, is the possible use of precautionary arrangements with exceptional access. There has been considerable discussion of this issue, but consensus has so far proved elusive. A number of possible avenues for future work in this area were discussed by Executive Directors in September, and staff will keep Directors informed, including in the context of the work program, on how this work will be advanced.

V. OTHER MECHANISMS FOR INTENSIFIED ENGAGEMENT

We are considering more fully whether the Fund could strengthen its mechanisms for signaling soundness of a member's policies, outside the context of a financial arrangement.

27. **It has continued to be the case that some members look to the Fund for high-frequency policy monitoring and signaling outside of Fund arrangements.** In such cases, members have sought a mechanism that demonstrates their commitment to sound policies either for domestic purposes or as a signal to creditors and donors, but do not need, or prefer not to request, Fund financing. Demand for signaling has also come from donors and creditors. Directors have discussed the issue of signaling on several occasions, but views differ on the degree to which members' needs for signaling can be met through the use of existing instruments, including precautionary or low-access arrangements or Article IV procedures, which, if necessary, may be adapted to provide for assessments more often than once a year.

28. **A range of mechanisms can be considered—and indeed has been used or explored in the past—in response to members' demand for signaling.**[13] A key distinction

[12] *Crisis Prevention and Precautionary Arrangements—Status Report* (forthcoming) and *Public Information Notice* (forthcoming)..

[13] See *Signaling by the Fund—A Historical Review* (7/16/04).

in this regard is whether the mechanism is available to all members, with the Fund's assessments giving multidimensional signals, or whether it is available only to members that meet certain standards, with an "on/off" signal emanating from the activation and continuation of the mechanism. Surveillance belongs in the former category, as do a number of recent examples of intensified monitoring involving staff reports to the Board, and in some cases their publication, at a higher frequency than the Article IV consultation. There is a variety of views on whether a mechanism in the latter category, involving standards and "on/off" signals, might be useful. We have had an initial exchange of views on the possible design of such an instrument and its pros and cons; key design issues, should such an instrument be introduced, would include the standard for activation of the mechanism (upper credit tranche conditionality, or another standard), modalities for reviews, and publication.[14] Discussion of signaling issues, including their specific application to low-income member countries, is planned to continue later this year, and will be informed by consultations with potential users, donors, and private market participants.

VI. Resolving Crises

We are continuing our efforts to support timely and effective resolution of crises through:
- *support of the use of collective action clauses and cooperation in efforts toward a Code of Conduct;*
- *support for the efforts by members undertaking comprehensive policy reform to achieve debt and debt-service burdens that are consistent with medium-term sustainability; and*
- *continuing review of our policy on lending into arrears.*

29. **A separate progress report on crisis resolution elaborates on developments across the various initiatives related to the orderly resolution of financial crises and notes some recent cases of implementation of the lending into arrears policy.**[15]

30. **The Fund is continuing to promote the use of collective action clauses (CACs) and to cooperate in efforts to define a Code of Conduct.**

- The issuance of international sovereign bonds including CACs is becoming the standard practice in the New York market, and there is no evidence of a premium associated with the use of CACs. Sovereign issues containing CACs have grown to represent more than 90 percent of the total value of bonds issued since March 2004, and about 40 percent of the value of the outstanding stock of bonds from emerging

[14] *Policy Monitoring Arrangements* (forthcoming) and *Signaling by the Fund—A Historical Review* (ibid.), and *Public Information Notice* (forthcoming).

[15] *Progress Report on Crisis Resolution Issues* (9/28/04).

market countries as of end-July. In addition, a number of advanced economies have recently included CACs in their sovereign bonds issued in foreign jurisdictions.

- Efforts to formulate a Code of Conduct are continuing both in the private and official sectors. Discussions in the financial community and eventually in the G-20 on a broad set of principles—rather than a detailed Code—elaborated by the Institute for International Finance are expected to continue later in the year. Challenges, however, remain in devising a Code that is detailed enough to provide practical guidance, while being sufficiently flexible to be applied to a diverse set of country circumstances.

31. **The Fund is supporting efforts by a number of members to achieve debt and debt-service burdens that are consistent with medium-term sustainability.** Debt difficulties are best resolved through a comprehensive policy response and, as necessary, restructurings intended to avoid default. But the Fund stands ready if necessary to support members under the lending into arrears policy, if Fund support of the member's program would, inter alia, contribute to the re-establishment of orderly debtor-creditor relations. In line with the request of the IMFC, staff will continue to review the implementation of the lending into arrears policy. Looking forward, the Board will review a paper examining the difficult policy trade-offs that arise in maintaining financial sector stability during a sovereign debt restructuring, and ways to mitigate the effects of debt restructuring on bank balance sheets. In addition, the Board will consider later this year a paper on the role a cooperative or collaborative approach between member countries and investors could play in allowing a country to regain market access, focusing on the importance of information dissemination and design of debt instruments.

VII. SUPPORTING LOW-INCOME MEMBER COUNTRIES

The Fund has an important role to play in supporting its low-income members' efforts to establish and maintain macroeconomic and financial stability, which is essential to foster durable growth and reduce poverty. Key issues include:

- *refining the Poverty Reduction Strategy approach as the operational framework for coordinating countries' and donors' efforts in pursuit of the Millennium Development Goals;*
- *meeting low-income members' needs for policy advice, technical assistance, and financial assistance;*
- *supporting the achievement and maintenance of debt sustainability in low-income member countries, including through continued implementation of the Heavily Indebted Poor Countries (HIPC) Initiative; and*
- *supporting efforts to increase the scale and effectiveness of aid.*

A. The Role of the Fund in Low-Income Countries

32. **The Fund supports the Millennium Development Goals (MDGs) and pursues its mandate in the context of international partnerships that are essential if low-income**

countries are to make progress toward the MDGs. In order to strengthen and better focus the Fund's work in supporting low-income members, a *Committee on Low-Income Country Work*, headed by the First Deputy Managing Director, has been constituted. As a roadmap to guide these efforts, the Committee prepared a *Statement on the Role of the Fund in Low-Income Countries*. Most Directors agreed that the content of the statement was broadly consistent with basic principles concluded at previous Board discussions, although the statement remains a work in progress.[16] It reaffirms that low-income countries must take the lead in their own reform efforts, and that the Fund should focus on supporting the macroeconomic policy reforms needed to achieve high growth and poverty reduction over the medium term, through policy advice, capacity building, and financial assistance. It recognizes that close coordination is needed with bilateral donors and other multilateral institutions in the context of the Monterrey Consensus and through the Poverty Reduction Strategy approach at the country level.

