CHAPTER
7

Support for Member Countries' Adjustment

In 1998/99, the Executive Board met on several occasions to discuss ways to strengthen IMF support for member countries. These discussions included a review of the operation of the Supplemental Reserve Facility; consideration of introducing Contingent Credit Lines and of providing enhanced additional assistance to postconflict countries; access policy and limits in the credit tranches and under the Extended Fund Facility, the special facilities, and the Enhanced Structural Adjustment Facility; and a proposed framework for staff-monitored programs. Toward the end of the financial year, the IMF and World Bank were engaged in coordinating an international response to the economic impact of the Kosovo crisis, in close cooperation with other agencies and donors. This chapter reviews the Board's consideration of these issues and then briefly describes member country programs for which the IMF approved new financial support during the financial year. (For additional ESAF-related matters, see Chapter 8.)

In recognition of the need for additional financial resources for the IMF, members having more than 85 percent of the total of IMF quotas consented, as of January 1999, to their quota increases under the Eleventh General Review of Quotas (see Chapter 10), and the Executive Board determined that the participation requirement for the quota increase to come into effect had been fulfilled.

Supplemental Reserve Facility and Contingent Credit Lines

In January 1999, the Executive Board met to review the operation of the *Supplemental Reserve Facility* (see Box 10), a short-term lending facility introduced in late 1997. Financial assistance under the SRF is available to member countries with exceptional balance of payments needs resulting from a sudden and disruptive loss of market confidence as reflected in pressure on the capital account and the member's reserves. Directors agreed that the facility continued to be an appropriate way to help such countries and that its structure was broadly appropriate. At the same time, they agreed to amend the timetable for escalating the rate of charge to borrowing countries so that the rate would run from the date of the first purchase (i.e., borrowing) and then apply to all purchases outstanding under the facility. Directors also generally agreed that the introduction of flexibility in the timing of SRF reviews and in the release of associated SRF drawings—as used for Brazil's IMF-supported arrangement—was a valuable innovation and could usefully be employed, on a case-by-case basis, for future arrangements involving the SRF. Some Directors raised other issues they felt warranted review as additional experience was gained, including ways of involving the private sector.

In April 1999, the Board endorsed the creation of *Contingent Credit Lines* to provide short-term financing—if the need arises—to help members with fundamentally sound and well-managed economies overcome exceptional balance of payments financing needs arising from a sudden and disruptive loss of market confidence owing to contagion (see Box 5). At its April 1999 meeting, the Interim Committee called the CCL an important component of the effort to strengthen the architecture of the international financial system.

Assistance to Postconflict Countries

To help meet the special economic needs of countries emerging from political turmoil, civil unrest, or international armed conflict, the IMF in 1995 expanded the coverage of its emergency assistance policy to include postconflict countries. Such emergency assistance may include technical assistance, policy advice, and quick disbursement of limited financial assistance.

In April 1999, the Executive Board discussed ways to enhance assistance to countries emerging from conflict by providing financial assistance on terms more appropriate to the circumstances of poor, postconflict countries, and in larger amounts over a longer period when warranted. At the same time, the Board emphasized that, to be effective, new IMF measures would have to be supportive of stronger and coordinated efforts on the part of the international community to

Box 10
IMF Financial Facilities and Policies

The IMF uses its financial resources to help members redress balance of payments problems and cushion the impact of adjustment. IMF financing is provided through both its general resources and its concessional financing facility. The extension of IMF credit is subject to Executive Board approval and, in most cases, to the member's commitment to take steps to address the causes of its payments imbalance. Members using the IMF's general resources "purchase" (draw) other members' currencies or SDRs by using an equivalent amount of their own currency. The IMF levies charges on these drawings and requires that members "repurchase" (buy back) their own currency from the IMF with other members' currencies or SDRs within a specified time. The IMF provides concessional financing under the Enhanced Structural Adjustment Facility.

Regular Facilities

Reserve Tranche. A member has a reserve tranche position if the IMF's holdings of its currency in the General Resources Account, excluding those holdings that reflect the member's use of IMF resources, are less than its "quota," that is, the amount a member pays to belong to the IMF, which is based on a complex formula that generally reflects the size of the country's economy in the world economy. A member may draw up to the full amount of its reserve tranche position at any time, subject only to the member's representation of a balance of payments need. A reserve tranche drawing does not constitute a use of IMF credit and is not subject to charges or to an expectation or obligation to repurchase.

Credit Tranches. IMF credit is subject to different conditions and phasing, depending on whether it is made available in the first credit "tranche" (segment) of 25 percent of a member's quota or in the upper credit tranches (any segment above 25 percent of quota). For drawings in the first credit tranche, members must demonstrate reasonable efforts to overcome their balance of payments difficulties.

Upper credit tranche drawings are made in installments, or phased, and are released when performance targets are met. Such drawings are normally associated with Stand-By or Extended Arrangements, which typically seek to resolve balance of payments difficulties and to support structural policy reforms where appropriate. Performance criteria and periodic reviews are used to assess policy implementation.

Stand-By Arrangements. Stand-By Arrangements give members the right to draw up to a specified amount of IMF resources during a prescribed period. Drawings are normally phased on a quarterly basis, with their release conditional upon meeting performance criteria and the completion of periodic reviews. Performance criteria generally cover bank credit, government or public sector borrowing, trade and payments restrictions, and international reserve levels. These criteria allow both the member and the IMF to assess progress and may signal the need for further corrective policies. Stand-By Arrangements typically range from 12 to18 months (although they can extend up to three years). Repayments are made within 3¼ to 5 years of each drawing.

Extended Fund Facility (EFF). The EFF provides assistance for members' adjustment programs over longer periods and with generally larger amounts of financing than under Stand-By Arrangements. Extended Arrangements, which normally run for three years (and can be extended for a fourth), are designed to rectify balance of payments difficulties stemming largely from structural problems that require a longer period of adjustment.

A member requesting an Extended Arrangement outlines its objectives and policies for the period of the arrangement and presents a detailed statement each year of the policies and measures to be pursued over the next 12 months. The phasing and performance criteria are comparable to those under Stand-By Arrangements, although phasing on a semiannual basis is possible. Repayments are made within 4½ to 10 years of each drawing.

Concessional Facility

Enhanced Structural Adjustment Facility (ESAF). This facility, established by the Executive Board in 1987 and extended and enlarged in February 1994, is the principal means by which the IMF provides financial support, in

(continued on next page)

ensure the maintenance of peace and assist in the orderly transition from conflict to conditions conducive to stabilization and high-quality growth.

To reduce the cost of using IMF emergency assistance for poor, postconflict countries, Directors agreed to give further consideration to seeking interest subsidies from bilateral donors on a case-by-case basis, or in the context of establishing an administered account. They also agreed to permit early replacement of the IMF's nonconcessional general resources provided under emergency postconflict assistance with resources provided under the concessional ESAF for low-income countries when the member was in a position to obtain ESAF support for its economic program.

For those few postconflict countries in which it might take longer than expected to move to an IMF arrangement with upper credit tranche conditionality, despite the authorities' efforts, Directors agreed access of up to an additional 25 percent of quota in the form of outright purchases could be provided when there was sufficient evidence of the authorities' commitment to reform and capacity to implement appropriate policies.

Postconflict Countries with Arrears to International Institutions

The IMF's collaborative approach to assisting members with overdue obligations to international financial institutions, including to the IMF, has succeeded in pre-

Box 10 *(concluded)*

the form of highly concessional loans, to low-income member countries facing protracted balance of payments problems.

At the same time that the ESAF was extended and enlarged, no new resources were made available for its precursor—the Structural Adjustment Facility (SAF), which had been established in 1986. All remaining SAF resources were disbursed by the end of 1995. The objectives and primary features of the SAF were similar to those of the current ESAF, but programs supported under ESAF Arrangements are more ambitious with regard to macroeconomic policy and structural reform measures.

ESAF resources are intended to support strong medium-term structural adjustment programs. Eligible members seeking ESAF resources must develop, with the assistance of the staffs of the IMF and the World Bank, a policy framework paper (PFP) for a three-year adjustment program. The PFP, which is updated annually, describes the authorities' economic objectives, macroeconomic and structural policies during the three-year period, and associated external financing needs and major sources of financing. The PFP, which is a document of the national authorities, is intended to ensure a consistent framework for economic policies and to attract financial and technical assistance in support of the adjustment program.

Adjustment measures under ESAF-supported programs are expected to strengthen substantially a country's balance of payments position and foster growth during the three-year period. Monitoring under ESAF Arrangements is conducted through quarterly financial and structural benchmarks. In addition, semiannual performance criteria are set for key quantitative and structural targets. ESAF loans are disbursed semiannually, initially upon approval of an annual arrangement and subsequently based on the observance of performance criteria and after completion of a midterm review. ESAF loans are repaid in 10 equal semiannual installments, beginning 5½ years and ending 10 years after the date of disbursement. The interest rate on ESAF loans is 0.5 percent a year.

Special Facilities

Compensatory and Contingency Financing Facility (CCFF). The compensatory element of the CCFF provides timely financing to members experiencing a temporary shortfall in export earnings or an excess in cereal import costs, attributable to factors largely beyond the member's control. This element of the facility has been used particularly by commodity exporters. The contingency element helps members with IMF arrangements keep their adjustment programs on track when faced with unexpected, adverse external shocks. The affected variables could include export earnings, import prices, and international interest rates; workers' remittances and tourism receipts may also be covered if they are a significant component of the member's current account.

Buffer Stock Financing Facility (BSFF). Under this facility, the IMF helps finance a member's contribution to approved international buffer stocks if the member demonstrates a balance of payments need. No drawings have been made under this facility since January 1984.

Supplemental Reserve Facility (SRF). The IMF established the Supplemental Reserve Facility in reaction to the unprecedented level of demand for IMF resources during the recent Asian crisis. The facility provides financing to members experiencing exceptional balance of payments difficulties owing to a large short-term need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves. Its use requires a reasonable expectation that the implementation of strong adjustment policies and adequate financing will result in an early correction of such difficulties. Access under the SRF is not subject to the usual access limits but is based on the financing needs of the member, its capacity to repay, the strength of its program, and its record of past use of IMF resources and cooperation with the IMF. Financing is committed for up to 1 year, and repurchases are expected to be made within 1 to 1½ years, and must be made within 2 to 2½ years, from the date of each purchase. For the first year, the rate of charge on SRF financing is subject to a surcharge of 300 basis points above the usual rate of charge on other IMF loans; the surcharge then increases

venting new cases of protracted arrears and in resolving all but a handful of cases (see Chapter 10). Most of the remaining countries with large protracted arrears to the IMF have been, or are currently, involved in some form of conflict. Special efforts to accelerate the provision of IMF financial assistance in such cases pose particular difficulties relative to the IMF's arrears strategy and could—if not carefully circumscribed—pose issues of moral hazard and undermine the IMF's preferred creditor status. However, on recognition of the special needs of heavily indebted postconflict countries, Directors agreed that, in the pre-arrears clearance stage, the IMF could consider, on a case-by-case basis, relaxing its calls for payments as a test of cooperation, provided that the member was judged to be cooperating on policies and that all other multilaterals to which the member was in arrears took at least comparable action.

Directors emphasized that a solid track record, determined flexibly in light of each country's circumstances, remained an essential step toward clearing arrears. Arrears clearance plans would continue to be developed based on the individual circumstances of each case, in coordination with other creditors. In the absence of concessional financing, arrears could likely be cleared through a bridge to a new arrangement in the IMF's (nonconcessional) General Resources Account (GRA). As in past Board discussions, the idea of the IMF's matching the rescheduling operations of by 50 basis points every six months until it reaches 500 basis points.

Contingent Credit Lines (CCL). In April 1999, the Board agreed to provide Contingent Credit Lines for a two-year period. Like the Supplemental Reserve Facility, the CCL is designed to provide short-term financing to help members overcome exceptional balance of payments problems arising from a sudden and disruptive loss of market confidence. A key difference is that the SRF is for use by members already in the midst of a crisis, whereas the CCL is a preventive measure solely for members concerned with their potential vulnerability to contagion but not facing a crisis at the time of the commitment. In addition, the eligibility criteria confine potential candidates for a CCL to those members implementing policies considered unlikely to give rise to a need to use IMF resources; whose economic performance—and progress in adhering to relevant internationally accepted standards—has been assessed positively by the IMF in the latest Article IV consultation and thereafter; and who have constructive relations with private sector creditors with a view to facilitating appropriate private sector involvement. Resources committed under a CCL can be activated only if the Board determines that the exceptional balance of payments financing needs faced by a member have arisen owing to contagion—that is, circumstances largely beyond the member's control stemming primarily from adverse developments in international capital markets consequent upon developments in other countries.

The CCL is not subject to general IMF access limits, but commitments under the CCL are expected to range from 300 percent to 500 percent of the member's quota. The maturity of and rate of charge on CCL resources are the same as for SRF resources. (See also Box 5.)

Other Forms of Financial Assistance

Support for Currency Stabilization Funds. The IMF decided in 1995 to provide financial support for the establishment of currency stabilization funds to bolster confidence in countries' exchange-rate-based stabilization strategies—preferably an exchange rate peg with relatively narrow margins or a preannounced crawl. The countries' economic policies would have to be sufficiently tight that inflation would be compatible with the targeted exchange rate anchor, so that little use of the currency stabilization fund for exchange market intervention would be expected. So far, the IMF has not actually provided this type of assistance.

Emergency Financing Mechanism (EFM). The EFM comprises a set of procedures that allow for quick Board approval of IMF financial support while ensuring sufficient conditionality. It is to be used in rare circumstances representing or threatening a crisis in a member's external accounts and requiring an immediate IMF response. The EFM was established in September 1995 and was used in 1997 for the Philippines, Thailand, Indonesia, and Korea, and in 1998 for Russia.

Emergency Assistance. The IMF also provides emergency financial assistance to a member facing balance of payments difficulties caused by a natural disaster. The assistance is available through outright purchases, usually limited to 25 percent of quota, provided that the member is cooperating with the IMF to find a solution to its balance of payments problem. In most cases, this assistance has been followed by an arrangement with the IMF under one of its regular facilities.