B. Refining the Poverty Reduction Strategy Approach

33. **The recent Independent Evaluation Office review of the Poverty Reduction Strategy approach and of the Poverty Reduction and Growth Facility has provided important input into ongoing efforts to reinforce the effectiveness of the Fund's engagement with low-income members** (Box 2)**.**[17] Nationally-owned participatory poverty reduction strategies are seen by the international community as the country-level operational framework for progressing toward the Millennium Development Goals and provide the basis for Fund concessional lending. In discussing the IEO report, the Board recognized that the Poverty Reduction Strategy (PRS) approach has had a positive impact on economic policy design and implementation in low-income member countries, but stressed the substantial scope for improved implementation of the approach. Concerns include that Poverty Reduction Strategy Papers (PRSPs) suffer from a multiplicity of objectives, the PRS approach is perceived to be externally driven, participation has sometimes been narrow, and PRSPs often have lacked operationally viable strategies.

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[16] *The Role of the Fund in Low-Income Member Countries* (8/13/04) and PIN No. 04/110.

[17] *IEO Evaluation Report on PRSPs and the PRGF* (including the *Statement by the Managing Director*, the *Staff Response*, the *IEO Comments on the Management/Staff Response*, and *The Acting Chair's Summing Up*, 7/6/04).

Box 2. IEO Evaluation of PRSPs and the PRGF

The Executive Board discussed in July the review of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF) by the Independent Evaluation Office (IEO). The IEO report is a valuable contribution to the ongoing review of how to improve the effectiveness of the Fund's engagement with low-income countries. It found that, while the initiative has resulted in some important changes, its implementation has fallen short of its potential. The report identified, in particular, a need to shift incentives within the initiative more toward improving underlying domestic policy-making processes and institutions and away from the production of documents. In discussing the evaluation, Directors agreed that the PRSP approach has yielded benefits, but that substantial scope exists for better implementation. They observed that the PRS approach is perceived to be externally driven; participation has sometimes been narrow, particularly in the formulation of the macroeconomic framework underlying the PRSP; and PRSPs have often lacked operationally viable strategies. But they also cautioned against drawing premature conclusions about the ultimate success of the PRSP approach based on only five years of experience with implementation.

For PRGF-supported programs, the IEO report finds that these are increasingly being aligned with the country-owned PRSP, even though such alignment is still somewhat limited. The design of these programs has improved in a number of ways. For example, fiscal targets have become more flexible to accommodate increased expenditures on pro-poor programs, and there is no evidence of an excessive disinflationary bias. But major challenges remain. Directors noted in particular the challenge of basing Fund-supported programs on a full understanding of micro-macro linkages—which the IEO emphasized were crucial to understanding sources of growth. Directors also considered that more should be done to integrate the results of poverty and social impact analysis into program design.

The report has a number of constructive recommendations, which have informed, and will continue to inform, the Fund's efforts to strengthen the PRSP approach, clarify the Fund's role in this approach, and enhance the Fund's advice and assistance to low-income countries. Individual recommendations include:

- Introduce greater flexibility in the implementation of the PRS approach.
- Shift the emphasis of the initiative from the production of documents to the development of sound domestic policy formulation and implementation processes.
- Clarify the purpose of the Fund and World Bank's Joint Staff Assessment of the PRSP and redefine the vehicle accordingly.
- Clarify what the PRS approach implies for the IMF's own operations and strengthen the implementation of the agreed role.
- Strengthen the prioritization and accountability on what the IMF is supposed to deliver within the broader partnership framework, built around the priorities emerging from the PRS process, and ensure resources match commitments.
- The IMF should encourage a strengthening of the framework for establishing the external resources envelope as part of the PRS approach.

The Fund has responded to many of these recommendations in its joint review with the World Bank of the implementation of the PRS approach and in its work program for the coming year.

34. **The Fund is exploring options for strengthening the PRS approach based upon the Independent Evaluation Office recommendations.** In the context of this year's review of progress in PRSP implementation, the Executive Board held initial discussions on how the role of annual progress reports in monitoring progress and adjusting strategies could be

strengthened by linking them more closely with existing domestic processes.[18] A key challenge will be addressing the inherent tension between, on the one hand, country ownership of policies and programs, and, on the other hand, the need of donors and international financial institutions to ensure that their lending and broader operations take place in the context of a broadly satisfactory institutional and policy framework. Strengthening the link between domestic processes and poverty reduction strategies will serve to reinforce country ownership of the PRS process. Several member countries, such as Bangladesh and Mozambique, are stepping up efforts to integrate their PRSs into existing planning processes, such as the budget planning and formulation cycle and regular sectoral reviews. As part of its efforts to foster ownership, the Fund will also strengthen its outreach efforts, including with parliamentarians. The Executive Board will discuss proposals for improving the Fund's involvement in the PRS process later this year.

35. **The Fund and World Bank Executive Boards have agreed to modify the role of the Joint Staff Assessment in the PRS process.**[19] In order to reduce the perception of a Washington "sign-off" of the PRSP and to encourage a more candid and nuanced staff assessment in the Joint Staff Assessment (JSA), the two Executive Boards agreed to eliminate the existing requirement of a statement in the JSA that the PRSP is a suitable basis for concessional assistance and thus the formal endorsement of the PRSP by the Executive Boards. The JSA will become a Joint Staff Advisory Note (JSAN) and will conclude with a paragraph that raises issues for discussion by the Boards. An explicit link between the PRSP and Fund and Bank financing activities will be maintained, with the documentation for financing operations discussing how the weaknesses identified in the JSAN are being addressed so that appropriate assistance can proceed. The JSA guidelines will be revised accordingly, and also to help ensure that JSANs are more tightly focused and to eliminate the pressure to address all aspects of the PRSP.

36. **The coming year will mark the fifth anniversary of the PRS approach.** In this context, a more comprehensive review of progress, challenges, and good practice related to key issues identified by stakeholders, past staff reviews, and the IEO evaluation will be undertaken in advance of the 2005 Annual Meetings. This review will also assess the impact of the recent changes to the architecture of the PRS approach and draw lessons on the effectiveness of the approach as a vehicle for attaining the MDGs.

C. Meeting Low-Income Members' Needs for Policy Advice, Capacity Building, and Financial Assistance

37. **A wide range of efforts are underway to strengthen the Fund's capacity to meet its members' needs for policy advice, capacity building, and financial assistance**:

[18] *Poverty Reduction Strategy Papers—Progress in Implementation* (8/19/04) and *Public Information Notice* (forthcoming).

[19] Ibid.

- **Policy advice:** Building upon the findings of the review of progress in Poverty Reduction Strategy Paper implementation, and taking into account the recommendations of the Independent Evaluation Office report on PRSPs and the PRGF, the Fund is working to improve the analytical framework for its work in low-income member countries by more extensive analysis of the sources of growth and the linkage between growth and poverty. This work will be complemented by specific discussion of PRGF program design that will focus on the role of institutions and good governance in supporting growth, macroeconomic policies in countries that have succeeded in stabilization efforts, and the management of large aid flows. In addition, the Fund is increasingly incorporating available poverty and social impact analysis (PSIA) to help guide PRGF program design. A special group has been formed within the Fund's Fiscal Affairs Department that will focus on assisting country teams in integrating PSIA into the design of PRGF-supported programs. In Ethiopia, for example, an analysis of the distributional effect of replacing the sales tax with the Value Added Tax was undertaken.

- **Technical assistance and capacity building:** The Fund assists low-income member countries in building the capacity to formulate and implement macroeconomic and financial policies, including by improving the data relevant for policy formulation. In addition to the broader work underway to review and strengthen the delivery of technical assistance, ongoing work on Assessment and Action Plans (AAPs) for public expenditure management systems in Heavily Indebted Poor Countries (HIPCs) (conducted jointly by Fund and Bank staffs) makes an important contribution to assessing the existing capacity to track public expenditures, including poverty-reducing expenditures, and to clarify what donor and technical assistance should be provided to improve systems for managing poverty-reducing and other expenditures.

- **Financial assistance:** Work is underway to follow up on the recent Board discussion of alternative lending instruments for, and the financing of, the Fund's future involvement in low-income member countries.[20] Procedures will shortly be put into place to implement the Executive Board's decision to adopt norms for tapered access to PRGF resources under successive arrangements, and the guidelines on blended use of PRGF resources and resources from the General Resources Account (GRA) and on augmentation of PRGF arrangements in response to shocks will be clarified. Guidance will also shortly be issued elaborating the modalities of Emergency Post-Conflict Assistance (EPCA) programs, e.g., the length of programs and the role of EPCA programs in the context of the HIPC Initiative. Staff work is also underway on a number of other issues flagged by the IMFC or in previous Board discussions, and the Board will discuss these later this year:

    - Proposals for subsidizing emergency assistance for natural disasters;

[20] *The Fund's Role in Low-Income Member Countries—Considerations on Instruments and Financing* (2/24/04) and PIN No. 04/40.

- A decision on extending post-program monitoring to the use of PRGF resources, which will enhance the comparability of treatment across members and help safeguard scarce PRGF resources;
- Issues relating to the establishment of a new shocks facility within the PRGF Trust—for lending on PRGF terms with some of the program design features and duration of stand-by arrangements—and whether such a facility would be an appropriate instrument to address the needs of low-income member countries that do not have a PRGF arrangement but are vulnerable to exogenous shocks;
- Financing of a self-sustained PRGF, including projections of the demand for and availability of PRGF financing over the medium term.

38. **The Executive Board will have a further opportunity later this year to discuss how best to address the needs of low-income members and donors for monitoring and signaling outside of a Fund-supported program.** This discussion will build on the initial Executive Board deliberations in the biennial surveillance review and discussions of possible policy monitoring arrangements. Donors' views will be sought in the process of formulating a proposal on how to address low-income countries' needs for signals.

D. The Enhanced HIPC Initiative and Debt Sustainability

39. **The Fund continues to work in partnership with other official creditors to support low-income countries' efforts to achieve and maintain robust debt sustainability.** Through debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and through improved tools for analyzing and managing debt, the Fund is playing an important role in supporting low-income member countries' efforts to achieve and monitor debt sustainability even as financing is needed to achieve the MDGs.

40. **A number of additional members have succeeded in reaching the HIPC completion point, and the Executive Boards of the Fund and the World Bank have agreed on an extension of the HIPC sunset clause by another two years, giving members that have not yet reached their decision points another opportunity to benefit from HIPC relief:** [21]

- Four additional members—Niger, Senegal, Ethiopia, and Ghana—have reached the completion point since end-March 2004. In total 14 members have now reached this stage. The Fund's disbursement of debt relief at the completion point, together with already disbursed interim relief, accounts already for just over 70 percent of the total amount that has been committed to the enhanced HIPC Initiative.

[21] *Enhanced HIPC Initiative—Status of Implementation* (8/23/04) and *Public Information Notice* (forthcoming).

- Maintaining macroeconomic stability has proved a challenge for the 13 member countries that are in the interim period between their decision and completion points. The Fund is providing interim relief to six member countries that remain on track with their macroeconomic programs in the context of a PRGF arrangement. Of the remaining seven members in the interim period, Cameroon, Chad, and Malawi have recently experienced difficulties in program implementation, primarily in the fiscal policy area. Restoring macroeconomic stability in the Gambia, Guinea, Guinea-Bissau, and São Tomé and Príncipe will require strong efforts to address obstacles in public resource management and structural reforms.
- The Boards of the Fund and World Bank have extended the HIPC sunset clause by another two years to end-2006, to provide the opportunity for the remaining countries that could qualify to establish a track record that would allow their consideration for HIPC relief.[22] This extension will apply only to IDA-only/PRGF-eligible members that have not yet benefited from HIPC debt relief and are assessed to have public debt in excess of the enhanced HIPC Initiative thresholds after full application of traditional debt relief mechanisms based on end-2004 debt data. Many of the countries that could benefit from the extension of the sunset clause are affected by conflict, and several, in particular Liberia, Somalia, and Sudan, have large and protracted arrears to various creditors. Notwithstanding these difficulties, some are making good progress in establishing a track record of macroeconomic performance. No provision has been made for the HIPC grant resources that would be needed for the three protracted arrears cases, and mobilization of these resources may soon become necessary.