In 1995, the policy on emergency assistance was expanded to cover countries in postconflict situations. This assistance may be provided when the member's institutional or administrative capacity has been disrupted by conflict but still has sufficient capacity for planning and policy implementation and a demonstrated commitment on the part of the authorities; there is an urgent balance of payments need; and IMF support could be catalytic and is part of a concerted international effort. Conditions for emergency assistance include a statement of economic policies, a quantified macroeconomic framework to the extent possible, and a statement of the authorities' intention to move as soon as possible to an upper credit tranche Stand-By or Extended Arrangement or to an ESAF Arrangement. The conditionality is tailored to the individual country situation and to rebuilding the country's administrative and institutional capacity.

the Paris Club or any other group of creditors was considered to be inconsistent with the monetary character of the IMF. Nonetheless, circumstances may arise in which the IMF might need to consider, in exceptional cases, using the provisions of its Articles of Agreement relating to the postponement of repurchases, or the payment of GRA charges in domestic currency, or both. This would have to be assessed case by case, including in the light of financing requirements and possibilities available at the time of arrears clearance.

Directors recognized that for some heavily indebted postconflict countries, arrears clearance operations and the resumption of net financing flows would not by themselves result in sustainable debt-service positions. In these cases, following the establishment of a satisfactory track record under a follow-on arrangement, debt to the IMF and other creditors could be subject to action under the HIPC Initiative.

Access Policy and Limits

The IMF's current policies on access to its financial resources reflect the Board's decision in 1994 to raise the annual access limit in the credit tranches and under the Extended Fund Facility for a period of three years to 100 percent of quota from 68 percent, while keeping the cumulative access limit unchanged at 300 percent of quota. After reviewing the IMF's access policy and limits in connection with the quota increase under the Eleventh General Review, the Board decided in January 1999 to maintain the access limits in the credit tranches and under the EFF constant in proportion to the new quotas, implying an increase of some 45 percent in average access in SDR terms. Directors looked forward to a more fundamental review of access policy at a later date.

On the same occasion, the Board reexamined the access limits under the *Compensatory and Contingency Financing Facility (CCFF)* and the *Buffer Stock Financing Facility (BSFF)*, and access limits and norms for the *Enhanced Structural Adjustment Facility*, in light of the pending quota increase. Regarding the CCFF and BSFF, a majority of Directors were willing to reduce the access limits in percent of quota to keep them broadly unchanged in SDR terms on average, pending a more thorough review of these facilities later in the year. With regard to access limits and norms for the ESAF, all Directors recognized the importance of providing additional resources to the IMF's poorest members. Most Directors, however, felt that access limits and norms for the ESAF would need to be reduced in percent of quota, thus remaining broadly unchanged in SDR terms on average, since the resources of the ESAF Trust would not increase when the quota increase went into effect.

Staff-Monitored Programs

In recent years, staff-monitored programs have become an important and flexible tool for providing intensive policy advice to member countries outside the context of an IMF-supported arrangement. Staff-monitored programs are a means of informal surveillance whereby IMF staff monitor a country's economic program and regularly discuss progress under that program with the authorities—with no formal IMF endorsement of the member's policies.

In recognition of the increasing use of staff-monitored programs and the need to ensure consistent treatment across member countries, and a call by several Executive Directors, to address the issue of possible confusion by the public between staff monitoring on the one hand and Board endorsement on the other, the staff drafted a framework for the use of staff-monitored programs. In August 1998, the Executive Board discussed the framework and reiterated its broad support for the concept. Directors noted that the increasing number of staff-monitored programs in recent years reflected a wide range of purposes, serving as a kind of extended prior action for members seeking to establish, or reestablish, a policy track record; a vehicle to maintain a particularly close dialogue between the member country and the IMF, including after the completion of an IMF-supported arrangement; and a means to signal to official creditors and donors and financial markets a member's commitment to credible and sound macroeconomic policies. Although Directors generally supported the proposed framework for staff monitoring of programs, they raised a number of concerns, including the merits of delineating different types of staff-monitored programs for different purposes, the need to maintain a minimum standard across countries and categories of staff-monitored programs, their level of transparency, and the degree of Board involvement. Directors asked the staff to propose a guidance note for internal use that would set out a framework for informal monitoring by staff, taking into account the views of the Board. In December 1998, Directors considered a preliminary version of the note, underscoring their broad support for continuing such informal staff monitoring.

Social Issues

For well over a decade, the social dimensions of economic policies have been addressed in the IMF's dialogue with members. The IMF has often provided advice to members on social safety nets, the equity aspects of overall economic policy, and the composition of public spending—focusing in particular on reallocating expenditure from unproductive to growth-enhancing outlays. The IMF's growing interest in social policy issues stems from a recognition that issues of equity and the full development of human resources must receive more importance if reform programs are to be viable in the long run.

Nearly all bilateral consultations with individual countries now refer to the social implications of the country's policies, often focusing on poverty, health, education, and employment. In particular, IMF-supported programs with low-income member countries under the ESAF give significant attention to social issues. For example, countries entering into an ESAF Arrangement may be asked to tackle poverty through faster economic growth, as well as by improving the delivery and targeting of basic health, education, and social safety net services. To mitigate the impact of subsidy cuts on the poorest segments of populations, ESAF-supported programs often suggest protecting or even increasing budgetary expenditure on essential social service (see Chapter 8 for a discussion of social policies in ESAF-supported programs). Also, the creation and strengthening of social safety nets to cushion the adverse impact of the crisis on the poor is recognized by the Board as an essential element of IMF-supported programs in the Asian crisis countries of Indonesia, Korea, and Thailand (see Chapter 4). In this connection, the Executive Board has welcomed ongoing improvements in the targeting of the social expenditure and the increased efforts of the World Bank.

Although organizations such as the World Bank have more of a mandate on, and greater expertise in, social issues than the IMF, the IMF nonetheless has

Box 11
Conference on Economic Policy and Equity

The IMF's Fiscal Affairs Department hosted a conference on economic policy and equity on June 8 and 9, 1998. The conference brought together a wide range of academics, senior policymakers, labor representatives, and religious leaders to discuss the social dimensions of economic reforms.[1]

In his opening remarks, First Deputy Managing Director Stanley Fischer noted that equity issues were of concern to the IMF because, as a matter of social justice, all members of society should share the benefits of economic growth. Extreme inequality is socially unacceptable, he said, but in addition, economic adjustment programs that are equitable are more likely to succeed over the long run. Since it organized a conference in 1995 on income distribution and sustainable growth, the IMF has continued to help countries incorporate social safety nets into their IMF-supported programs and curb unproductive spending (such as excessive military expenditure) while increasing their public expenditure on basic needs, such as basic health care and primary education. The IMF has increased its emphasis on second-generation structural reforms, such as strengthening the rule of law, dismantling monopolies, and reforming labor markets, so that the benefits of growth are widely distributed. The IMF staff has carried out country-specific studies on poverty and income distribution, with the objective of integrating the results into IMF policy advice to countries. The staff is improving its collection of data on social expenditure in member countries, and the results of the external evaluation of ESAF programs are being incorporated into the IMF's operational work. Mr. Fischer said that the IMF had been particularly mindful of the social dimensions of reforms when designing, with members, IMF-supported programs in Asia.

Seminar participants, at four sessions and in a roundtable discussion, reached consensus on the following points:

- Sound macroeconomic policies are necessary to promote equity over the medium and long term. The pursuit of equity need not hamper economic growth and might reinforce it.
- Equity is a multidimensional concept that goes beyond income distribution to include equitable distribution of opportunity, wealth, productive assets, and consumption, as well as availability of employment opportunities. There is no single index of poverty nor one best policy prescription to address all equity concerns.
- Policymakers should focus on improving the prospects of the least fortunate by reducing poverty and social exclusion. The best way to do so is to empower them, for example, through improved access to education, health services, credit, and justice. At the same time, cost-effective and well-targeted social safety nets are essential to shelter the most vulnerable.
- Governments should strive to improve public services to enhance equity and build wider ownership of and support for reforms. This requires making the tax system more efficient and fair to generate resources for empowerment initiatives and safety nets, especially in countries with inefficient bureaucracies and relatively high levels of corruption. In these countries, the benefits of social safety nets tend to be captured primarily by the urban middle class.
- In heavily indebted poor countries, debt forgiveness would provide resources for increasing outlays on basic education, primary health, and basic infrastructure.
- Technological change has played more of a role than globalization in the growing disparity between the wages of skilled and unskilled workers, in both industrial and developing countries.
- Social norms play an important role in determining how much inequality is acceptable in a society. Governments should engage civil society in the design and implementation of policies that help improve equity. Also, dialogue within government, between different ministries, should be improved, as should communication between the IMF, the World Bank, and other international institutions.
- The IMF should continue addressing equity issues when it conducts its core activities.

Mr. Fischer concluded the conference by promising that the IMF would carefully examine how best to incorporate the seminar participants' ideas and contributions into its operational work.

[1]The conference proceedings have been published as *Economic Policy and Equity,* ed. by Vito Tanzi, Ke-young Chu, and Sanjeev Gupta (Washington: IMF, 1999).

endeavored to bring focus and momentum to the task of improving equity in three ways:

- by ensuring that a social agenda is defined;
- by collaborating with governments and other agencies—in particular, the World Bank—in preparing a policy framework that ensures coherence among a country's economic and social objectives; and
- by strongly encouraging the International Labor Organization's tripartite approach—involving representatives of workers and employers along with governments—when endorsing major changes in economic policy.

Reflecting its concern with social issues, the IMF held a conference in June 1998 on economic policy and equity, in which it gathered together a variety of viewpoints on the subject from academics, senior policymakers, labor leaders, and religious leaders from around the world (see Box 11).

Economic Impact of the Kosovo Crisis

On April 23, 1999, the Board discussed a preliminary assessment of the regional economic cost of the Kosovo crisis and the external financing needs of the affected countries in the vicinity prepared jointly by the staffs of the IMF and the World Bank. Directors endorsed the need for a rapid, substantial, and coordinated response by the international community to the economic consequences of the crisis to alleviate the suffering of the refugees from Kosovo and ensure that the affected countries have access to adequate external financing.

Directors asked the staffs of the two institutions to continue their work on assessing the economic impact of the crisis and coordinating the international response, in close cooperation with other interested agencies and donors. A high-level meeting of governments and international organizations—including representatives of the countries affected by the crisis—was organized jointly by the IMF and the Bank in late April, to give further impetus to the international assistance effort.

Member Countries' Use of IMF Facilities

The full texts of Press Releases and News Briefs on member countries' use of IMF facilities are available on the IMF's website (http://www.imf.org) under "News," or on request from the IMF's Public Affairs Division.

Albania

Financial Support. On May 13, 1998, the IMF approved a three-year ESAF Arrangement for SDR 35.3 million ($47 million).

Program Objectives. Achieve sustainable growth of 7–8 percent; reduce inflation to that of Albania's main trading partners; and maintain international reserve cover at about 3¾ months of imports of goods and services. Bring down the current account deficit to levels consistent with medium-term viability.

Policies. Fiscal policy would aim to support these objectives by reducing the domestically financed deficit to about 6½ percent of GDP in 1998 and about 3 percent by 2001 from about 11 percent in 1997. Monetary policy would also be formulated to achieve inflation targets through appropriate interest rate policy and judicious application of credit ceilings. In the short term, the Bank of Albania would commit to maintaining minimum deposit rates at positive levels in real terms and sufficient to encourage growth in lek deposits. Structural reforms would include resolving the pyramid scheme problem; privatizing or liquidating state banks with the goal of creating a banking system based on well-functioning and well-regulated private banks; privatizing enterprises; creating a functioning market in agricultural land; reforming public administration, including measures to combat corruption; and encouraging remittances and transfers from Albanians living abroad.

To soften the impact of the sharp reduction in the deficit in 1998, the government would receive external budgetary support, enabling it to expand its current social assistance scheme temporarily. The government would also alleviate poverty by providing employment through community works.

Armenia

Financial Support. On December 21, 1998, the IMF approved a third annual ESAF Arrangement, which was increased by SDR 8.1 million, to SDR 41.85 million ($59 million).

Program Objectives. Address balance of payments difficulties resulting from the Russian crisis to maintain real annual GDP growth of at least 5.5 percent in 1998 and 4.0 percent in 1999, and target inflation at single digits in both 1998 and 1999. Reduce the current account deficit to about 22 percent of GDP in 1999 from a projected 24 percent in 1998.

Policies. The authorities would pursue tight fiscal policies, maintaining a state government budget deficit of about 5.5 percent of GDP in 1998 and about 6 percent in 1999. On the monetary side, they would continue to implement tight monetary and credit policies. The government and central bank would enhance fiscal and monetary policy coordination through monthly financing strategies. On the structural front, the government would pursue banking reforms and privatization, implement the revised strategy to rehabilitate the energy sector, and develop and begin implementation of a program aimed at raising productivity in the civil service and increasing public servants' real wages.

The program would emphasize the development and implementation of a well-targeted, means-based, and cost-effective social safety net and reform the education and health sectors and the pension system.

Azerbaijan

Financial Support. On January 25, 1999, the IMF approved a third annual ESAF Arrangement of SDR 23.4 million ($33 million) and a CCFF purchase of SDR 56.3 million ($79 million).

Program Objectives. During 1999–01, achieve an average annual GDP growth of about 7 percent and average annual inflation of about 4 percent. Under the program, the external current account deficit projected to be 32.5 percent of GDP during 1999 was expected to rise to about 38 percent in 2000 and 2001, reflecting both the lower price of oil exports and a rise in imports. The projected external deficits would be financed mainly by foreign direct investments, with some additional support coming from multilateral and bilateral creditors.

Policies. The third year of the ESAF program would propose macroeconomic policy adjustment, including a revised financial program for 1999, and strengthened efforts toward structural adjustment. Fiscal consolidation would be needed—in particular, measures to strengthen tax collection, offset the effects of lower oil prices, and allow some expansion of expenditures to finance structural reforms and arrears reduction. The authorities would continue to pursue a cautious monetary policy during 1999, with a flexible approach to the exchange rate.

In the structural area, priority would be given to reforming the public sector, tackling corruption, and improving the efficiency of the government. Measures would be taken to limit unwarranted interference of law enforcement agencies in economic matters, strengthen the treasury, begin reorganizing the civil service and government structures, and reduce public sector employment while improving incentives. The authorities would also focus on restructuring the banking sector, strengthening the financial system and privatization, reforming public enterprises, and developing a market-based agricultural sector.

The authorities continue to be committed to reform in the health and education sectors, and to better targeting of the social safety net. The resettlement and rehabilitation of internally displaced persons remain priorities. The process of reorienting the public sector will temporarily raise the need for social safety net provisions.

Bangladesh

Financial Support. On October 28, 1998, the IMF approved a request for purchase of SDR 98.13 million ($138 million) in emergency assistance to assist the economic recovery in the aftermath of devastating floods. The authorities had taken steps to strengthen the macroeconomic framework and, with IMF assistance, formulated plans to strengthen tax administration. To lay the foundations for sustained economic growth, they expected to accelerate structural reforms in revenue, banking, and public enterprises.