41. **Further progress is being made in refining the debt sustainability framework for low-income member countries.**[23] This analytical framework has been developed jointly by the IMF and the World Bank to help ensure that the large financing needs associated with efforts to achieve the MDGs do not lead to an unsustainable buildup of debt, and that countries having received debt relief under the HIPC Initiative will stay on a sustainable track. The Executive Board discussed analytical refinements to this framework in September.[24] Directors generally supported the use of empirical debt-burden thresholds as guideposts for future financing decisions rather than firm ceilings for borrowing. Most Directors preferred conservative debt thresholds, in order to limit the prospects of future debt distress, but they recognized that a lower tolerance for debt distress would require higher levels of grant financing in pursuit of the MDGs. Fund and Bank staff will prepare a joint note on alternative options for thresholds and their implications, as well as other analytical

[22] Ibid.

[23] *Debt Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications* (2/3/04) and PIN No. 04/34.

[24] *Debt Sustainability in Low-Income Countries—Further Considerations on an Operational Framework and Policy Implications* (forthcoming) and *Debt Sustainability in Low-Income Countries—Implications for Fund Program Design* (forthcoming), and *Public Information Notice* (forthcoming).

issues, before the full framework is operationalized. Directors endorsed a collaborative approach between the Bank and the Fund in the preparation of debt sustainability analyses. The staff will revisit the modalities for collaboration for further consideration by the Board, taking into account the different mandates of the two institutions. PRGF-supported programs will also incorporate a more explicit focus on debt sustainability, with more systematic use of indicative targets on the net present value of debt and of limits on the overall fiscal deficit, and with increased flexibility in the design of performance criteria on minimum levels of concessionality for newly contracted debt.

E. Mobilizing International Support

42. **The international community recognized under the Monterrey Consensus that decisive progress toward the MDGs will require ambitious country-led reform efforts supported by higher aid and its more effective delivery.** The Fund offers low-income countries advice on how to manage aid inflows, which is crucial given the international effort to mobilize more aid for the MDGs. Mobilization and coordination of financing for the MDGs figures prominently on the international agenda, especially over the next year as the international community prepares for the United Nations Summit on the Millennium Development Goals to be held in New York in September 2005. Executive Directors recently discussed the issue of aid effectiveness and the merits of various options to mobilize more resources in support of the MDGs, on the basis of a paper prepared jointly by Fund and World Bank staff.[25] Directors emphasized that increased aid is not a panacea, and that action is also required in other areas—further improvements in recipient countries' policy environments, better market access for developing countries' exports, better aid management and implementation, and a relaxation of absorptive capacity constraints. Directors generally considered that more official development assistance was the best way of mobilizing additional resources in pursuit of the MDGs. There was a variety of views on the merits of setting up a new International Finance Facility and on global taxation, with most Directors calling for further work by the Fund on these issues. The second Global Monitoring Report, which will report on progress toward the MDGs and on remaining obstacles to achieving them, will be presented at the 2005 Spring Meetings.

43. **At an institutional level, the Fund will continue to work with member countries and other institutions to promote donor coordination and harmonization.** Multiple and overlapping conditions for aid delivery, including diverse analytical and reporting requirements, impose high administrative costs on low-income countries, and can contribute to difficulties in meeting financing conditions and to unpredictability in aid flows. In this context, work is continuing with bilateral and multilateral donors on institutional mechanisms and best practices to reduce the administrative burden and the transaction costs of aid for low-income countries, while continuing to ensure that donors have necessary assurances that aid is being used soundly. As part of this effort, staff are actively engaged in a variety of fora,

[25] *Aid Effectiveness and Financing Modalities* (9/28/04) and *Public Information Notice*.(forthcoming).

including in the Organization for Economic Cooperation and Development-Development Assistance Committee's Working Party on Aid Effectiveness, in implementing the donor harmonization agenda ahead of the second High-Level Forum on Harmonization, which will take place in Paris in March 2005.

VIII. Managing an Effective Institution

To benefit its members, the Fund should be managed in a way that meets the highest standards. In this context we are:

- *Revisiting budgetary procedures to enhance their strategic dimension,*
- *Working toward closer collaboration with the World Bank while achieving a sharper division of labor between the two institutions,*
- *Maintaining a central focus on ensuring the institution's financial integrity, and*
- *Continuing to seek consensus on the issues of quotas, voice, and representation.*

44. **Directors have endorsed a new approach for the Fund's budget to enhance its strategic focus and support prioritization by the Executive Board and management.** The Fund will continue to adhere to existing requirements for full costing of new policy proposals. In the current budget environment, the presumption is that the resources for new initiatives will be met by reprioritization or from efficiency savings; and the Fund is moving to a strategically-oriented budget process that will facilitate prioritization. The new approach builds on a strategy document, to be approved by the Executive Board, covering a three-year period and reflecting the Fund's policy objectives. This will be accompanied by a medium-term budget framework setting out the overall resource envelope and allocation of resources to specified outputs. Departmental business plans will be built up from the medium-term budget framework and will set out departmental strategy within the budget constraint. Annual budgets will be prepared in terms of outputs, while also including traditional information on inputs. As the budget moves toward a more output-based focus, performance indicators will be developed and incorporated. A review of the Fund's employment structure, compensation, and benefits has also been launched, drawing on external expertise; the first phase of work is expected in early 2005.

45. **A review of the resident representative program will be issued to the Executive Board shortly.** Recognizing the important contribution of the program to the Fund's work, the review takes place against the background of a significant increase in the size of the program since 1997 and will explore options to strengthen the flexibility and effectiveness of the program.

46. **Ensuring efficiency and focus in the Fund's operations will depend upon continued efforts to improve collaboration while achieving a sharper division of labor between the IMF and World Bank.** A clear demarcation of responsibility requires close implementation of the guidelines that have been endorsed by the two Boards and an objective look at both institutions' ability to deliver what their members require. The Joint Implementation Committee has been reconstituted to reinforce efforts to narrow common

areas of responsibility, to the extent compatible with efficiency, and to manage the work in areas of common responsibility better.

47. **The Fund continues to be guided by the need to safeguard the institution's financial integrity.** A broad review of the Fund's finances and financial structure will be conducted by early next year. A semi-annual report on the activities and results of the safeguards assessment policy—which provides reasonable assurances to the Fund that a central bank's control, accounting, reporting, and auditing systems are adequate to ensure the integrity of its financial operations and the reporting of monetary data to the Fund under an arrangement—has been provided to the Board for information.[26]

48. **The Fund's current liquidity position appears adequate, and the Fund will likely be able to meet the projected near-term needs of its members, particularly in the context of the global economic recovery.** The forward commitment capacity has increased in recent months to some SDR 62 billion as of end-July 2004. However, continued monitoring of the Fund's liquidity position will be important given the challenges to a sustained recovery and the need for the Fund to have adequate resources to fulfill its responsibilities.

49. **In response to requests by the IMFC and the Development Committee, a status report on quotas, voice, and representation has been prepared.** The report provides an update on work on quota-related issues and the adequacy of Fund resources, as well as on the status of efforts to strengthen the capacity of developing and transition countries to participate effectively in the Fund's decision making processes. The Executive Board last discussed quota-related issues in July 2003, and, as a follow-up to that meeting, updated illustrative quota calculations have recently been provided to the Board.[27] There has been no change since March 2004 in the status of the proposed Fourth Amendment of the Articles of Agreement, which has been accepted by 131 members with about 77 percent of the voting power.

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[26] *Safeguards Assessment—Semi-Annual Update* (8/10/04).

[27] *Quotas—Updated Calculations* (8/27/04).

Table 1. Participation in Transparency, FSAP, and Standards and Codes Initiatives 1/ 2/
As of June 30, 2004 (unless otherwise indicated)

	(1) Africa	(2) Developing Asia	(3) Central and Eastern Europe	(4) CIS and Mongolia	(5) Western Hemisphere	(6) Middle East	(7) Advanced Economies	(8) Total IMF Members
Number of Members	51	29	17	13	32	14	28	184
Initiatives:								
SDDS Subscriber 3/								
Number of members	2	5	11	4	10	0	24	56
GDDS Participant 4/								
Number of members	37	11	4	3	14	5	0	74
PIN Published								
Number of members 5/	50	29	17	13	32	13	28	182
Percentage	98%	100%	100%	100%	100%	93%	100%	99%
Article IV Staff Report Published								
Number of members 5/	48	18	17	11	24	5	28	151
Percentage	94%	62%	100%	85%	75%	36%	100%	82%
FSAPs Completed								
Number of members	14	4	13	6	10	7	14	68
Percentage	27%	14%	76%	46%	31%	50%	50%	37%
ROSC Modules Completed								
Number of members 6/	24	10	16	9	20	9	21	109
Percentage	47%	34%	94%	69%	63%	64%	75%	59%
ROSC Modules Completed								
Number of modules 7/	99	42	130	51	83	41	115	561
Percentage of total modules	18%	7%	23%	9%	15%	7%	20%	100%
ROSC Modules Published								
Number of members	21	8	15	8	14	6	21	93
Percentage	30%	47%	13%	24%	37%	50%	19%	51%
ROSC Modules Published								
Number of modules 7/	71	17	119	33	38	12	112	402
Percentage of completed modules	72%	40%	92%	65%	46%	29%	97%	72%

Source: IMF and World Bank staff estimates.

1/ This table does not include territories, special administrative regions (SARs), and monetary unions except for ROSCs (see footnote 7).

2/ The regional groupings are based on the composition of World Economic Outlook (WEO) groups.

3/ The SDDS was established in 1996 to guide countries that have, or might seek, access to international capital markets in the dissemination of economic and financial data to the public. Table includes subscribers in full observance only.

4/ The GDDS was established in 1997 to encourage members to improve data quality, provide a framework for evaluating needs for data improvement and setting priorities in this respect, and guide members in the dissemination to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics.

5/ The number of members that published at least one such document as of July 31, 2004.

6/ The number of members for which at least one ROSC module has been completed. ROSC modules not derived from an FSAP are considered completed once they have been circulated to Directors, and in the case of Bank-led modules, sent in their final form to the authorities. ROSC modules derived from an FSAP are considered completed only after the FSSA has been discussed by the Executive Board.

7/ The number of modules reflects if a member has had more than one full assessment for the same standard. On an exceptional basis, one FSSA-derived preliminary assessment is included. Includes thirteen completed and published modules for Hong Kong SAR and the Euro Area, and one completed ROSC for the ECCB.

Table 2. FSAP Participation
As of August 2004

Countries Completed 1/		Countries Under Way	Future Participation Confirmed
Algeria	Kyrgyz Republic	Antigua and Barbuda	Albania
Armenia	Latvia	Argentina 2/	Bahrain
Bangladesh	Lebanon	Austria	Belarus
Barbados	Lithuania	Azerbaijan	Belgium
Brazil	Luxembourg	Bolivia	Botswana
Bulgaria	Macedonia, FYR	Chile	Denmark
Cameroon	Malta	Cote d'Ivoire	Fiji
Canada	Mauritius	Dominica	Italy
Colombia	Mexico	Ecuador	Jamaica
Costa Rica	Morocco	France	Norway
Croatia	Mozambique	Grenada	Paraguay
Czech Republic	New Zealand	Kenya	Portugal
Dominican Republic	Nigeria	Moldova	Qatar
Egypt	Oman	Nicaragua	Rwanda
El Salvador	Peru	Netherlands	San Marino
Estonia	Philippines	Pakistan	Serbia
Finland	Poland	Saudi Arabia	Spain
Gabon	Romania	St. Kitts and Nevis	Sudan
Georgia	Russia	St. Lucia	Thailand
Germany	Senegal	St. Vincent and the	Trinidad and Tobago
Ghana	Singapore	Grenadines	Venezuela
Guatemala	Slovak Republic	Uruguay 2/	
Honduras	Slovenia		
Hong Kong	South Africa		
Hungary	Sri Lanka		
Iceland	Sweden		
India	Switzerland		
Iran	Tanzania		
Ireland	Tunisia		
Israel	Uganda		
Japan	Ukraine		
Jordan	United Arab Emirates		
Kazakhstan	United Kingdom		
Korea	Yemen		
Kuwait	Zambia		

Source: IMF and World Bank staff estimates.