Benin

Financial Support. On January 8, 1999, the IMF approved a second annual ESAF Arrangement for SDR 9.06 million ($13 million).

Program Objectives. Achieve an average annual real GDP growth of 5.5 percent, keep inflation below 3 percent, and reduce the external current account deficit to levels that can be covered without recourse to exceptional financing. Raise public investment to 7 percent of GDP in 2001 with priority given to health and education and infrastructure development.

Policies. The authorities would promote access to basic public services by improving public resource management; increase government saving; strengthen tax administration; and broaden the tax base. They would also give a new thrust to the implementation of structural policies in 1999, including revitalizing public administration through civil service reform. To increase foreign and private domestic investment, the government would broaden the divestiture program. This would include restructuring and privatizing a number of public enterprises and liberalizing the telecommunications utilities and cotton sectors. Authorities would provide an improved regulatory framework to promote sustainable development of the private sector.

To cushion the impact of the adjustment policy on the most vulnerable groups of the population, the government would improve access to essential services and continue the implementation of its strategy for addressing social dimensions of development.

Bolivia

Financial Support. On September 18, 1998, the IMF approved a three-year ESAF Arrangement for SDR 100.96 million ($138 million). (For support under the HIPC Initiative, see Chapter 8.)

Program Objectives. Reduce poverty through faster economic growth and stronger social programs. Specifically, increase economic growth to 5.5–6.0 percent a year by early in the next decade from 4.5–5.0 percent in 1998; keep gross international reserves at 6½ months of imports; and maintain inflation at about 5.5 percent in 1999 and 2000.

Policies. Financial policies would be aimed at preserving macroeconomic stability while structural policies would emphasize education and health reform, fiscal decentralization, and governance. Improved tax administration and expenditure restraint would gradually increase public savings and return the fiscal deficit to about 2 percent of GDP by 2002, its level in 1996 before the pension reform. Exchange rate policy would continue to be directed at keeping the economy competitive and, as exports from large projects financed by foreign direct investment in the mining and hydrocarbon sectors come on stream, the external current account would be expected to decline from close to 8 percent in 1998 to less than 6 percent by early in the next decade. In the area of structural reforms, the authorities were expected to complete reforms to strengthen prudential requirements and supervision in the financial sector and privatize all remaining public enterprises. Other reforms would include deepening domestic capital markets, eliminating disincentives to employment in the formal sector, and, to improve governance, strengthening legal institutions and implementing customs reform. To address social needs, the authorities would increase local governments' responsibility for education, rehabilitate schools, ensure adequate supplies of learning materials, and increase spending on basic health care.

Bosnia and Herzegovina

Financial Support. On May 29, 1998, the IMF approved a 12-month Stand-By Arrangement for

SDR 60.6 million ($81 million), of which SDR 24.2 million was available immediately.

Program Objectives. The economic strategy for 1998–99 is based on a fixed exchange rate under a currency board arrangement; budgets that supported reconstruction and social needs while avoiding domestic borrowing; external financial assistance to supplement still-limited domestic resources and promote economic recovery; and acceleration of the transition to a market economy through structural reforms. Under the program, growth in 1998 was projected at 30 percent and inflation at 10 percent, and gross international reserves were projected to reach the equivalent of 3½ months of merchandise imports.

Policies. Under the fiscal strategy, the monetary authorities would be precluded from extending credit to the public sector, and budgets would not be able to exceed the total of revenues and external financing. Another element of the fiscal strategy was to avoid further accumulation of domestic arrears and deal transparently with existing obligations. Structural measures included banking reform, initiation of enterprise privatization, pension and health system reform, implementation of a simplified customs tariff system, exchange and trade liberalization, and steps to improve economic statistics. To address social needs, the authorities would design a more efficient social safety net and complete a poverty assessment with World Bank assistance. Special programs would be devised to provide housing, infrastructure, and employment opportunities for returning refugees.

Brazil

Financial Support. On December 2, 1998, the IMF approved a three-year Stand-By Arrangement for SDR 13.02 billion ($18.1 billion), equivalent to 600 percent of Brazil's quota in effect at the time the arrangement was approved. To help finance Brazil's drawings, the IMF approved the first activation of the New Arrangements to Borrow. Seventy percent of the credit was made available under the Supplemental Reserve Facility.

Program Objectives. A strong and front-loaded fiscal adjustment effort designed to arrest the rapid growth of public sector debt; maintenance of the existing exchange rate regime; firm monetary policies to support the exchange rate regime while maintaining the level of net international reserves; and wide-ranging structural reforms. The program would permit resumption of sustained growth in real per capita income in 2000, continued low inflation, and a gradual improvement of the current account deficit to a level that could be sustained over the medium term.

Policies. To achieve its fiscal goals (stabilize the ratio of net public debt to GDP by 2000 and reduce it thereafter in line with achievement of primary surpluses of the consolidated public sector of 2.6 percent of GDP in 1999, 2.8 percent in 2000, and 3 percent in 2001), the government would implement measures to raise revenue and reduce expenditure, to achieve an overall budget savings of about 3.4 percent of GDP in 1999. Revenue measures included increasing the financial transactions tax and social security contributions of public employees, while expenditure measures included cutting discretionary current and capital spending while safeguarding social programs as much as possible. Structural reforms would seek to strengthen budget discipline and enhance the budget's effectiveness in resource allocation. The government would also reform the system of indirect taxation and extend privatization to the electrical sector, some of the remaining state banks, and some water, gas, and sewage public utilities. Social policies would continue to give priority to primary education and basic health care. (See Chapter 5 for a discussion of Brazilian developments during the financial year and the IMF's responses.)

Bulgaria

Financial Support. On September 25, 1998, the IMF approved a three-year EFF Arrangement for SDR 627.62 million ($864 million).

Program Objectives. Achieve economic growth of 4–5 percent a year; raise living standards, reducing inflation to about 5 percent a year by 2001; and achieve external viability on a sustainable basis, with an external current account deficit in the range of 3 percent of GDP. At the same time, further the transition to a competitive market economy and address critical social and infrastructure needs.

Policies. The currency board arrangement would continue to provide a stable nominal anchor and the discipline to spur structural reform. Prudent fiscal policies would help the central bank maintain macroeconomic stability and lower the public debt burden. The authorities intended to allow for a budget deficit of up to 2 percent of GDP during 1999–01 to cover the transitional costs of structural reform and higher public investment in infrastructure. Financial discipline in state-owned enterprises and banks would be ensured through strengthened banking supervision, completion of privatization, and appropriate incomes and restructuring policies. Supporting measures included hardening budget constraints, increasing application of the bankruptcy law, and increasing budget-funded severance payments to aid labor retrenchment. Other structural measures would be designed to improve resource allocation by addressing inefficiencies in the energy and agriculture sectors, liberalizing trade, and deregulating economic activity. The design of Bulgaria's social strategy would improve the provision and targeting of services, reduce disincentives to employment in the formal sector, improve administrative efficiency, and reform the pension system to enhance sustainability and fairness.

Burkina Faso

Financial Support. On September 14, 1998, the IMF approved a third annual ESAF Arrangement for SDR 13.26 million ($18 million).

Program Objectives. Achieve real GDP growth of about 6 percent in 1998 and 1999, annual inflation of 2.5 percent over the two years, and a narrowing of the external current account deficit to 10.2 percent of GDP in 1999. (For support under the HIPC Initiative, see Chapter 9.)

Policies. Fiscal policy would aim to achieve a primary budget surplus of 0.8 percent in 1998 and 0.5 percent in 1999 and a revenue-to-GDP ratio of 13 percent of GDP in 1998 and 12.5 percent of GDP in 1999 despite estimated revenue losses of 0.3 percent of GDP in 1998 and 1 percent in 1999 from the cut in customs duties. Expenditure policy would remain prudent, with a gradual increase in the share of spending for health and education. Structural reforms would focus on expanding privatization, strengthening farmers' organizations, continuing the withdrawal of the public sector from rice marketing, reinforcing the role of farmers' cooperatives in the cotton sector, and opening up new cotton regions to private operators. Civil service reforms would include creating a merit-based promotion system, strengthening personnel training, and improving governance and the responsiveness of the civil service to the demands of the public. Social goals would include increasing primary school enrollment rates, vaccination rates, and the number of health centers meeting minimum operating standards.

Cameroon

Financial Support. On September 18, 1998, the IMF approved a second annual ESAF Arrangement for SDR 54.04 million ($74 million).

Program Objectives. Restore external and internal viability, steer the economy onto a sustainable growth path, and substantially reduce poverty. Specifically, for 1998/99–2000/01, achieve average annual GDP growth of at least 5 percent, keep inflation to less than 2 percent, and stabilize the external current account deficit to less than 2½ percent of GDP.

Policies. The government would continue to implement appropriate macroeconomic policies, reinforce structural reforms to enhance the country's external competitiveness, and build up economic and social infrastructure. It would focus on increasing public and private investment and raising the domestic tax revenue base. Key budgetary objectives were to raise non-oil revenue to 13 percent of GDP and contain the overall budget deficit to 2.7 percent of GDP. Structural reforms—focusing on the agro industry, public utilities, petroleum, transport, and financial sectors—would center on privatization or placement under private management of the majority of the assets of the public enterprise sector. Social objectives would include improving living standards through poverty-reduction programs and sustained economic growth, with an emphasis on primary health care and education and policies to ensure access to clean drinking water and generic drugs. The management and transparency of the expenditure process would be improved to ensure that budgetary priorities in favor of social sectors and infrastructure would be met.

Central African Republic

Financial Support. On July 20, 1998, the IMF approved a three-year ESAF Arrangement for SDR 49.4 million ($66 million).

Program Objectives. Maintain average real GDP growth of about 5 percent a year, stabilize inflation at about 2½ percent a year, and contain the external current account deficit at 5 percent of GDP by 2000.

Policies. The program would improve the fiscal position through tighter tax policy implementation and greater transparency in government financial operations, strengthen institutional capacity and macroeconomic management, and resume structural reforms. A key component would be fiscal consolidation: reduction of the overall fiscal deficit, on a commitment basis, by about 2 percentage points of GDP during 1998–2000 to 4.6 percent of GDP through improved revenue collection. Expenditure measures would include containment of the wage bill and nonpriority outlays to ensure that adequate resources would be available for social spending and infrastructure investment. Structural measures would include privatization, reform of banking and financial sectors, revamping of the legal and regulatory framework, and resumption of civil service reform. To combat poverty and reduce unemployment, the government intended to raise school enrollment and literacy rates and increase the supply and quality of health care.

Republic of Congo

Financial Support. On July 15, 1998, the IMF approved a request for purchase of SDR 7.24 million ($10 million) under its policy of emergency postconflict assistance.

Program Objectives. Address economic and developmental challenges exacerbated by the civil war. Specifically, resume non-oil economic growth, lower inflation, reduce the external current account deficit as a ratio of GDP, and regularize external arrears. To support these objectives, the primary fiscal balance was projected at 11.9 percent of GDP in 1998, as against 6.4 percent in 1997.

Policies. The government would step up its efforts to collect oil revenues and improve non-oil revenue collection by implementing tax measures included in the 1998 budget. Spending measures would include a prudent wage policy stance and strict adherence to expenditure priorities and control procedures. Structural reforms would also be critical, including institution building and rehabilitation of damaged infrastructure over the long term. Short-term priorities would be to restructure and privatize commercial banks, prepare for the privatization of public enterprises, open key economic sectors to competition, and pursue civil service reform. Short-term emergency reforms would accord priority to health and education to alleviate the serious pressures on the most vulnerable segments of the population while laying the basis for economic recovery and employment creation. The government would also reform the social security system.

Djibouti

Financial Support. On June 1, 1998, the IMF approved an extension of Djibouti's Stand-By Arrangement through the end of March 1999 and augmented the arrangement by SDR 1.65 million to SDR 8.25 million ($11 million).

Program Objectives. Following expenditure overruns in the last quarter of 1997 that led to new domestic arrears and undermined the fiscal situation, the authorities would reduce fiscal imbalances, remain current on external obligations, and reduce domestic arrears in an orderly fashion.

Policies. The authorities would further reduce the wage bill, strengthen expenditure control, and improve program monitoring. They would continue to pursue structural reforms, including a diagnosis of the nine major public enterprises with a view to restructuring, privatizing, or liquidating them. These policies should help improve the competitiveness of the economy.

Dominican Republic

Financial Support. On October 29, 1998, the IMF approved emergency assistance for SDR 39.7 million ($56 million) to help the country recover from Hurricane Georges and support the government's economic adjustment program, which seeks to achieve a sustained increase in real GDP, reduce inflation, increase international reserves, gradually reduce quasi-fiscal losses, and eliminate domestic arrears.

El Salvador

Financial Support. On September 23, 1998, the IMF approved a 17-month Stand-By Arrangement for SDR 37.68 million ($52 million), which the authorities intended to treat as precautionary.

Program Objectives. Maintain sustainable high rates of growth while containing inflation to that of El Salvador's trading partners, in the context of a fixed exchange rate. Achieve a rate of growth of GDP of 4 percent in 1998 and 4.5 percent in 1999. Contain inflation to 3.5 percent in 1998 and 3 percent in 1999, while increasing net international reserves to the equivalent of seven months of imports.

Policies. The fiscal program would involve an increase in the overall deficit of the nonfinancial public sector from about 2 percent of GDP in 1997 to less than 3 percent of GDP a year in 1998–99, which would reflect an increase in the wage bill following a wage freeze in place since July 1995. Tax revenue would increase, reflecting a sustained recovery in economic activity and an improvement in tax administration. To meet its fiscal goals, the government would compensate any revenue shortfall with expenditure cuts. Structural reforms would encompass further reform of the public sector and pension system, privatization of the sugar mill and the Mortgage Bank, strengthening of bank supervision and prudential regulations, improvements in monetary policy instruments, and lowering of import tariffs. The government's social strategy included the use of interest on privatization proceeds to provide a permanent source of revenue for social expenditure.

Ethiopia

Financial Support. On October 23, 1998, the IMF approved a second annual ESAF arrangement for SDR 29.5 million ($42 million).

Program Objectives. Within a medium-term strategy based on securing fast, broad-based, and more equitable economic growth in the context of macroeconomic stability, increase GDP growth to between 8 percent and 9.4 percent, hold inflation to less than 4 percent, and contain the external current account deficit excluding official transfers at about 8 percent of GDP.