1/ An FSAP is defined as completed when the Fund's Executive Board has discussed the FSSA and all finalized documents have been transmitted to the authorities.

2/ Postponed.

Table 3. HIPC Initiative: Committed Debt Relief and Outlook 1/
As of July 2004
(In millions of US dollars, in NPV terms in the year of the decision or completion point)

	Reduction in NPV Terms			Nominal Debt Service Relief			
	Original HIPC Initiative	Enhanced HIPC Initiative	Total	Original HIPC Initiative	Enhanced HIPC Initiative	Total	Completion / Decision Point Date
Countries that have reached their Completion Points (14)							
TOTAL	**3,118**	**14,433**	**17,552**	**6,364**	**22,999**	**29,363**	
Benin	0	265	265	0	460	460	Mar-03
Bolivia	448	854	1,302	760	1,300	2,060	Jun-01
Burkina Faso 2/	229	324	553	400	530	930	Apr-02
Ethiopia 2/	0	1,982	1,982	0	3,275	3,275	Apr-04
Guyana	256	335	591	634	719	1,353	Dec-03
Ghana	0	2,186	2,186	0	3,500	3,500	Jul-04
Mali	121	417	539	220	675	895	Mar-03
Mauritania	0	622	622	0	1,100	1,100	Jun-02
Mozambique	1,717	306	2,023	3,700	600	4,300	Sep-01
Nicaragua	0	3,308	3,308	0	4,500	4,500	Jan-04
Niger 2/	0	664	664	0	1,190	1,190	Apr-04
Senegal	0	488	488	0	850	850	Apr-04
Tanzania	0	2,026	2,026	0	3,000	3,000	Nov-01
Uganda	347	656	1,003	650	1,300	1,950	May-00
Countries that have reached their Decision Points (13)							
TOTAL	**0**	**14,430**	**14,430**	**0**	**24,329**	**24,329**	
Cameroon	0	1,260	1,260	0	2,800	2,800	Oct-00
Chad	0	170	170	0	260	260	May-01
Congo, Dem. Rep. of	0	6,311	6,311	0	10,389	10,389	Jul-03
Gambia, The	0	67	67	0	90	90	Dec-00
Guinea	0	545	545	0	800	800	Dec-00
Guinea-Bissau	0	416	416	0	790	790	Dec-00
Honduras	0	556	556	0	900	900	Jul-00
Madagascar	0	814	814	0	1,500	1,500	Dec-00
Malawi	0	643	643	0	1,000	1,000	Dec-00
Rwanda	0	452	452	0	800	800	Dec-00
São Tomé and Príncipe	0	97	97	0	200	200	Dec-00
Sierra Leone	0	600	600	0	950	950	Mar-02
Zambia	0	2,499	2,499	0	3,850	3,850	Dec-00
Countries still to be considered (11)							
Côte d'Ivoire 3/	345	…	345	800	…	800	
Burundi	…	…	…	…	…	…	
Central African Republic	…	…	…	…	…	…	
Comoros	…	…	…	…	…	…	
Congo, Rep. of	…	…	…	…	…	…	
Lao PDR	…	…	…	…	…	…	
Liberia	…	…	…	…	…	…	
Myanmar	…	…	…	…	…	…	
Somalia	…	…	…	…	…	…	
Sudan	…	…	…	…	…	…	
Togo	…	…	…	…	…	…	
Memorandum item:							
Debt relief committed	**3,118**	**28,863**	**31,981**	**6,364**	**47,328**	**53,692**	

Sources: HIPC country documents; and World Bank and IMF staff estimates.

1/ Committed debt relief under the assumption of full participation of the creditors.
2/ The assistance under the enhanced HIPC Initiative includes the topping up with the NPV calculated in the year of the completion point.
3/ Côte d'Ivoire reached its decision point under the original-HIPC Initiative in 1998, but did not reach its completion point under the original-HIPC Initiative, nor did it reach its decision point under the enhanced-HIPC Initiative. The amounts of debt relief shown are only indicative, based on a preliminary document issued, and are not included in the totals.

Table 4. HIPC Initiative: Status of Commitments by the IMF
(In millions of SDRs as of end-July 2004)