Policies. The external current account deficit was projected to remain at about 8–8.5 percent of GDP because of growing imports and weak prospects for coffee export prices. Private sector investment was expected to increase over the medium term because of improvements in the regulatory environment and in infrastructure. The government's structural reform agenda would include financial sector reforms, trade liberalization, strengthening the legal and regulatory framework, and raising health and education standards. Other reforms would include protecting the environment and alleviating poverty by fostering rural development.

The Gambia

Financial Support. On June 29, 1998, the IMF approved a three-year ESAF Arrangement for SDR 20.6 million ($27 million).

Program Objectives. Achieve real GDP growth of 4.5–5 percent a year, hold inflation to about 3 percent a year, reduce the external current account deficit (excluding official transfers) to less than 10 percent of GDP by 2000, and keep gross official reserves above the equivalent of five months of imports.

Policies. To achieve these objectives, the program would raise domestic investment to 20.7 percent of GDP in 2000 from 17.2 percent in 1997 and increase savings to 11.4 percent of GDP by 2000. Fiscal policy would aim to reduce the overall budget deficit, excluding grants, to 4.5 percent of GDP in 1998 and to 2 percent by 2000. The authorities would simultaneously embark on external tariff reform by reducing the maximum duty rate to 25 percent in July 1998 and to 20 percent in 1999. Structural reforms included modernizing the legal environment for economic activity, improving the quality of public services, and normalizing financial relations between the government and the public enterprise sector. The government would resume its divestiture of public enterprises, reform the telecommunications and energy sectors, and rehabilitate the groundnut sector. It would also simplify the regulatory framework, improve the functioning of primary and secondary markets, and strengthen the soundness of the banking system.

The government's strategy in the social and environmental sectors would emphasize developing human resources, alleviating poverty, and improving the management of natural resources. Other social measures would include raising enrollment rates in basic education and improving the delivery of, and access to, primary and secondary health services.

Georgia

Financial Support. On July 27, 1998, the IMF approved a third annual ESAF arrangement for SDR 55.5 million ($74 million).

Program Objectives. Over the medium term, consolidate macroeconomic stabilization gains, achieve greater external viability, accelerate structural reforms, and keep the economy on a sustainable growth path while strengthening the social safety net. In 1998, achieve GDP growth of 10 percent, reduce inflation to 6 percent, and increase gross official reserves to the equivalent of 2.3 months of imports.

Policies. The overall fiscal deficit would narrow to 2.9 percent of GDP in 1998 from about 4.2 percent of GDP in 1997 on a cash basis[16] through increased revenue. Expenditure would continue to rise moderately, with expenditure arrears targeted to be eliminated by the end of December 1998. Prudent monetary and credit policies would support these efforts. Structural policies were designed to foster private sector development and sustain economic growth through, in particular, urban and industrial land privatization; faster privatization of medium- and large-scale enterprises; removal of trade restrictions; restructuring of the electricity sector; and strengthening of banks' prudential regulations. The key social objective would be to alleviate poverty. The authorities would eliminate arrears on wages, pensions, and social transfers and would increase spending on health and education.

Guyana

Financial Support. On July 15, 1998, the IMF approved a three-year ESAF arrangement for SDR 53.76 million ($71 million). For assistance under the HIPC Initiative, see Chapter 8.

Program Objectives. Attain satisfactory growth with low inflation, stronger balance of payments, and a robust exit from the debt-rescheduling process after the delivery of assistance under the HIPC Initiative. Specifically, achieve average real GDP growth of about 4 percent a year for 1998–01, limit average inflation to about 4¼ percent for the period, and narrow the current account deficit while maintaining gross international reserves at the equivalent of four to five months of imports.

Policies. The program would emphasize reducing the fiscal deficit, tightening credit policy, achieving a more flexible exchange rate policy, and continuing to pursue structural reforms. New revenue measures included an upward adjustment of fees and charges for government services, an increase in taxes on tobacco and related products, and the strengthening of tax administration. Central government expenditure would be reduced by 1½ percent of GDP in 1998 as a result of lower interest payments and cuts in capital expenditures in nonpriority areas. Structural reforms would continue to emphasize reducing the role of the public sector and creating an environment conducive to private sector development. Thus, efforts in 1998–99 would focus on reforming the financial sector and improving the business environment, restructuring public enterprises, and reforming the civil service.

The government would seek to improve living standards by emphasizing health and education and well-targeted poverty-reduction programs, as well as managing the country's natural resources and improving urban areas.

Haiti

Financial Support. On November 30, 1998, the IMF approved emergency financial assistance of SDR 15.2 million ($21 million) to assist relief and rehabilitation efforts in the aftermath of Hurricane Georges, and in addition to support provided under an ESAF Arrangement approved in October 1996.

[16]The figures were revised subsequent to Board approval owing to reclassification of privatization proceeds from revenue to financing.

Box 12
IMF's Response to Hurricane Mitch

In November 1998, IMF Managing Director Michel Camdessus visited Nicaragua, Honduras, and other Central American countries affected by Hurricane Mitch. He witnessed firsthand the devastation caused by the hurricane and met with government officials; business, labor, and religious leaders; community groups; and nongovernmental organizations. In Nicaragua, he discussed ways to develop a national consensus for a reconstruction program. In Honduras, the country most affected by the hurricane, the Managing Director assured the authorities that the IMF and its staff were committed to supporting the country in its recovery from the crisis. Subsequently, on December 7, the Executive Board approved an SDR 47.5 million ($66 million) assistance package for Honduras under the IMF's emergency assistance policy to support the government's economic recovery program and associated relief and rehabilitation efforts in the aftermath of Hurricane Mitch.

Also in November 1998, the IMF, World Bank, and Inter-American Development Bank agreed to undertake with the governments of Honduras and Nicaragua a comprehensive assessment of their external debt situation and related requirements for debt relief. The institutions also ensured that debt-service payments of these countries would not impede the reconstruction and recovery efforts.

In December 1998, the Managing Director participated in a meeting of the Consultative Group for the Reconstruction and Transformation of Central America, held in Washington. The objectives of the meeting were to bring donors up-to-date on estimates of the extent of the damage to the affected countries and on the progress being made in emergency relief and reconstruction; and seek initial commitments of assistance on the basis of preliminary estimates of the countries' priority needs and financing requirements. Work in these areas was continuing, and more definitive estimates of needs, as well as firm commitments on donor assistance, were to be presented at a follow-up Consultative Group meeting in Stockholm in May 1999.

On February 12, 1999, the Board completed Nicaragua's review under the first annual ESAF Arrangement and approved an augmentation of resources of SDR 48 million ($66 million) (equal to 50 percent of Nicaragua's quota) to help cover additional financing needs resulting from the hurricane. And on March 26, 1999, the IMF approved a three-year ESAF Arrangement for Honduras for SDR 156.8 million ($215 million) to support the government's economic program for 1999–01.

Program Objectives. Maintain prudent macroeconomic policies and make further progress in structural reforms while dealing with damage caused by Hurricane Georges. The program, based on 2 percent output growth, aimed to keep inflation at about 8 percent and to maintain an adequate level of official international reserves while earmarking 0.8 percent of GDP of public spending for hurricane relief and reconstruction.

Policies. The authorities were committed to fiscal discipline while providing for urgently needed reconstruction expenditures. Revenue measures would include steps to strengthen tax and customs administration and to tighten the administration of tax exemptions. Expenditure measures would include limiting government spending to revenue collection and programmed financing, restricting the use of ministerial discretionary accounts, phasing in civil service wage increases, tightening procedures for hiring government employees, and restricting low-priority capital outlays unrelated to hurricane damage.

Honduras

Financial Support. On December 7, 1998, the IMF approved SDR 47.5 million ($66 million) in emergency financial assistance to assist in recovery from Hurricane Mitch and support the government's economic recovery program. Subsequently, on March 26, 1999, the IMF approved a three-year ESAF Arrangement for SDR 156.75 million ($215 million).

Program Objectives. Achieve a rapid, sustained recovery and address social needs, which have become more pressing as a result of Hurricane Mitch (see Box 12). Bring recovery in the growth rate of real GDP to about 5 or 6 percent a year by 2000–01, following an expected decline in real GDP by 2 to 3 percent in 1999; reduce the 12-month inflation rate to 13–14 percent by December 1999 and to 8 percent by the end of 2001; and maintain an international reserve position equivalent to 3½ to 4 months of imports. Given the large size of the emergency relief and reconstruction needs, the program projected a marked widening of the combined public sector deficit in 1999 to about 8½ percent of GDP, to be financed almost entirely by concessional loans and debt relief. In the wake of the hurricane, the staffs of the IMF, World Bank, and Inter-American Development Bank began work on a comprehensive reassessment of the country's debt situation and prospects for debt relief in the context of the HIPC.

Policies. The authorities would continue reforms to stimulate private investment and economic growth, increase public sector savings to meet social needs over the medium term, and strengthen the financial system. In the public sector, the program would complete transferring control of the telephone company to a private partner, conclude privatizing the electricity distribution network, and grant management concessions to the private sector for the operation of public works and airports. In addition, the authorities would reform the civil service by eliminating duplication and overlapping among institutions and reclassifying positions and salaries to attract and retain skilled staff. In the financial sector, the government would start to identify and address weaknesses in the legal and institutional framework for bank supervision. Also, over the period of the ESAF arrangement, the authorities would take steps to implement recommendations resulting from the ongoing on-site inspection of banks. The government's social sector policies would focus on tackling poverty through faster economic growth, and improving the delivery and targeting of basic health, education, and social safety net services, with priority given to disease prevention, neonatal and child care, and minimum nutritional support. The program would also contemplate a fund to finance the repair of low-income houses.

Jordan

Financial Support. On April 15, 1999, the IMF approved financial assistance of SDR 161.98 million ($220 million). Of the total, SDR 127.9 million ($174 million) was available under a three-year EFF Arrangement and SDR 34.1 million ($46 million) under the CCFF. Jordan was given immediate access to credits of SDR 44.8 million, including SDR 34.1 million from the CCFF.

Program Objectives. For 1999, stabilize the economy and set the stage for sustained recovery. Improve the growth rate modestly while keeping inflation low and strengthening official foreign exchange reserves. Reduce the budget deficit to 7.0 percent of GDP, and the overall fiscal deficit to 7.9 percent of GDP; after grants, achieve an overall fiscal deficit target of 4.2 percent of GDP. Over the medium term, promote a gradual recovery in the growth of real GDP to 3–4 percent annually and maintain inflation at 2–3 percent.

Policies. Monetary policy would seek to support the current exchange rate peg and help bolster international reserves. Income tax reforms would be introduced, and preparations would be made for the adoption of a value-added tax; a new banking law would enhance bank regulation and supervision, and a deposit insurance scheme would be put in place. The authorities would also initiate regular auctions of government securities to promote financial market development. In the trade area, the maximum tariff rate would be lowered in two steps, from 40 percent currently to 30 percent by early 2000. Under the public enterprise reform and privatization program, significant steps would be taken to improve the management of the Water Authority of Jordan, restructure and privatize the Royal Jordanian airline and the National Electric Power Company, and develop a privatization strategy for the Jordan Telecommunications Corporation.

Kyrgyz Republic

Financial Support. On June 26, 1998, the IMF approved a three-year ESAF Arrangement for SDR 64.5 million ($86 million). Subsequently, on March 3, 1999, the IMF augmented the financing under it by SDR 8.88 million ($12 million).

Program Objectives. Achieve steady output growth, a permanent reduction in inflation to single-digit levels, and a strengthening of the external position through fiscal tightening and retrenchment.

Policies. The government would cut dissavings by cutting the overall fiscal deficit by almost one-half, strengthen tax revenue, and restrain expenditures. These measures would be supported by a tight monetary policy and structural measures designed to create an environment conducive to private sector development. Fiscal policy would focus on ensuring that the budget conformed to the overall macroeconomic objectives and the availability of domestic and concessional external financing. The government's structural agenda would cover a comprehensive overhaul of the public pension system, civil service reform, privatization and enterprise reform, further strengthening of the legal and regulatory framework, adoption of strategies for the agriculture and energy sectors and of a water management plan, completion of the modernization of the financial sector, and improvements in statistics. To address social needs, reforms would emphasize health and education, and expenditures would be kept at least constant in real terms during the program period.

Former Yugoslav Republic of Macedonia

Financial Support. On June 19, 1998, the IMF approved a second annual ESAF Arrangement for SDR 18.19 million ($24 million).

Program Objectives. Achieve real GDP growth of 5 percent, end-of-year inflation of 3 percent, and a current account deficit equivalent to 7.3 percent of GDP.

Policies. Consistent with these objectives, the overall fiscal deficit was expected to increase slightly in 1998, to 0.7 percent of GDP, and, despite the projected faster increase in nominal GDP, revenue was expected to grow by slightly less than 3 percent. This reflected continued growth of the informal sector and the fact that wages and consumption—the main bases for taxation—were projected to decline as a share of GDP. The government's broad strategy emphasized improving living standards by consolidating private ownership and strengthening market-based institutions. Macroeconomic policies would focus on providing a stable financial environment to engender enterprise adjustment, reduce interest rates, and promote investment and jobs. Monetary policy would continue to be based on the deutsche mark anchor. Key structural reforms included strengthening corporate governance and bank lending practices, rationalizing public expenditure, and introducing a value-added tax, which would make fiscal accounts more sustainable and make room for a reduction in the direct tax burden. The government would also continue to liberalize labor markets, develop financial markets, and remove barriers to trade and foreign investment. The government would improve the adequacy and targeting of the means-tested social assistance program, introduce a health insurance law, and modernize the education system.

Malawi

Financial Support. On December 17, 1998, the IMF approved a third annual ESAF Arrangement for SDR 20.4 million ($27 million), which included an augmentation of SDR 5.15 million.

Program Objectives. Over the medium term, consolidate macroeconomic stability and attain sustainable economic growth that would reduce poverty and raise living standards. Achieve real GDP growth of at least 3.5 percent in 1998 and 5 percent in 1999, a 12-month inflation rate of 36 percent by the end of 1998 and 7 percent by the end of 1999, a small domestic primary deficit for 1998–99, and a recovery in gross international reserves to more than four months of imports.

Policies. The government's strategy would entail increasing gross investment to 19 percent of GDP, on average, by strengthening the level and productivity of private investment; continuing to improve infrastructure; and establishing reforms designed to bolster market competition. The structural reform agenda would support poverty reduction and improved living standards. The authorities would pursue civil service and trade reform as well as privatization. To raise living standards, they would continue to liberalize agriculture, which has already had a beneficial impact on the incomes of small farmers, and would improve the quality of education.

Mali

Financial Support. On August 6, 1998, the IMF approved a third annual ESAF Arrangement for SDR 20.7 million ($28 million). On September 16, 1998, in conjunction with the World Bank, the IMF agreed to provide $250 million to Mali under the HIPC Initiative (see Chapter 8).

Program Objectives. Within a medium-term strategy centered on consolidating macroeconomic stability and attaining sustainable economic growth that would reduce poverty and raise living standards, achieve real GDP growth of 5 percent for 1998/99, consumer price inflation of 2–3 percent, and an external current account deficit of 8 percent.

Policies. The goal of fiscal policy would be to reduce the overall budget deficit to 7.6 percent in 1998 and to 6.4 percent in 1999 by increasing the revenue base and controlling outlays while ensuring adequate allocations for education and health, the social safety net, revenue-collection agencies, and counterpart funds for the investment program. The government would take steps to collect overdue taxes and would restructure, and expand the base of, the value-added tax. The government's structural reform agenda, designed to support its social goals, would cover agricultural development, privatization of public enterprises, the regulatory system, and regional cooperation and integration. The program's social goals would include improving the quality of education and health services.

Mozambique

Financial Support. On August 25, 1998, the IMF approved a third annual ESAF Arrangement for SDR 25.2 million ($33 million). In April, it determined that Mozambique qualified for assistance under the HIPC Initiative (see Chapter 8).

Program Objectives. To create the conditions for poverty-reducing sustainable economic growth while lowering the country's dependence on external aid. The medium-term strategy was to capitalize on gains achieved in both macroeconomic stabilization and economic liberalization to encourage rapid private sector expansion. The 1998/99 program would aim for real GDP growth of about 7 percent, end of period inflation of 6–8 percent, and net international reserves of three to four months of projected imports. Slower growth in the industrial, energy, construction, and services sectors accounted for the slowdown in economic growth in 1998 after a growth spurt in 1997.

Policies. The program projected a decline of the overall fiscal deficit, before grants, of ½ of 1 percentage point in 1998 because of higher revenues resulting from improvements in customs and internal tax administration. In 1999, fiscal reforms—including tax cuts and a wage decompression in the civil service—would widen the overall deficit before grants, but this adverse impact would be accommodated by higher concessional external financing.

Structural reforms would include removing the remaining impediments to economic growth, increasing private investment by privatizing state enterprises and eliminating administrative barriers to trade and investment, improving public sector saving by strengthening tax administration and widening the tax base, and stimulating private sector saving by developing financial instruments and markets and maintaining low tax rates. Other structural measures would include civil service reform, strengthening bank supervision and revising financial legislation, and increasing the efficiency of public sector investment through a greater coordination of external aid. The government would also seek to alleviate poverty by implementing medium-term expenditure programs on education and health and increasing budgetary resources for these areas.

Niger

Financial Support. On August 28, 1998, the IMF approved a third annual ESAF arrangement for SDR 19.32 million ($26 million).

Program Objectives. Within a medium-term strategy designed to establish the conditions for sustainable economic growth and a significant reduction in poverty, the program supported by the third annual ESAF Arrangement projected real GDP growth of 4.5 percent, year-end inflation of about 3 percent, and an external current account deficit of 9.4 percent of GDP in 1998.

Policies. The authorities would raise the ratio of total government revenue to GDP by further improving tax administration and controlling expenditure—particularly in the public sector wage bill and certain low-priority outlays—and step up efforts to strengthen the banking system. They were committed to restructuring and privatizing state enterprises, streamlining public administration, improving the management of rural development and natural resources, and reforming the civil service. On the social front, the authorities would improve living standards by enhancing the quality of health and education services and making it easier for the intended beneficiaries to have access to them, reduce poverty, and promote family planning and women's programs. Education policy would center on increasing enrollment rates in primary schools.

Pakistan

Financial Support. On January 14, 1999, the IMF approved a second annual ESAF Arrangement for SDR 227.5 million ($319.2 million) and a CCFF credit of SDR 352.7 million ($495 million) in respect of a shortfall in export earnings during 1998.

Program Objectives. Over 1998–2001, raise real GDP annual growth to 5–6 percent, bring down annual inflation to about 6 percent, reduce the external current account deficit to less than 1.5 percent of GDP, stabilize the ratio of total public sector debt to GDP, and improve social indicators.

Policies. Fiscal consolidation would be key in achieving the program objectives. Structural reform would focus on the government budget and restructuring and strengthening the financial position of public enterprises, while protecting basic social services through the Social Action Program. The government would continue to make substantial efforts to broaden the tax base, revamp tax administration, and implement the restructuring plans for the energy sector and other public enterprises. Simultaneously, the government would move forward with privatizating financial institutions, liberalizing trade, and developing market-based foreign exchange and payment systems. Authorities would also follow up on their initiatives to increase transparency, enforce the rule of law, and improve governance.

Russia

Financial Support. On July 20, 1998, the IMF approved financial support totaling SDR 8.5 billion ($11.2 billion), which consisted of an augmentation of the EFF Arrangement by SDR 6.3 billion ($8.3 billion) and a CCFF credit of SDR 2.16 billion ($2.9 billion) to compensate for a shortfall in export earnings. The IMF financed the EFF augmentation, which included SDR 4 billion ($5.3 billion) of resources to be made available under the SRF, by borrowing under the General Arrangements to Borrow—the first time the GAB has ever been activated for use by a nonparticipant. (Subsequently, in March 1999, the EFF Arrangement was canceled at the request of the Russian authorities.)

Program Objectives. In light of a drop in real GDP in the first five months of 1998, a balance of payments deficit during the first half of the year caused by lower oil and gas prices, and a reversal in market confidence, the goal was to achieve a return to financial stability and intensify structural reforms.

Policies. The program included a major fiscal adjustment: reducing the federal budget deficit from 5.6 percent of GDP in 1998 to 2.8 percent of GDP in 1999 by improving tax collection through the establishment of large taxpayers' units, as well as other revenue-enhancing and expenditure-reducing measures. Monetary and exchange rate policy would remain broadly unchanged for the rest of 1998, with a view to keeping inflation down and gradually reducing it further. A strengthened structural agenda would emphasize addressing the nonpayment problem and promoting private sector development, and steps would be taken to ensure the viability of the government debt position. Structural reform measures also called for adopting a comprehensive approach to underlying problems in the banking sector, including weak and insolvent banks; weaknesses in the accounting, legal, and regulatory framework; poor supervision and compliance; and insufficient competition. (See Chapter 4 for a discussion of Russian developments during the financial year.)

Rwanda

Financial Support. On June 24, 1998, the IMF approved a three-year ESAF Arrangement for SDR 71.4 million ($95 million).

Program Objectives. Achieve high sustainable economic growth and reduce poverty. The aim of the program was to achieve real GDP growth of 7 percent in 1998 and 8 percent in 1999; reduce end-of-period inflation to 7 percent in 1998 and 5 percent in 1999; and temporarily increase gross official reserves to slightly more than six months of imports during 1998–99.

Policies. Fiscal policy would seek to increase revenues through a broadening of the tax base, improved tax and customs administration, and introduction of a value-added tax, while reducing trade taxes. The aim of monetary policy would be to achieve a reduction in inflation, with an increased reliance on treasury bills for monetary policy operation. Structural reforms would be deepened and would be supported by efforts to improve governance and consolidate national reconciliation and economic security through the reintegration of refugees. Budgeting and treasury management would be strengthened to improve transparency. Other structural measures included civil service reform; divestiture of public enterprises with priority to public utilities and the tea sector; and revision of the commercial, labor, and investment codes to promote private investment and exports and establish a more flexible labor market. Social objectives included increasing public expenditure on primary health and education and exceptional expenditure to address the trauma of the war.

St. Kitts and Nevis

Financial Support. On December 17, 1998, the IMF approved emergency financial assistance related to natural disasters totaling SDR 1.63 million ($2.3 million) to help the country recover from Hurricane Georges and support the government's economic adjustment program.

Sierra Leone

Financial Support. On November 9, 1998, the IMF approved financial assistance of SDR 11.58 million ($16 million) under the IMF's policy of emergency postconflict assistance to support the government's economic program for 1998/99.

Tajikistan

Financial Support. On June 24, 1998, the IMF approved a three-year ESAF Arrangement for SDR 96 million ($128 million). On December 17, 1998, the loan was augmented by SDR 4.3 million ($6 million).

Program Objectives. Over the medium term, achieve real GDP growth of 4–4.5 percent a year from 1999 through 2001, a stable nominal exchange rate, and a further reduction in inflation to 8 percent in 2001 from almost 164 percent in 1997. At the same time, reduce the fiscal deficit to 0.3 percent of GDP in 2001 from 3.3 percent in 1997. Increased domestic savings, supported by strong fiscal adjustment and combined with steady net foreign financing, would facilitate an increase in investment to 13 percent of GDP in 2001 from 7 percent in 1997.

Policies. To support these objectives, the program would call for tight monetary policy and no central bank financing of the budget after mid-1999. The authorities would adhere to their asymmetric exchange rate policy, which would respond to pressures for depreciation by tightening financial policies. They would also try to eliminate persistent wage and compensation arrears. Structural reforms—which would emphasize enhanced productivity growth—would include accelerating privatization to strengthen financial discipline, improving the economic incentive structure, enhancing economic efficiency, and encouraging investment. Land reform and bank restructuring also received priority. Social measures would include improving the basic social safety net, health services, education, and the rebuilding of the public infrastructure.

Tanzania

Financial Support. On February 8, 1999, the IMF approved a third annual ESAF Arrangement for SDR 58.76 million ($82 million).

Program Objectives. Over 1998/99–2000/01, achieve real GDP growth of at least 4 percent in 1998/99, rising to 6 percent in 2001; reduce annual inflation to 7.5 percent in 1998/99 and further to about 4 percent in 2001; build gross international reserves to four months of imports of goods and services by June 2000, and maintain that level thereafter; and achieve an external current account deficit that is sustainable in terms of external assistance and long-term private inflows.

Policies. Fiscal policy would support growth by focusing on increasing health and education expenditure and improving the physical infrastructure, while maintaining a fiscal stance that would allow adequate growth in credit to the private sector within the context of a prudent monetary policy. The government's structural agenda would give priority to restructuring and privatizing public utilities, including telecommunications and water and sewerage. Also key was continued reform in the financial sector with the aim of fostering competition and efficiency, narrowing the spread between lending and deposit interest rates, and strengthening the mobilization and allocation of financial resources.

In the social sector, spending would be increased in the context of medium-term sectoral development plans. The government would develop plans for a substantial transfer of responsibilities to local authorities.

Uganda

Financial Support. On November 11, 1998, the IMF approved a second annual ESAF Arrangement for SDR 33.5 million ($46 million). (For assistance under the HIPC Initiative, see Chapter 8.)

Program Objectives. Over the medium term, achieve average real growth of 7 percent a year, contain inflation at 5 percent, and maintain gross international reserves at about five months of imports of goods and nonfactor services. The overall fiscal deficit, excluding grants, would increase moderately to 6.7 percent of GDP during 1998/99 and decline gradually to 6.0 percent by 2000/01. Fiscal revenue would rise to 12.1 percent of GDP in 1998/99 from 11.4 percent in 1997/98 and would increase to 13 percent of GDP by 2000/01.

Policies. Increases in the revenue-to-GDP ratio would depend on improvements in tax and customs administration, for which the authorities received technical assistance. Given the crucial role of revenue enhancement for fiscal sustainability, the government would need to implement additional revenue measures, including steps to combat smuggling, and enforce penalties for tax evasion. On the expenditure side, concern about weaknesses in expenditure control and the accumulation of domestic arrears, as well as strengthening payroll management, pension reform, and a restructuring of public utilities, had emerged. The structural program would entail deepening and strengthening financial sector reforms, with emphasis on bank supervision and enforcement of prudential regulations. Other measures would include public enterprise reform and reform of the civil service and pension system. The program also envisaged shifting public expenditures in favor of social programs and other priority areas.

Ukraine

Financial Support. On September 4, 1998, the IMF approved a three-year EFF Arrangement for SDR 1.65 billion ($2.2 billion).

Program Objectives. Over the medium term, strengthen public finances and implement ambitious structural reforms to promote economic growth and improve living standards and the environment for private sector investment. Achieve 4 percent growth in GDP by 2001; reduce inflation to 7 percent by 2001; and raise gross international reserves to the equivalent of seven weeks of import cover in 2001.

Policies. In response to regional shocks and the deteriorated outlook for external financing, the program included tighter fiscal policies, debt restructuring, and adoption of a new and wider exchange rate band. The highest priority would go to strengthening the government's financial position. Fiscal policy included a wide range of revenue and expenditure measures: a 10 percentage point reduction in payroll taxes, public administration reform, and a scaling down of subsidy programs. Revenue targets would be met through improvements in tax administration. The authorities would pursue expenditure control by introducing the expenditure limits system and ensuring that expenditures are adjusted regularly to take account of revenue developments. Debt restructuring would have a positive fiscal impact, with lower domestic interest payments in 1998, offset somewhat by higher payments on external debt. Thus, the budget deficit in 1998 would remain at 2.8 percent of GDP, and the 1999 budget would be based on a deficit of 1 percent of GDP. With a stronger fiscal policy stance, the authorities could be expected to continue implementing a tight monetary policy to control inflation.

Far-reaching structural reforms would include strengthening fiscal and monetary institutions; reducing the size of the government and its involvement in economic activities; and pursuing privatization, deregulation, and administrative reforms as well as reforms in the energy and agricultural sectors. The government's social efforts would center on rationalizing and streamlining the social protection system, improving the targeting of assistance, eliminating most budgetary privileges, and strengthening the pension system.

Uruguay

Financial Support. On March 29, 1999, the IMF approved a 12-month Stand-By Arrangement for SDR 70 million ($95 million). The government does not intend to make drawings under the arrangement and will treat it as precautionary.

Program Objectives. Bring 12-month inflation down to around 5 percent by year's end and hold contraction in real GDP to about 1 percent in the face of adverse commodity prices and regional shocks. Intensify the implementation of structural reforms already under way.

Policies. Authorities would aim to maintain fiscal discipline through the reduction of current expenditures and public investment outlays. Further measures would include efforts to transfer infrastructure investment projects to the private sector, partial privatization of public assets, and joint ventures with the private sector. Additional reforms would be based on a broadening of the list of instruments in which private pension funds can invest; a reduction in armed forces personnel; and working with Congress to pass new bankruptcy legislation and a law on factoring, discounting, and establishing a market for receivables. In the banking sector, the government-owned Bank of the Republic would extend its contract with a private consultant to continue reforms and improve its efficiency and profitability.