Member	Decision Point	Completion Point	Amount Committed	Amount Disbursed 1/	Amount Disbursed (in percent of amount committed)
Under the Original HIPC Initiative					
Bolivia	Sep. 1997	Sep. 1998	21.2	21.2	100.0
Burkina Faso	Sep. 1997	Jul. 2000	16.3	16.3	100.0
Côte d'Ivoire 2/	Mar. 1998	--	16.7	--	--
Guyana	Dec. 1997	May. 1999	25.6	25.6	100.0
Mali	Sep. 1998	Sep. 2000	10.8	10.8	100.0
Mozambique	Apr. 1998	Jun. 1999	93.2	93.2	100.0
Uganda	Apr. 1997	Apr. 1998	51.5	51.5	100.0
Total Original HIPC			**235.3**	**218.6**	**92.9**
Under the Enhanced HIPC Initiative					
Benin	Jul. 2000	Mar. 2003	18.4	20.1	109.0
Bolivia	Feb. 2000	Jun. 2001	41.1	44.2	107.5
Burkina Faso 3/	Jul. 2000	Apr. 2002	16.7	18.1	108.0
Cameroon	Oct. 2000	Floating	28.5	5.5	19.5
Chad	May. 2001	Floating	14.3	7.2	50.4
Congo, Democratic Rep. 4/	Jul. 2003	Floating	228.3	2.3	1.0
Ethiopia 5/	Nov. 2001	Apr. 2004	26.9	28.1	104.4
Gambia, The	Dec. 2000	Floating	1.8	0.1	4.4
Ghana	Feb. 2002	Jul. 2004	90.1	90.1	100.0
Guinea	Dec. 2000	Floating	24.2	5.2	21.3
Guinea Bissau	Dec. 2000	Floating	9.2	0.5	5.9
Guyana	Nov. 2000	Dec. 2003	31.1	34.0	109.5
Honduras	Jun. 2000	Floating	22.7	8.8	38.8
Madagascar	Dec. 2000	Floating	16.6	5.6	33.9
Malawi	Dec. 2000	Floating	23.1	6.9	30.0
Mali	Sep. 2000	Mar. 2003	34.7	38.5	110.8
Mauritania	Feb. 2000	Jun. 2002	34.8	38.4	110.4
Mozambique	Apr. 2000	Sep. 2001	13.7	14.8	108.0
Nicaragua	Dec. 2000	Jan. 2004	63.5	71.2	112.0
Niger 6/	Dec. 2000	Apr. 2004	21.6	24.1	111.8
Rwanda	Dec. 2000	Floating	33.8	14.4	42.7
São Tomé & Príncipe	Dec. 2000	Floating	--	--	--
Senegal	Jun. 2000	Apr. 2004	33.8	38.4	113.6
Sierra Leone	Mar. 2002	Floating	98.5	62.0	63.0
Tanzania	Apr. 2000	Nov. 2001	89.0	96.4	108.4
Uganda	Feb. 2000	May. 2000	68.1	70.2	103.0
Zambia	Dec. 2000	Floating	468.8	351.6	75.0
Total Enhanced HIPC			**1,553.3**	**1,096.7**	**70.6**
Grand Total			**1,788.6**	**1,315.3**	**73.5**

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm.

1/ Includes interest on amounts committed.
2/ Equivalent to the committed amount of US $22.5 million at decision point exchange rates
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.

Table 5. Access Under Fund Arrangements By Year Of Approval, 1991–2004 1/
(In percent of quota, unless otherwise indicated)

	1991	1992 2/	1993	1994 2/	1995	1996	1997	1998 2/	1999	2000	2001	2002	2003	2004
Number of arrangements approved														
All arrangements	30	26	22	35	30	33	21	21	20	23	21	20	21	10
Non-exceptional arrangements	30	26	22	35	29	31	18	19	19	22	20	18	19	10
Commitments (on approval)														
In percent of total quota	13	10	2	4	15	9	20	17	6	6	7	18	7	1
In billions of SDRs	9	7	3	6	21	13	29	24	14	12	15	39	15	1
GRA Resources														
Average annual access														
SBA														
Non-exceptional 3/	53	56	31	37	52	39	36	44	43	46	34	39	55	30
Exceptional, SRF and CCL	...	...	60	...	500	...	329	200	100	...	320	510	156	...
Precautionary	34	34	21	35	27	27	27	42	21	40	30	30	55	30
EFF														
Non-exceptional	82	41	...	30	38	37	28	50	46	12	...	46	12	...
Exceptional, SRF and CCL	...	...	28	...	...	53	...	144	...	58	...	...	...	...
Precautionary	...	...	20	...	...	...	...	45	21	...	...	...	...	...
SBA and EFF														
Non-exceptional 3/	56	53	31	35	50	38	33	46	42	43	34	40	50	30
Exceptional, SRF and CCL	...	...	44	...	500	53	329	172	100	58	320	510	156	...
Precautionary	34	34	20	35	27	27	27	43	21	40	30	30	55	30
Range of average annual access														
SBA														
Non-exceptional 3/	22-100	26-90	18-48	11-68	24-100	18-80	24-69	20-81	20-85	18-85	16-57	19-97	25-100	...
Exceptional, SRF and CCL	...	...	60	...	500	...	163-646	200	100	...	320	456-564	141-170	...
EFF														
Non-exceptional	72-92	18-64	20	17-43	33-43	17-55	20-45	45-55	21-84	12	...	46	12	...
Exceptional, SRF and CCL	...	...	28	...	...	53	...	144	...	58	...	...	...	...
Projected use of Fund credit outstanding at start of arrangement, including special facilities														
SBA	91	55	61	64	58	71	47	41	84	52	47	76	111	88
EFF	48	94	80	101	66	145	78	217	94	224	...	68	53	...
Projected use of Fund credit outstanding at end of arrangement, including special facilities														
SBA	115	103	106	104	142	103	365	116	133	103	113	109	184	103
EFF	275	174	150	149	147	230	189	317	181	237	...	163	118	...
Concessional Resources														
Average annual access														
SAF	23	23	...	35	50	...	...	...	...	...	...	...	...	...
ESAF/PRGF	43	32	31	37	36	35	35	35	23	22	25	21	16	24
Range of average annual access														
SAF 4/	23	23	...	35	50	...	...	...	...	...	...	...	...	...
ESAF/PRGF	33-57	20-40	18-40	27-50	20-64	20-50	25-50	27-53	14-40	5-33	17-42	2-36	3-31	18-30
Projected use of Fund credit outstanding at start of arrangement, including special facilities														
SAF	...	...	...	106	151	...	...	...	...	...	...	...	...	...
ESAF/PRGF	77	...	53	100	113	87	96	94	103	78	98	74	71	54
Projected use of Fund credit outstanding at end of arrangement, including special facilities														
SAF	70	...	...	150	235	...	...	...	...	...	...	...	...	...
ESAF/PRGF	188	...	128	165	154	166	183	169	134	122	123	109	90	88

Table 6. Current Financial Arrangements (GRA)
(In millions of SDRs as of August 19, 2004)