Republic of Yemen

Financial Support. On March 23, 1999, the IMF approved a second annual ESAF arrangement for SDR 88 million ($120 million).

Program Objectives. Focus on financial discipline and market-oriented reforms to encourage private non-oil sector growth while protecting health and education expenditure and social safety net outlays. Reduce the external current account deficit by about 2.5 percent of GDP. Aim at an inflation rate of about 9 percent, including the effects of increases in wheat and flour prices. Increase budget expenditure on social needs, including health, education, and welfare, from less than 7 percent of GDP in 1997 to close to 12 percent over the medium term.

Policies. Structural reforms already undertaken, or expected, in 1999 include deepening civil service reforms central to the implementation of the remainder of the program, additional income tax and sales tax reform, financial sector measures including a significant strengthening of bank supervision, customs reform, privatization of public enterprises, elimination of import bans, pension reform, and judicial reform. The government would continue to increase the provision and targeting of social assistance programs. To mitigate the impact of subsidy cuts on the poorest segments of the population, direct assistance through the government's Social Welfare Fund would be strengthened.

Zambia

Financial Support. On March 25, 1999, the IMF approved a three-year ESAF arrangement for SDR 254.5 million ($349 million).

Program Objectives. Achieve real GDP growth of 4 percent, reduce inflation to 15 percent, and strengthen gross reserves to the equivalent of 1½ months of imports. Reduce the overall budget deficit to 3 percent of GDP.

Policies. The fiscal program envisaged an increase in the revenue yield ½ of 1 percentage point of GDP in 1999; a firm control over the public wage bill; an increase in public investment; and an increase in total revenue and grants to 28 percent of GDP. On the monetary side, the program would firmly control broad money growth. The government would increase structural reforms in the areas of privatization, public service, and banking supervision. The program would include privatization of the copper parastatal (ZCCM), divestiture of large state-owned enterprises in the non-mining sector, tendering the granting of concessions with regard to the railway system, and management rights on the operations of the National Airports Corporation. The public service reform program would include a reduction in the public service workforce of 7,000 employees through retrenchment, natural attrition, and the hiving off of public institutions. The government would seek to alleviate poverty by reorienting public expenditure toward the social sectors, primarily health and education.

Zimbabwe

Financial Support. On June 1, 1998, the IMF approved a 13-month Stand-By Arrangement for SDR 130.65 million ($174.5 million), of which SDR 39.2 million was available immediately.

Program Objectives. Ensure that the depreciation of the exchange rate would substantially improve competitiveness through fiscal consolidation and monetary restraint. Reduce the budget deficit, excluding grants and privatization proceeds, to 5.5 percent of GDP.

Policies. The government would reduce its stock of domestic debt to enable the Reserve Bank of Zimbabwe to tighten domestic credit and build up its foreign reserves without constraining the availability of bank credit to the private sector. Structural reforms would include accelerating privatization, with expected proceeds of almost 2 percent of GDP in 1998. The government would pursue land reform and redistribution in an orderly and transparent manner to protect agricultural output and the welfare of workers. It would also take steps to protect the most vulnerable segments of the population, including by raising allocations for social spending.

CHAPTER 8

The ESAF and the HIPC Initiative

In 1998/99, the Board considered various issues associated with the operation and financing of the Enhanced Structural Adjustment Facility—which provides concessional loans for low-income member countries—and the implementation of the joint IMF–World Bank Initiative to provide debt-servicing relief to the heavily indebted poor countries (HIPCs). These discussions were aimed at improving the effectiveness of the ESAF and the HIPC Initiative in helping poor developing countries attain their objectives of growth, external viability, and poverty reduction.

HIPC Initiative

The launch of the HIPC Initiative by the IMF and the World Bank in 1996 represented a major departure from past practice in dealing with the debt problems of developing countries. The Initiative seeks to help countries with good track records achieve overall external debt sustainability, with the participation of all external creditors. As of April 1999, the Executive Boards of both the IMF and World Bank had reviewed the eligibility for the Initiative of 12 heavily indebted poor countries and work was under way on others. Seven countries had qualified for debt relief, and three others were expected to follow. Debt relief totaling $6 billion in nominal terms ($3 billion in 1998 net present value terms) had been committed to the seven qualified countries, and assistance for two countries—Uganda and Bolivia—had been released.

Nonetheless, concern had been widespread in 1998/99 that the Initiative had not provided adequate debt relief for poor countries to escape from a vicious circle in which gains from economic growth are wiped out by the servicing costs of foreign debt. The issue of debt relief and possible changes to strengthen the HIPC Initiative thus attracted considerable attention during the financial year on the part of nongovernmental organizations, religious groups, the media, international organizations, and governments.

Progress in Implementation

In September 1998, the Board welcomed the progress in implementing the HIPC Initiative (see Figure 3 for a description of the key features of the Initiative and Table 5 for the status of country cases), and agreed to extend the initial two-year period for entry into the Initiative from the end of September 1998 until the end of 2000. Several Directors cautioned that this should be a one-time extension and that the Initiative should not be seen as a permanent facility; they emphasized that HIPC-eligible and postconflict countries should be encouraged to adopt IMF-supported programs at the earliest possible stage, well before the new deadline.

Directors agreed that linking debt relief and social development should be considered in the broader perspective of overall efforts at poverty alleviation, with the World Bank taking a lead role. Some Directors also referred to the work undertaken by the International Development Association (IDA) and other creditors to accelerate progress toward poverty reduction and social development; they welcomed the IMF's intention to establish a link between HIPC social targets and social development targets for the twenty-first century set out by the Development Assistance Committee of the Organization for Economic Cooperation and Development.[17]

Directors agreed to amend the ESAF-HIPC Trust Instrument to allow consideration of a member's performance under programs supported by emergency assistance for postconflict countries as part of the first stage track record leading up to the decision point (see Figure 3). They also agreed that a country's eligibility and qualification for HIPC assistance, including the amount of assistance committed at the decision point, might be reassessed in cases where problems in policy implementation led to protracted delays in reaching the completion point. In cases of protracted delays prior to the completion point, the option of returning to the beginning of the second stage would be decided by the Executive Boards of the IMF and World Bank.

[17]The OECD's Development Goals for 2015 include reducing extreme poverty by half, providing universal primary education, and reducing child and infant mortality by two-thirds. More information on these targets and related indicators is available on the OECD's website: http://www.oecd.org/dac.

Figure 3

Initiative for Heavily Indebted Poor Countries

First Stage

- *Paris Club* provides flow rescheduling on Naples terms, that is, rescheduling of debt service on eligible debt falling due during the three-year consolidation period (up to 67 percent reduction on eligible maturities on a net present value basis).
- *Other* bilateral and commercial creditors provide at least comparable treatment.
- *Multilateral institutions* continue to provide adjustment support in the framework of World Bank– and IMF-supported adjustment programs.
- *Country* establishes first three-year track record of good performance (performance prior to the start of the HIPC Initiative can be taken into account).

Decision Point

Exit

- *Paris Club* stock-of-debt operation under Naples terms (up to 67 percent present value reduction of eligible debt) and comparable treatment by other bilateral and commercial creditors judged adequate for the country to reach sustainability by the completion point—country not eligible for HIPC Initiative.

Eligible

- *Paris Club* stock-of-debt operation (on Naples terms) judged not sufficient for the country's overall debt to become sustainable by the completion point—country requests additional support under the HIPC Initiative and IMF and World Bank Boards determine eligibility.

Second Stage

- *Paris Club* goes beyond Naples terms to provide more concessional debt reduction of up to 80 percent in present value terms.
- *Other* bilateral and commercial creditors provide at least comparable treatment.
- *Donors and multilateral institutions* provide enhanced support through interim measures.
- *Country* establishes a second track record of good performance under IMF- and Bank-supported programs.

Completion Point

- *All creditors* take coordinated action to provide sufficient assistance to reduce the country's debt to a sustainable level.
- *Paris Club* provides deeper stock-of-debt reduction of up to 80 percent in present value terms on eligible debt.
- *Other* bilateral and commercial creditors provide at least comparable treatment on stock of debt.
- *Multilateral institutions* take action to reduce the net present value of their claims, taking into account the assistance provided by nonmultilateral creditors and their own preferred creditor status.

Borderline

- *For borderline cases,* where there is doubt about whether sustainability would be achieved by the completion point under a Naples terms stock-of-debt operation, the country would receive further flow reschedulings under Naples terms.
- *If* the outcome at the completion point is better than or as projected, the country would receive a stock-of-debt operation on Naples terms from Paris Club creditors and comparable treatment from other bilateral and commercial creditors.
- *If* the outcome at the completion point is worse than projected, the country could receive additional support under the HIPC Initiative, so as to be able to exit from unsustainable debt.

Table 5
HIPC Inititative: Status of Country Cases, as of End-April 1999

Country (in order of expected decision point within groups)	Decision Point	Completion Point	Net Present Value of Debt-to-Export Target (in percent)	Assistance at Completion Point (in millions of U.S. dollars, present value at Completion Point) Total	Bilateral	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt[1]	Estimated Total Nominal Debt-Service Relief (in millions of U.S.dollars)	Satisfactory Assurances from Other Creditors
Completion point reached											
Uganda	Apr. 97	Apr. 98	202	347	73	274	69	160	20	650	Received
Bolivia	Sep. 97	Sep. 98	225	448	157	291	29	54	13	760	Received
Decision point reached and assistance committed by IMF and World Bank											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Guyana[2]	Dec. 97	May 99	107	253	91	161	35	27	25	500	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141[3]	345	163	182	23	91	6[4]	800	Being sought
Mozambique[5]	Apr. 98	June 99	200	1,442	877	565	105	324	57	2,900	Being sought
Mali	Sep. 98	Dec. 99	200	128	37	90	14	44	10	250	Being sought
Total assistance provided/ committed (7 countries)				3,078	1,419	1,657	285[6]	744	19	6,060	. . .
Debt judged sustainable											
Benin	July 97	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Senegal	Apr. 98	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .

Sources: IMF and World Bank Board decisions, completion point documents, final decision point documents, and IMF staff calculations.
[1]In percent of NPV of debt at completion point, after full use of traditional debt-relief mechanisms.
[2]Guyana reached its completion point in May 1999, subsequent to the end of the financial year.
[3]Eligible under fiscal/openness criteria; NPV of debt-to-exports target chosen to meet NPV of debt-to-revenue target of 280 percent.
[4]Nonreschedulable debt to non–Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.
[5]Mozambique reached its completion point in June 1999, subsequent to the end of the financial year. At that time assistance under the Initiative was increased to $1,716 million (in NPV terms) to ensure that Mozambique met the sustainability target of an NPV of debt to exports ratio of 200 percent.
[6]Equivalent to SDR 211 million.

Options for Enhancing the HIPC Initiative

Although the HIPC Initiative is acknowledged as a positive step forward, many commentators have expressed concern about the depth of debt relief and the pace of implementation. In response, the IMF and the World Bank initiated a two-stage review of the HIPC Initiative: Phase 1 addresses concerns about, and modifications to, the current framework, including debt sustainability targets, the timing of decision and completion points, and performance under economic and social programs. Under Phase 2, more in-depth consultations among interested parties will take place on the link between debt relief and social development. In the course of the review, the IMF and the World Bank have consulted with outside organizations and groups and other institutions and have posted on the Bank and IMF websites a questionnaire soliciting suggestions from the public.

At a meeting in late April 1999, the Executive Board welcomed the helpful comments and proposals received from these outside organizations and groups. Directors generally agreed with the principles for modifying the HIPC Initiative set out in a joint statement issued by the President of the World Bank and the IMF Managing Director:

- Debt relief should reinforce the tools of the international community—including policy-based and project lending, and donor assistance—with the wider aims of promoting sustainable development and poverty reduction.
- Debt relief should strengthen the incentives for debtor countries to adopt strong programs of adjustment and reform.
- Enhanced debt relief should focus particularly on poorer countries for which excessive debt can be a particularly severe obstacle to development.
- Debt relief should provide a clear exit from an unsustainable debt burden—with an appropriate cushion against external shocks—and remove debt overhangs; debt relief should be irrevocable.
- Enhanced debt relief, such as through lower targets, should be provided to all member countries, including those—generally the stronger performers—that had already reached decision and completion points

under the HIPC Initiative, provided they qualified under any revised thresholds.

- Implementation of the HIPC Initiative should be simplified and made more transparent.
- Proposals for enhanced debt relief should be accompanied by proposals on how the major contributions of the key multilateral creditors—including the World Bank, the IMF, and the African Development Bank—should be financed and should involve close consultation with all other affected creditors.

Noting that the estimated costs of the existing framework had risen and that financing for that framework was not yet secured fully, many Directors conditioned their support for change on an identification of the necessary financing from multilateral creditors. A number of Directors emphasized the importance of appropriate sharing of costs among creditors. A number of Directors also stressed that any proposals should be based on net additional financing, to ensure that increases in allocations for the HIPC Initiative do not crowd out existing aid flows.

The Board addressed four main areas of the various proposals: the depth, breadth, and timing of debt relief, and the related policy conditionality.

Many Directors were willing to consider changes to provide for deeper debt relief, to provide a greater safety cushion for debt sustainability, although a few considered that a case for changing the targets had not been established fully and that the HIPC Initiative was sufficiently flexible to accommodate exceptional needs. In light of the uncertainties surrounding the financing of the additional debt relief, Directors agreed that it was too early to consider concrete proposals. Nonetheless, several expressed interest in considering for countries with the deepest poverty a net-present-value-of-debt-to-export target of 150 percent and a net-present-value-of-debt-to-fiscal-revenue target of 250 percent with reduced thresholds. Some suggested that the lower targets might be related to exceptional country performance. Several Directors thought that HIPC Initiative debt relief could be made available in cases of natural disaster, in postconflict countries, and in countries with arrears to the IMF.

The Board viewed broader debtor country participation within the HIPC Initiative as desirable, both to ensure that debt relief reached all of those countries needing it to achieve sustainability, and also to extend the incentives for countries to sustain adjustment and reform policies. A lowering of targets could serve to broaden eligibility for assistance.

Directors agreed that a performance period was necessary to maximize the development impact of HIPC assistance, but a number supported an explicit and general shortening of the track record. These Directors considered that a three-year performance period would give sufficient assurance of a strong policy environment. Many other Directors, however, favored little or no general shortening of the track record period to reach the HIPC Initiative completion point, stressing the need to provide sufficient time and incentives for the countries to undertake the required structural reforms. These Directors pointed out that the three-year track record requirement between the decision and the completion points had in practice been interpreted flexibly—with a shortening in six of the seven early cases—and suggested that this flexibility should be continued. They emphasized that the exceptional nature of HIPC assistance should be justified by exceptional reforms. These Directors noted that substantial external financing was available to countries that had begun IMF- and Bank-supported adjustment programs, and that these countries would also be eligible for concessional flow reschedulings from bilateral creditors.

In the context of a discussion of maintaining a three-year second stage between the decision and the completion point, a number of Directors also supported consideration of interim assistance by the IMF, the World Bank, and other multilateral creditors as a means to provide relief ahead of the completion point. The staff will in due course make concrete proposals on interim assistance from the IMF, including an analysis of the cash flow impact of advancing assistance.

Some Directors expressed interest in linking delivery of HIPC Initiative assistance to a predefined set of policy measures but nonetheless agreed that a minimum period of time would still be necessary to ensure that prudent macroeconomic underpinnings were in place. While recognizing the positive incentives of such an approach, other Directors raised practical concerns about its implementation, including the difficulty of identifying a small set of key measures that could determine the timing of the delivery of assistance under the Initiative, or the danger of overloading the reform agenda.

Directors agreed that debt relief could provide both an incentive and a resource to support poverty reduction and social development programs. They welcomed consideration of ways to tighten the linkages between debt relief within the HIPC Initiative and poverty reduction and social policies in the context of the second part of the 1999 HIPC Initiative consultation and review process. Such work would need to rely heavily on the expertise of the World Bank.

Many Directors supported the proposals made by major creditor governments to increase debt relief outside the HIPC Initiative framework. A number of Directors stressed that strengthening the HIPC Initiative would need to be reinforced by wider actions by industrial country members. Many urged that larger official development assistance flows be provided to HIPCs and that these flows concentrate on countries that implemented strong policies. Directors recognized that most heavily indebted poor countries would continue to depend on substantial aid inflows even after the delivery of assistance under the HIPC Initiative. In addition, many supported a reinvigoration of trade liberalization so that the exports of heavily indebted poor countries, which largely consist of raw materials and agricultural products, would have free access to industrial country markets.

The staffs of the IMF and World Bank prepared, in April 1999, a technical note describing the estimated costs of various proposals from member governments and civil society for changes to the HIPC Initiative, which was discussed by the Boards of the World Bank and IMF in April. The note and other relevant material have been posted on both institutions' websites for public feedback.[18] The objective is to reach decisions to strengthen the Initiative for endorsement at the fall 1999 Annual Meetings.

At its April 1999 meeting, the Interim Committee encouraged the Executive Board—together with the Board of the World Bank—to develop more specific proposals to strengthen the HIPC Initiative framework so as to enhance debt relief in a way that reinforced incentives for adopting strong programs of adjustment, reform, and good governance.

Distilling Lessons from ESAF Evaluations

Since the late 1980s, the IMF has provided highly concessional loans through the ESAF to support the economic adjustment programs of low-income member countries. The facility has been a major source of IMF financing. As of April 30, 1999, the IMF had disbursed SDR 7.2 billion ($9.7 billion) under 81 ESAF arrangements approved for 51 countries; as of the same date, additional disbursements under the Structural Adjustment Facility, the predecessor to the ESAF, amounted to SDR 1.8 billion ($2.4 billion) under 38 arrangements approved for 37 countries.

In July 1997, the Board discussed a staff study assessing the experiences of 36 countries that received SAF and ESAF financing during 1986–95 in support of 68 programs. Subsequently, this internal review was complemented by an evaluation of the ESAF undertaken by a panel of outside experts, and in March 1998 the Board reviewed the findings of the panel.[19] Discussing the issue in July 1998, Directors attempted to draw lessons from the two ESAF evaluations and endorsed a number of proposals for changing ESAF operations to improve the design and implementation of ESAF-supported programs and thereby contribute to stronger economic performance in the IMF's poorest member countries.

Directors reiterated their confidence in the ESAF as an effective and valuable instrument in supporting macroeconomic adjustment and structural reform in low-income countries. Policies under the ESAF had stimulated growth, improved living standards, and helped move countries toward external viability. Directors underscored the need to take into account the individual circumstances of countries—especially a country's administrative capacities and needs—and to apply the recommendations of the ESAF reviews flexibly. These reforms were part of a continuing effort to adapt the IMF's strategy for growth and adjustment. Noting that dialogue with interested parties outside the IMF, as well as their views, was important to this process, Directors supported publication of the staff report and the summary of the Board's discussion.[20] Directors intend to review progress in implementing the recommendations in the period ahead.

Design of ESAF-Supported Programs

Directors agreed that a number of key aspects of program design merited greater emphasis in ESAF-supported programs:

- Stronger efforts were necessary to boost the availability of investable resources. ESAF-supported programs should thus generally target substantial increases in national saving over the three-year period of an ESAF arrangement. Higher public saving rates must take the lead in the process, given the often slow responsiveness of private saving to policy in the short run. The required fiscal discipline would also help provide a low-inflation environment conducive to growth and stronger external positions.
- The quality of fiscal adjustment was as important as the quantity of adjustment. The balance of adjustment between revenue increases and expenditure savings should continue to take account of the potential for raising revenues efficiently and the adequacy and efficiency of government spending. These factors would vary substantially from country to country. ESAF-supported programs should aim to shift the composition of government revenues over time toward sources that were more robust and less distortionary, while paying due attention to the dis-

[18]The note is entitled Perspectives on the Current Framework and Options for Change. The other material includes a Costings Supplement, a Report of the IMF Managing Director and the President of the World Bank to the Interim and Development Committees, and the IMF Chairman's summings up of the discussions in the two Boards.

[19]See *Annual Report, 1998,* pp. 69–73. The staff study was published as IMF, *The ESAF at Ten Years: Economic Adjustment and Reform in Low-Income Countries,* IMF Occasional Paper 156 (Washington, 1997). The evaluation by the outside experts was published as IMF, *External Evaluation of the ESAF: Report by a Group of Independent Experts* (Washington, 1998).

[20]See the IMF's website for the staff report (http://www.imf.org/external/pubs/ft/distill) and for the summary of the Board discussion (http://www.imf.org/external/np/sec/buff/9862.htm).

tributive aspects. This would typically mean reduced reliance on trade taxes in favor of broad-based consumption taxes—such as the value-added tax—and simple taxes on income and profits. Tariff cuts would also be facilitated by improvements in customs administration.

- The quality and composition of public spending must be improved. Programs should be designed to protect—and in most cases, increase—productive spending on health, education, and basic infrastructure. In addition, as the external evaluators had observed, social safety nets should feature more prominently in the design of future ESAF-supported programs. To make these objectives feasible, savings would have to be generated in other areas over the medium term, notably through far-reaching reforms of the civil service and public enterprises and reductions in unproductive spending.
- The achievement and maintenance of single-digit inflation should be a key element in countries' growth strategies, and thus a central objective of programs. An appropriate policy mix was important, and fiscal restraint was a prerequisite, but there was also a case for adopting more effective nominal anchors under a number of ESAF-supported programs to ensure that monetary policy played its part. Such anchors could take the form of exchange rate pegs, money ceilings, or a more explicit commitment to adjust policies to achieve specified inflation targets. Several Directors advocated caution in accepting exchange rate anchors when a country was highly vulnerable to external shocks; they also underscored the importance of identifying appropriate exit strategies as warranted.
- The extent of structural change already achieved under ESAF-supported programs had been profound. Nevertheless, structural weaknesses remained to be addressed across a broad front. Greater attention to sequencing such efforts was needed, with early implementation of those reforms most crucial to the success of the overall program. The priorities for reform and the appropriate sequencing should continue to be determined country by country, with a clear emphasis on measures to stimulate private investment and entrepreneurship. Thus, further trade liberalization should be targeted, including through attention to the regional dimension of such efforts. The regulatory and legal framework for private sector activity should be streamlined and rigorously enforced, and ESAF-supported programs should work toward establishing a sound banking system and reforming and privatizing public enterprises—two areas in which progress had been comparatively slow. To that end, the quality of data on the banking sector and public enterprises had to be improved, and the fiscal costs of restructuring in both sectors incorporated into program design at an early stage as far as possible.

Experience had shown that reforms to stimulate growth and reduce poverty would also move countries further toward the other ultimate objective of the ESAF, that is, external viability. Growth and external viability were, in practice, complementary objectives. The staff's analysis of external viability in ESAF countries should continue to use indicators based on exports, GDP, and revenues, all of which conveyed relevant information. The indicators proposed by the external evaluators could also be presented when they were found to provide a differing perspective on a country's external debt situation. Especially in light of the Asian experience, Directors noted, it was important to use the broadest possible coverage of external obligations in making these assessments, which, in turn, would require improvements in the monitoring of private external debt.

Implementation of ESAF-Supported Programs

The internal and the external reviews of the ESAF had underscored that programs had to be well designed and resolutely and consistently implemented to have their intended effect. The external evaluation, in particular, had offered a number of valuable suggestions on what the IMF could do to help ESAF users prepare and implement programs more effectively. Directors endorsed the notion that "national ownership" of programs greatly improved the prospects for their sustained implementation. The responsibility for developing national consensus behind a program resided first and foremost with the country authorities. IMF staff, however, could and should continue to help the authorities explain to society at large the content and rationale for the program. IMF staff—and resident representatives in particular—should be ready to engage in more frequent contacts with representatives from civil society and to participate, for example, in national conferences on policy issues. Directors agreed that publication of Policy Framework Papers, or similar documents, and Letters of Intent was particularly helpful and should become standard procedure (see Chapter 5 for a discussion of initiatives concerning these documents).

In helping the authorities build a national consensus, Directors felt the IMF could contribute in two main ways:

- Staff missions should be given greater flexibility to agree with the authorities on alternative policy mixes consistent with an appropriate set of program objectives. The scope for such flexibility, however, would need to be defined reasonably clearly in advance, so that program objectives would not be undermined and to ensure uniformity of treatment.
- Although IMF staff missions would continue to negotiate with the heads of the countries' economic

teams, they should encourage the authorities to include other relevant ministries in the discussions of structural or sectoral policies, and to discuss with all affected ministries the impact of measures taken in other areas.

Consensus building and the development of ESAF-supported programs that were truly "owned" took time, and some delay in initiating reforms might even be desirable if the result were stronger ownership of the program. While IMF staff had a role in these efforts to strengthen ownership, Directors considered it important to strike the right balance between fostering ownership and securing a strong arrangement. Most Directors supported the suggestion offered in both reviews that the IMF should be more willing to withhold ESAF support when the authorities' commitment to reform or ability to implement the program was in question. They agreed, therefore, that staff reports for the request of ESAF support should assess the environment for program implementation. This should cover the technical capacity to implement the program; the country's technical assistance needs and how they will be met; potential roadblocks to the reform measures; and the authorities' effort to foster consensus for, or anticipate opposition to, reforms.

The authorities' willingness to take prior actions was a strong and tangible indication of commitment. Prior actions—as part of the overall sequencing of the reform program—should be sought more frequently where progress had not been made on certain structural reforms fundamental to the success of the program.

Social Policies in ESAF-Supported Programs

One reason ESAF-supported reform programs had lost public support—complicating implementation—was the failure to identify and address unintended effects of policies on vulnerable social groups. Directors noted the conclusion of the external evaluators that structural adjustment generally had positive effects on income growth and poverty reduction, and that the cost of the reforms often fell more heavily on the better off than on the poor. Nevertheless, it was important to ensure that the poor were protected during adjustment and reform.

To achieve this, Directors agreed that assessments of the social impact should be conducted during the design of an ESAF-supported program; based on these assessments, measures to protect the poor should be incorporated into the program, and the social impact of the program should then be monitored during implementation. In addition, closer attention should be paid to developments in the real level of social spending, through an assessment of changes not only in nominal spending but also in the relative price of social services, and, more generally, to poverty alleviation. Directors reiterated that the IMF should rely on the expertise of the World Bank to carry out this work, and they welcomed the Bank's intention to collaborate more actively in this process, including in the context of six "pilot" country cases—Cameroon, Ethiopia, Nicaragua, Tajikistan, Vietnam, and Zimbabwe—intended to demonstrate the potential of closer collaboration between IMF and World Bank staffs to formulate better-integrated programs, drawing on the combined expertise of both institutions. Directors recognized the problem of inadequate data availability but hoped the problem would ease gradually as work proceeded.

IMF–World Bank Collaboration

Directors welcomed the proposal to intensify and enhance the existing channels of IMF–Bank collaboration on other aspects of program design. In particular, they saw a need for more effective joint work with country authorities on formulating reforms in the public enterprise and banking sectors. Better collaboration should aim, for example, to ensure that programs target early reform of those public enterprises that pose a significant threat to the public finances; identify up front the likely costs of bank restructuring, including their dependence on the pace of reform, so that these could be incorporated into the program's macroeconomic framework from the outset; and help countries plan and execute strategies to build political support for reforms. The IMF and the Bank should also work to ensure that their technical assistance, and that of other agencies, was well coordinated, made available on a timetable that met the country's needs, and contributed to the development of the authorities' own institutional capacity to make and implement policy.

The Board also endorsed the collaborative efforts of Bank and IMF staff and the national authorities to assess—in countries that had a track record of macroeconomic stability and were implementing policies that promoted domestic saving—the potential to absorb higher inflows of aid for investment spending without jeopardizing fiscal or external sustainability. Should this analysis demonstrate significant absorptive capacity with limited prospects for private external financing, efforts could be made to increase access to official financing from the ESAF, the World Bank, and bilateral donors, in support of a strong medium-term program that would target early progress in critical areas of reform. Equally important for these and other countries was to create the conditions for inflows of private capital, especially direct foreign investment. To this end, the Board felt that countries had to ensure open markets and transparent and effective regulatory and legal systems.

Directors supported the proposed modalities for the pilot cases, recognizing the importance of allowing flexibility and innovation. Most Directors emphasized that the established delineation of responsibilities between the World Bank and IMF staffs should be maintained, as should the IMF staff's ultimate responsibility for the content of ESAF-supported programs brought to the Executive Board.

Monitoring ESAF-Supported Programs

The Board supported the use of more intensive program monitoring in cases where it would help in consistent policy implementation, and broadly endorsed the staff's proposal to amend the ESAF Trust Instrument (which established the ESAF Trust; see Chapter 10) to permit monitoring and disbursements along the lines provided for under Extended Fund Facility Arrangements.

Subsequently, in August 1998, the Board endorsed new operational procedures for closer monitoring of ESAF Arrangements; Directors believed that these changes would strengthen the link between financing and adjustment. The proposals called for a shift to semiannual performance criteria, reviews, and disbursements for all ESAF Arrangements and the possibility of quarterly performance criteria, reviews, and disbursements in exceptional cases. Directors also agreed to extend the application of the existing operational guidelines for the use of the IMF's general resources to ESAF Arrangements approved after the date of amendment of the ESAF Instrument. The decision to amend the ESAF Instrument was approved in November 1998.