Member	Date of Approval	Date of Expiration	Amount Agreed	Undrawn Balance	IMF Credit Outstanding
Stand-by Arrangements					
Argentina	9/20/2003	9/19/2006	8,981	4,810	9,980
Bolivia	4/2/2003	12/31/2004	129	54	75
Brazil [1]	9/6/2002	3/31/2005	27,375	10,175	17,222
Bulgaria	8/6/2004	9/15/2006	100	100	811
Colombia	1/15/2003	1/14/2005	1,548	1,548	--
Croatia	8/4/2004	4/3/2006	97	97	--
Dominican Republic	8/29/2003	8/28/2005	438	306	131
Gabon	5/28/2004	6/30/2005	69	56	43
Paraguay	12/15/2003	3/31/2005	50	50	--
Peru	6/9/2004	8/16/2006	287	287	67
Romania	7/7/2004	7/6/2006	250	250	324
Turkey	2/4/2002	2/3/2005	12,821	907	14,949
Ukraine	3/29/2004	3/28/2005	412	412	1,127
Uruguay [2]	4/1/2002	3/31/2005	2,128	559	1,628
14 Arrangements			54,685	19,611	46,358
Extended Arrangements					
Serbia and Montenegro	5/14/2002	5/13/2005	650	250	644
Sri Lanka	4/18/2003	4/17/2006	144	124	189
2 Arrangements			794	374	833
Total 16 STBY and EFF			55,480	19,985	47,191

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm.

[1] Amount agreed includes a fully drawn commitment under the SRF of SDR 7,610 million.

[2] Amount agreed and undrawn balance exclude SDR 257.4 million not drawn under the SRF. Uruguay's SRF was canceled on 8/8/02.

Table 7. Current Financial Arrangements (PRGF)
(In millions of SDRs as of August 19, 2004)

Member	Date of Approval	Date of Expiration	Amount Agreed	Undrawn Balance	IMF Credit Outstanding
Poverty Reduction and Growth Facility					
Albania	6/21/2002	6/20/2005	28	8	65
Armenia	5/23/2001	12/31/2004	69	9	139
Azerbaijan	7/6/2001	3/31/2005	80	39	97
Bangladesh	6/20/2003	6/19/2006	400	252	149
Burkina Faso	6/11/2003	6/10/2006	24	17	80
Burundi	1/23/2004	1/22/2007	69	43	26
Cameroon	12/21/2000	12/20/2004	111	32	225
Cape Verde	4/10/2002	4/9/2005	9	4	5
Congo, Dem. Rep. of	6/12/2002	6/11/2005	580	53	527
Cote d'Ivoire	3/29/2002	3/28/2005	293	234	240
Dominica	12/29/2003	12/28/2006	8	5	3
Ethiopia	3/22/2001	10/31/2004	100	10	112
Gambia, The	7/18/2002	7/17/2005	20	17	19
Georgia	6/4/2004	6/3/2007	98	84	180
Ghana	5/9/2003	5/8/2006	185	105	315
Guyana	9/20/2002	3/19/2006	55	37	62
Honduras	2/27/2004	2/26/2007	71	61	123
Kenya	11/21/2003	11/20/2006	175	150	71
Kyrgyz Republic	12/6/2001	12/5/2004	73	10	141
Lao P.D.R.	4/25/2001	4/24/2005	32	14	26
Lesotho	3/9/2001	10/31/2004	25	4	21
Madagascar	3/1/2001	3/1/2005	92	23	137
Malawi	12/21/2000	12/20/2004	45	32	47
Mali	6/23/2004	6/22/2007	9	8	102
Mauritania	7/18/2003	7/17/2006	6	6	62
Mongolia	9/28/2001	7/31/2005	28	16	30
Mozambique	7/6/2004	7/5/2007	11	10	135
Nepal	11/19/2003	11/18/2006	50	43	7
Nicaragua	12/13/2002	12/12/2005	98	56	154
Pakistan	12/6/2001	12/5/2004	1,034	172	1,076
Rwanda	8/12/2002	8/11/2005	4	2	62
Senegal	4/28/2003	4/27/2006	24	17	142
Sierra Leone	9/26/2001	3/25/2005	131	28	115
Sri Lanka	4/18/2003	4/17/2006	269	231	38
Tajikistan	12/11/2002	12/10/2005	65	29	83
Tanzania	8/16/2003	8/15/2006	20	11	288
Uganda	9/13/2002	9/12/2005	14	6	141
Zambia	6/16/2004	6/15/2007	220	138	576
38 Arrangements			4,625	2,014	5,821

Source: IMF Finance Department; also available at www.imf.org/external/fin.htm.

Table 8. IMF's Financial Resources and Liquidity Position, 2002 – July 2004

(In billions of SDRs unless otherwise indicated; end-of-period)

				Jul. 2004	
		2002	2003	SDRs	US$
I.	Total resources	218.1	219.1	219.6	320
	Members' currencies	210.3	211.3	212.2	309
	SDR holdings	1.2	1.1	0.5	1
	Gold holdings	5.9	5.9	5.9	9
	Other assets	0.8	0.9	1	1
	Available under GAB/NAB activation	-	-	-	-
II.	Less:Non-usable resources	117.9	118.4	112.8	164
	Of which: Credit outstanding	63.6	65	59.3	86
III.	Equals:Usable resources	100.2	100.7	106.8	156
IV.	Less:Undrawn balances under GRA arrangements	31.9	22.8	20.2	30
	Of which: Balances under CCL arrangements	-	-	-	-
V.	Equals:Uncommitted usable resources	68.3	77.9	86.5	126
VI.	Plus:Repurchases one-year forward	19	9.2	8.4	12
VII.	Less:Prudential balance	32.6	32.8	32.8	48
VIII.	Equals:One-year forward commitment capacity (FCC)	**54.7**	**54.2**	**62.1**	**91**
	Memorandum items:				
	Potential GAB/NAB borrowing	34	34	34	50
	Quotas of members that finance IMF transactions	163.1	164.1	164.1	239
	Liquid liabilities	66.1	66.5	59.8	87
	Liquidity ratio (in percent)	83.8	104.2	130.1	
	US$ per SDR	1.35952	1.48597	1.45776	

Note: Details may not add due to rounding.