Financing the ESAF and the HIPC Initiative

Steps to secure financing for the ESAF and the HIPC Initiative were a key concern of the Board in 1998/99. In December 1998, in a preliminary discussion, Directors emphasized the urgency of securing the full financing quickly to ensure that the IMF could meet its responsibilities under these operations and agreed that further delay in the decisions on gold sales and Special Contingent Account 2 (SCA-2) refunds would lead to significant losses in forgone income. The need for additional loan resources for the current ESAF Trust was also acknowledged.

In April 1999, Directors returned to the issue and emphasized that it was essential to bear in mind the costs of debt relief and, in particular, the delays experienced in financing the IMF's participation in the HIPC Initiative and the continuation of the ESAF. Directors reiterated that securing new loans for the ESAF Trust was a matter of great urgency in order to enable the IMF to continue to support the economic adjustment efforts of its poorest members without interruption.

Potential contributions were still well below the estimated financing requirement, on an "as-needed" basis, of SDR 2.9 billion ($3.9 billion) for the ESAF-HIPC Trust, calculated using the revised baseline cost to the IMF estimated for the HIPC Initiative. Directors regretted that many pledged contributions remained conditional, and noted again the significant losses in terms of forgone income resulting from delays in securing the financing needed for the ESAF-HIPC Trust. Several Directors also indicated the need for appropriate burden sharing, including larger contributions from the developed countries.

The Board acknowledged the significant increase in costs associated with possible modifications to the HIPC Initiative. Directors agreed that decisions on the modification of the HIPC Initiative would have to be taken with clarity about arrangements that effectively secured the necessary financing for the ESAF and HIPC initiatives.

The Development Committee, at its meeting in April 1999, stressed the need to secure financing for the IMF's ESAF-HIPC Trust. It also requested that changes to the HIPC Initiative framework and financing plans be presented for its consideration at the Committee's next meeting.

By the end of April 1999, six members—Belgium, Canada, France, Germany, Italy, and the Netherlands—had indicated they would provide an additional SDR 1.6 billion ($2.2 billion) in loan resources for the ESAF Trust. In addition, on April 28, 1999, the participants in the NAB unanimously decided that one-third of the surcharge on Brazil's outstanding SRF purchases be transferred to the ESAF-HIPC Trust.

CHAPTER 9

Technical Assistance and Training

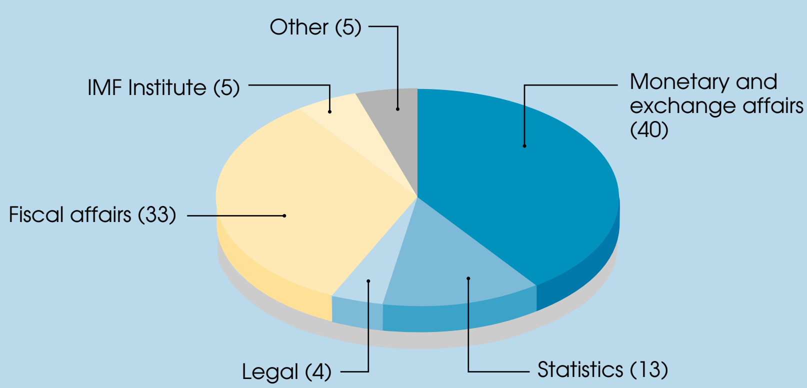
Technical assistance has often been described as forming the third leg of the IMF stool—the other two being its surveillance work and its financial assistance. Member countries and the IMF have become increasingly convinced that the timely provision of effective technical assistance is a key ingredient in supporting governments' efforts to sustain policy and institutional reform.

In 1998/99, technical assistance activity represented about 15 percent of the IMF's total administrative expenditures. Demand for such assistance remained strong in 1998/99, continuing to focus on the monetary and fiscal aspects of macroeconomic management, but also on statistics, financial law, social security reform, IMF financial organization and operations, and information technology (Figure 4). A number of departments in the IMF—including Fiscal Affairs, Monetary and Exchange Affairs, Statistics, the IMF Institute (see Box 13), Legal, Policy Development and Review, and the Bureau of Computing Services—supply assistance and training. A Technical Assistance Committee—composed of senior staff from each of the IMF's functional, area, and support departments—advises IMF management on priorities and policies and coordinates assistance activities among IMF departments. Assistance is delivered by IMF staff, as well as by experts and by short- and long-term advisors.

At headquarters and abroad, training courses and seminars on a variety of topics are given by the IMF Institute and other technical assistance departments. In 1998/99, the Institute's program at headquarters included basic, intermediate, and advanced courses on financial programming and policies, shorter courses on such specialized topics as exchange rate policies and monetary and inflation targeting, and a high-level seminar on trade reform and regional integration in Africa. The IMF Institute's overseas training program continued to focus on issues related to the formulation and implementation of economic adjustment programs. In addition, other functional departments—including Fiscal Affairs, Monetary and Exchange Affairs, Policy Development and Review, and Statistics—conducted seminars and courses in their areas of expertise, both in collaboration with the IMF Institute and independently.

The increased attention given to promoting better governance and to creating and maintaining conditions for sustainable and equitable growth in member countries has highlighted the need for more attention to

Figure 4
Composition of Technical Assistance, 1998/99
(As a percentage of total resources in effective person-years)[1]



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

Box 13
IMF Institute and Regional Institutions

The era of globalization has posed its own challenges for the IMF's technical assistance and training programs. Not only has member countries' demand for IMF's technical assistance and training risen substantially, but their needs have become more varied and complex. To remain relevant and responsive to those needs, the IMF's training activities have also had to change—shifting from the more basic to higher-level training and from general to more focused courses. In this context of change and innovation, the IMF Institute has forged a new strategy that seeks to deliver a quality program responsive to an expanding clientele. The Institute's program has four components.

(1) It has sought to strengthen its traditional training program in macroeconomic management at headquarters. Standard courses on financial analysis and programming and specialized courses in macroeconomic statistics, public finance, and monetary and exchange operations represent the core of the IMF's training for member country officials. Recently, the program has been targeted to address the specific needs of officials at different levels, with the introduction of a three-tier system aimed at junior, mid-level, and senior officials. It has also trimmed the schedule of longer Institute courses in Washington, using the time and resources gained to introduce one- to two-week intensive advanced courses on current issues for high-level officials.

(2) In 1996, the Institute expanded its program of in-house training to ensure that IMF economists remain at the forefront of their profession and keep pace with rapid developments in the global economy. These courses have featured prominent academics, well-known outside policy experts, and others working at the cutting edge of research on current economic issues.

(3) Faced with expanded demand and limited capacities, the Institute has turned increasingly to collaborative arrangements with partners to provide overseas training to strengthen the institutional capacity of member countries in economic management. Major strides have been made in developing a network of partner institutions. The *Joint Vienna Institute* (JVI) was established with other international organizations in 1992 (and its mandate was recently extended) to provide high-quality, practical training to officials of former centrally planned economies. The original curriculum has been revised to meet the changing needs of the region in 1999 and beyond. In 1999, the *Joint Africa Institute* (JAI) was established in Côte d'Ivoire, in equal partnership with the African Development Bank and the World Bank, to build the institutional capacity of national governments in order to help them better manage their economies and further train their economic and financial managers. At the same time, the IMF Institute continues to participate in the training activities of the Central Bank of West African States (COFEB), the Bank of Central African States (BEAC), the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) in Zimbabwe, and the West African Institute for Financial and Economic Management (WAIFEM) in Nigeria. *The IMF-Singapore Regional Training Institute* (STI) was established in 1998 to help member countries in Asia and the Pacific develop stronger and sounder economies in the face of globalization. The STI's programs will be complemented by training in the South East Asian Central Banks Research and Training Center (SEACEN), with which the IMF Institute has been collaborating since the 1970s. The joint *Regional Training Program* (RTP) was established in 1999 in Abu Dhabi in partnership with the Arab Monetary Fund. The aim is to meet the critical training needs of the region by allowing both organizations to mobilize their human and financial resources for training and to take full advantage of their respective expertise. The IMF Institute continues to provide lecturing assistance for courses organized by the Center for Latin America Monetary Studies (CEMLA); has been cooperating with the Islamic Development Bank on regional training courses since 1994; and has conducted joint training courses with the Asian Development Bank since 1995.

(4) To expand its reach and make its training accessible to wider audiences worldwide, the Institute has expanded the use of video conferencing and CD-ROMs and has taken steps to introduce two distance-learning courses: one on financial programming and policies and another on introductory macroeconomics. It has also set up a website, thus increasing access to information regarding Institute course offerings through the Internet (see http://www.institute.imf.org).

Although much has been accomplished to adapt the Institute's training program to the changing needs of its members amid globalization, more remains to be done. The Institute will continue to adapt current communication technologies for distance learning, rely more on regional training efforts, and strengthen internal training to ensure that IMF economists remain at the forefront of current thinking on analytical and policy issues.

strengthening governments' human resource and institutional capacities for effective economic management. The IMF's technical assistance and training seek to engender transparency and strengthen economic management capacity so that, over the long run, members will have less need for IMF financing as well as an enhanced ability to engage in a productive dialogue with the IMF during surveillance operations. This is the preventive aspect of IMF technical assistance and training. Given the limited availability of resources, however, much of the IMF's technical assistance has necessarily been directed at immediate problem solving or helping governments implement economic and financial reforms within the context of IMF-supported programs.

The IMF quantifies the technical assistance it delivers in units of "person-years" of services provided, both by its staff as well as by the experts it recruits. Using this measurement, the annual volume of IMF technical assistance in the past few years has been about 300 person-years, compared with about 130 person-years in the late 1980s and early 1990s (see Table 6). The regional distribution of IMF technical assistance and training has shifted since the mid-1990s, when the countries of the two IMF European Departments (EUI and EUII) absorbed approximately 40 percent of technical assistance resources. This proportion fell to 23 percent in 1998/99, while the share of the Asian and Pacific countries rose to 20 percent, reflecting the increased demand for technical assistance in the context of the Asian financial crisis.

Table 6
Technical Assistance Delivery
(Effective person-years)[1]

	1995/96	1996/97	1997/98	1998/99[2]
IMF technical assistance resources	**211.4**	**172.7**	**189.6**	**201.7**
Staff	108.6	97.1	103.9	98.9
Headquarters-based consultants	23.5	20.1	20.8	21.2
Experts	79.3	55.5	64.9	81.6
External technical assistance resources	**97.5**	**104.2**	**96.2**	**100.0**
United Nations Development Program	25.0	21.5	24.4	14.4
Japan	65.0	67.3	55.6	70.9
Other	7.5	15.4	16.2	15.0
Total technical assistance resources	**309.0**	**277.0**	**285.7**	**301.7**
Total resources by department				
Monetary and Exchange Affairs Department	137.3	114.6	110.6	120.8
Fiscal Affairs Department	99.8	96.2	98.8	101.7
Statistics Department	39.2	36.6	39.0	38.9
IMF Institute	14.0	11.0	12.1	15.4
Legal Department	11.0	9.3	10.3	10.7
Other[3]	7.7	9.3	14.9	14.3
Total regional use by department	**280.1**	**251.0**	**258.7**	**274.9**
African Department	62.4	54.5	65.8	72.2
Asia and Pacific Department[4]	n.a.	49.0	42.5	58.1
Central Asia Department	27.5	n.a.	n.a.	n.a.
Southeast Asia and Pacific Department	25.0	n.a.	n.a.	n.a.
European I Department	24.4	22.5	23.8	22.4
European II Department	73.5	57.6	52.6	47.1
Middle Eastern Department	23.4	26.5	29.5	32.5
Western Hemisphere Department	32.3	31.2	35.2	32.1
Interregional	11.7	9.6	8.6	8.8
Nonregional use	**28.9**	**26.1**	**26.9**	**27.7**
Total technical assistance use	**309.0**	**277.0**	**285.6**	**301.7**

[1]An effective person-year of technical assistance is 260 days.
[2]Estimated.
[3]"Other" includes the Policy Development and Review Department, Bureau of Computing Services, and Technical Assistance Secretariat.
[4]Effective January 1, 1997, the Central Asia and Southeast Asia and Pacific Departments were merged into a single Asia and Pacific Department.

A key feature of IMF technical assistance and training over the past few years has been its application in countries emerging from crises of different types. In such situations, the traditional "request and response" mode of operation has been considered inadequate to address the urgent need to rehabilitate these countries' basic economic and financial management capacities. This has given rise to the practice of preparing large-scale, integrated, multiyear technical assistance programs cofinanced with other donors. Such technical assistance programs have now been implemented—or are being implemented—in such postcrises countries as Albania, Angola, Cambodia, Haiti, Lebanon, Malawi, Namibia, Rwanda, and Yemen; plans are under way for a similar approach in Nigeria. These programs are usually closely coordinated with, and cofinanced by, the United Nations Development Program (UNDP) and often involve a number of bilateral donors. The Pacific Financial Technical Assistance Center in Fiji (PFTAC), for instance, provides technical assistance to 15 countries in the Pacific area with financing from UNDP, the Asian Development Bank, Australia, New Zealand, and the Pacific Forum. Where appropriate, the IMF has developed a regional approach to the delivery of technical assistance and training services (see Box 13).

Japan was again, in 1998/99, the single largest source of external financing for IMF-provided technical assistance, and it responded with great flexibility in seeking to ensure that its funding was readily available to help address the demands for technical assistance arising from the Asian crisis. In addition, the Framework Administered Account for Technical Assistance Activities—established by the IMF in 1995—has attracted contributions from Australia, France, Japan (for a scholarship program), Switzerland, and Denmark. Some donors, such as Sweden and Norway, have supported UNDP projects for which the IMF is the executing agency. Others, such as the United Kingdom, the European Union, and the Inter-American Development Bank, have agreed to coordinate technical assistance cofinancing arrangements with the IMF. Several developing country members have used the proceeds from World Bank loans and credits to finance IMF-provided technical assistance. In 1998/99, about 30 percent of the IMF's total technical assistance and training activities—including two-thirds of the experts it recruited to serve in member countries—were financed from external sources. It is hoped that this level of external financing can be maintained in a time of growing austerity among donors.

During 1998/99, the IMF's Office of Internal Audit and Inspection undertook a review of the IMF's technical assistance program, examining among other things its effectiveness, focus, and various modalities of delivery. The Board and management will be considering recommendations made in the review during 1999/2000.